



Consolidated Financial Results for the Three Months Ended March 31, 2019 (Japanese GAAP)

May 9, 2019

Listed company name Double Scope Co., Ltd. Listed stock exchanges East
Code-number 6619 URL <https://w-scope.co.jp/>
Representative Titles President and Representative Director Name Won-Kun Choi
Contact person Titles Director Name Hideo Ouchi (TEL) 03-5436-7155
Scheduled date to file Quarterly Securities Report May 10, 2019 Scheduled date of commencement of dividend payment : —
Preparation of supplementary material on quarterly financial results : Yes
Holding of quarterly financial results meeting : None

(Figures are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Three Months Ended March 31, 2019 (January 1, 2019 to March 31, 2019)

(1) Consolidated Operating Results (Percentages represent year-on-year changes)

	Sale		Operating income		Ordinary income		Net profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three Months Ended March 31, 2019	2,601	21.8	(1,316)	—	(1,404)	—	(1,202)	—
March 31, 2018	2,136	(0.7)	(172)	—	(238)	—	(175)	—

(NOTE) Comprehensive income Three Months Ended (1,686)Yen —%) Three Months Ended (1,942)Yen —%)
Net profit March 31, 2019 March 31, 2018

	Per Share Net profit	Fully diluted Per Share Net profit
	Yen	Yen
Three Months Ended March 31, 2019	(38.41)	—
March 31, 2018	(5.61)	—

(2) Consolidated Financial Position

	Total asset	Net asset	Equity Ratio
	Millions of yen	Millions of yen	%
As of March 31, 2019	50,616	16,079	31.7
As of December 31, 2018	47,496	17,844	37.5

(Reference)Equities As of March 31, 2019 16,047Millions of yen As of December 31, 2018 17,813Millions of yen

2. Dividend payment

	Dividend per share				
	End of first quarter	End of second quarter	End of the third quarter	Term end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year Ended December 31, 2018	—	0.00	—	2.50	2.50
Fiscal Year Ending December 31, 2019	—				
Fiscal Year Ending December 31, 2019 (Forecast)		0.00	—	2.50	2.50

(NOTE) Revisions to the most recently announced dividend forecast :None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(Percentages represent year-on-year changes.)

	Sale		Operating income		Ordinary income		Profit attributable to owners of parent		Per Share Net income
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Second quarter (cumulative)	6,500	58.7	(200)	—	(500)	—	(500)	—	(15.99)
Full year	17,500	100.4	800	—	400	—	300	—	9.6

(NOTE) Revisions to the most recently announced consolidated earnings forecasts : None

※ Notes

(1) Changes of important subsidiaries during the period : None

(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

New —Company Company name 、 Exclusion —Company Company name

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements : Yes

(3) Changes in accounting policies and changes or restatement of accounting estimates

① Changes in accounting policies caused by revision of accounting standards : Yes

② Changes in accounting policies other than (i) : None

③ Changes in accounting estimates : None

④ Restatements : None

(4) Number of shares outstanding (common stock)

① Number of shares outstanding at the end of the period (including treasury stock)

② Treasury shares at the end of the period

③ Average number of shares during the period (cumulative from the beginning of the fiscal year)

March 31, 2019	31,299,600Shares	December 31, 2018	31,299,600Shares
March 31, 2019	302Shares	December 31, 2018	223Shares
Three Months Ended March 31, 2019	31,299,340Shares	Three Months Ended March 31, 2018	31,198,066Shares

※ This quarterly financial report is not subject to the quarterly review by a certified public accountant or an auditing firm.

※ Explanations and other special notes concerning the appropriate use of business performance forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forward-looking statements in this document, including the forecasts of operating results, are based on information currently available to the Company and certain assumptions deemed to be reasonable. These statements are not promised by the Company regarding future performance. Actual results may differ materially from the forecast depending on a range of factors. Please refer to "1. Qualitative Information on Consolidated Financial Results for the Period under Review (1) Explanation of Consolidated Operating Results" on page 2 of the Appendix for the assumptions underlying the forecasts and notes for the use of the forecasts.

(Method of Obtaining Supplementary Explanatory Materials for Quarterly Financial Results)

The Financial Highlights will be posted on our website on Thursday, May 9, 2019.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

During the first quarter of the fiscal year under review, the global economy began to show signs of sluggish growth in the U.S. economy, which has continued to be favorable, as the impact of trade friction between the United States and China began to emerge in various regions. On the other hand, the European economy showed a clear sign of economic slowdown due to worsening business conditions in the manufacturing industry. In the Chinese economy, while full-fledged economic stimulus measures are expected in the future, the economic growth rate continues to decelerate due to sluggish exports.

Against this backdrop, the Lithium-ion Secondary Battery Separator Business, the Group's main business, continues to grow steadily in the consumer market, centered on smartphones and other mobile devices, as well as power-based batteries for power tools and cordless home appliances. In transportation equipment applications such as EVs (electric vehicles) and HEVs (hybrid vehicles), European and U.S. automakers have announced a series of new EVs, and the mass production and supply of major battery manufacturers is rapidly increasing in order to respond to this trend.

In anticipation of this increase in customer demand, we are continuing to expand our manufacturing capacity and steadily grow the supply volume of batteries for consumer use to our major customers. Since the year before last, we have made upfront investments, such as capital investment, product development, and approval of production lines, for the start of mass production of new transportation equipment applications. However, from the first quarter of the fiscal year under review, we have begun mass production of some models. As a result, consolidated net sales increased 21.8% year on year to ¥2,601 million.

By region, sales to South Korea were 1,678 million yen (up 60.2% year-on-year) due to growth in demand from the LG CHEM. Group, the Group's main customers, and sales to the Samsung SDI Group, which started mass production and sales last year. Sales to China remained at 341 million yen (down 55.8% year-on-year) due to ongoing prioritization of debt collection. Sales to Japanese customers were 509 million yen (up 62.0% year-on-year) due to stable growth in consumer demand.

Operating loss was ¥1,316 million (compared to an operating loss of ¥172 million in the same period of the previous fiscal year). This was due to an increase of approximately ¥300 million in R&D expenses compared with the same period of the previous fiscal year for sample costs and operation costs for line approval for transportation equipment projects that have continued since the previous fiscal year, an increase of approximately ¥300 million in personnel expenses, an increase of approximately ¥200 million in depreciation and amortization, and an increase of approximately ¥300 million in other fixed costs.

Regarding the state of production, W-SCOPE CHUNGJU PLANT CO. LTD. (hereinafter "WCP"), which completed installation in the second half of the previous fiscal year, started production for mass production and sales while making efforts to manufacture samples for technical approval for major customers on the No. 10 and No. 11 film lines. In addition, we are working to install WCP No. 12 and No. 13 film lines, and are scheduled for completion in the second half of this year.

Non-operating expenses include interest expenses. As a result, loss before income taxes was ¥1,404 million (compared with loss before income taxes of ¥229 million in the same period of the previous fiscal year) and loss attributable to owners of parent was ¥1,202 million (compared with loss attributable to owners of parent of ¥175 million in the same period of the previous fiscal year).

The average exchange rate for the current consolidated cumulative period was ¥110.09 for the U.S. dollar and ¥97.8 for the Korean won of ¥1,000.

(2) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

In the lithium-ion rechargeable battery separators business, which is the Group's mainstay business, production of lithium-ion batteries for transportation equipment by major battery manufacturers is rapidly expanding, and demand for separators, which are the main battery components, is growing significantly. Demand for high-value-added products for consumer use is growing steadily, and demand from our main customers is strong. Given this market environment, the market for lithium-ion rechargeable batteries is expected to continue growing.

Under these circumstances, shipments of transportation equipment, which commenced mass production in the first quarter of the fiscal year under review, are scheduled to begin in earnest from the second quarter onward. As a result, we expect a steady increase in net sales, and at the same time, we expect operating income to return to profitability.

In the transportation equipment business, demand for coating products is expected to grow significantly. In addition to the 10 coating lines owned by W-SCOPE KOREA CO., LTD., we plan to install four new coating lines for WCP from the second half of the fiscal year.

In addition, we agreed with a major battery manufacturer to supply approximately 20m² of separators over a five-year period starting in 2020. This is due to the demand for lithium-ion batteries for electric vehicles in Europe and elsewhere, which began sales in the first quarter, is expected to increase significantly in the future. For more details, please refer to the “Long-Term Product Supply Agreement” which we have announced today (May 9, 2019).

Note that, the average exchange rate since the consolidated cumulative period of the second quarter, which is the basis for the forward-looking statements, is assumed to continue to be 108.0 yen per US\$1 and 100.0 yen per 1,000 Korean won.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of previous fiscal year (As of Dec. 31, 2018)	End of 1st quarter of the fiscal year under review (As of March 31, 2019)
Assets		
Current asset		
Cash and deposit	5,308	3,306
Notes and accounts receivable - trade, net	2,156	2,331
Merchandise and finished products	1,451	1,546
Raw materials and supplies	457	476
Other	459	538
Total current assets	9,834	8,200
Fixed asset		
Property, plant and equipment		
Buildings and structures	7,839	7,794
Accumulated depreciation	(913)	(976)
Buildings and structures, net	6,926	6,818
Machinery and equipment	22,908	27,870
Accumulated depreciation	(8,376)	(8,957)
Machinery, equipment and vehicles, net	14,532	18,913
Construction in progress	15,128	15,031
Other	540	942
Accumulated depreciation	(247)	(273)
Other, net	293	668
Total property, plant and equipment	36,880	41,432
Intangible assets		
Other	139	130
Total intangible assets	139	130
Investments and other assets		
Deferred tax assets	601	803
Other	40	50
Total investments and other assets	642	854
Total noncurrent assets	37,662	42,416
Total asset	47,496	50,616

(Millions of yen)

	End of previous fiscal year (As of Dec. 31, 2018)	End of 1st quarter of the fiscal year under review (As of March 31, 2019)
Liabilities		
Current liability		
Notes and accounts payable-trade	169	259
Short-term borrowings	6,987	7,280
Current portion of long-term loans payable	3,531	4,067
Accounts payable	1,212	2,221
Income taxes payable	21	19
Other	151	250
Total current liabilities	12,073	14,098
Long-term liabilities		
Long-term borrowings	16,779	19,339
Obligations for retirement pay	261	313
Deferred tax liabilities	9	-
Asset retirement obligations	483	483
Other	43	302
Total noncurrent liabilities	17,578	20,438
Total liabilities	29,651	34,537
Net assets		
Shareholders' equity		
Common stock	7,692	7,692
Capital surplus	7,638	7,638
Retained earnings	995	(285)
Treasury stock	(0)	(0)
Total shareholders' equity	16,326	15,045
Other accumulated comprehensive income		
Foreign currency translation adjustment	1,486	1,002
Total other accumulated comprehensive income	1,486	1,002
Share subscription rights	31	31
Total net assets	17,844	16,079
Total liabilities and net assets	47,496	50,616

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Consolidated income statement for the quarter

First Quarter Consolidated Cumulative Period

(Millions of yen)

	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Sales	2,136	2,601
Cost of sales	1,876	3,435
Gross profit (loss)	259	(833)
Selling, general and administrative expenses	432	482
Operating loss	(172)	(1,316)
Non-operating income		
Interest income	6	8
Subsidy income	31	-
Other	3	1
Total non-operating income	41	9
Non-operating expense		
Interest expense	47	72
Foreign exchange loss	35	21
Commission paid	22	4
Other	1	0
Total non-operating expenses	107	98
Ordinary loss	(238)	(1,404)
Extraordinary income		
Gain on reversal of subscription rights to shares	8	-
Total extraordinary income	8	-
Loss before income taxes	(229)	(1,404)
Income taxes	(54)	(202)
Net loss through the quarter	(175)	(1,202)
Net loss attributable to non-controlling interests	-	-
Loss attributable to owners of parent	(175)	(1,202)

Consolidated Statements of Comprehensive Income
First Quarter Consolidated Cumulative Period

(Millions of yen)

	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Net loss through the quarter	(175)	(1,202)
Other comprehensive income		
Foreign currency translation adjustment	(1,767)	(484)
Total other comprehensive income	(1,767)	(484)
Comprehensive income	(1,942)	(1,686)
Breakdown		
Comprehensive income attributable to owners of parent	(1,942)	(1,686)
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

Not applicable.

(Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)

(Calculation of Tax Expenses)

The effective tax rate after the application of tax effect accounting to income before income taxes and minority interests for the current fiscal year is reasonably estimated and calculated by multiplying income before income taxes and minority interests by the estimated effective tax rate.

If the estimated effective tax rate cannot be reasonably estimated, the tax calculation is calculated using the same method as the settlement of accounts for the fiscal year, and deferred tax assets and deferred tax liabilities are recorded on the consolidated balance sheets after reviewing the recoverability of deferred tax assets and deferred tax liabilities.

Accounting change

IFRS No. 16 "Leases" (hereinafter referred to as IFRS No. 16) has been applied to our IFRS subsidiaries since the first quarter of this fiscal year. In applying IFRS 16, the Company adopted the method of recognizing the cumulative effect of adopting this standard as a transitional measure on the effective date of adoption.

The effect of the adoption of this standard on the consolidated financial statements is immaterial.

Additional Information:

Effective from the beginning of the first quarter of the current fiscal year, the Company has applied the "Partial Revision of the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), and deferred tax liabilities are presented under the category of non-current liabilities.

3. Supplementary information

(1) Status of sales

Sales performance

Sales results for the first quarter of the current fiscal year are as follows.

Name of Business Unit	For the three months ended March 31, 2019	
	Sales (Millions of yen)	Year on year (%)
Separators for lithium-ion rechargeable batteries	2,601	121.8
Total	2,601	121.8

(NOTE)1 As we and our consolidated subsidiaries are a single segment of the separator business for lithium ion secondary batteries, their sales results are not described in relation to segment information.

2 Transactions with major business partners and the ratio of corresponding sales to total sales are shown in the table below.

Other party	For the three months ended March 31, 2018		For the three months ended March 31, 2019	
	Sales (Millions of yen)	% of	Sales (Millions of yen)	% of
LG CHEM. Group	1,009	47.3	1,030	39.6
Samsung SDI Group	-	-	611	23.5
Tohoku Murata Manufacturing Group	290	13.6	494	19.0
Xuran Electronics Co., Ltd.	470	22.0	-	-
EVE Energy Co., Ltd.	250	11.7	-	-

3 Figures do not include consumption tax and other items.

4 The Tohoku Murata Manufacturing Group includes Murata Energy Device Wuxi Co., Ltd. and Murata Energy Device Singapore Pte. Includes Ltd.

5 Samsung SDI groups for the first quarter of the previous fiscal year are not described because the percentage is less than 10/100.

6 Xuran Electronics Co., Ltd. and EVE Energy Co. and Ltd. for the first quarter of the current fiscal year are not included because the percentage is less than 10/100.

(2) Estimated Capital Expenditures

Estimated Capital Expenditures

Company name	Site name Location	Facility Content	Projected investment		Funding option	Date of commencement	Scheduled completion Years	After completion Increasing Capacity
			Total amount Yen	Payments made Yen				
W-SCOPE KOREA CO.,LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	No.7 through No.10 Coating Production Facilities	3,638	2,449	Own funds and bank loans	2018 June	2020 First half	Processing production Approx. 400% increase in volume
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	No.11 Production Line	4,672	3,990	Own funds, capital increase and bank borrowings	2016 October	2019 First half	Approx. 60% increase in production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	No. 12 and No.13 Production Lines	9,806	5,591	Own funds, capital increase and bank borrowings	2017 September	2019 Second half	Approx. 60% increase in production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	No.14 and No.15 Production Lines	9,756	933	Own funds and bank loans	2018 October	2020 Second half	Approx. 60% increase in production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	No.11 through No.14 Coating Production Facilities	4,694	1,576	Own funds and bank loans	2018 September	2020 First half	Processing production Approx. 400% increase in volume

(NOTE) 1 The above amounts do not include consumption tax, etc.

2 Statement by segment is omitted since our business is a single segment of the separator business for lithium-ion secondary batteries.

3 "Increase capacity after completion" is stated on a year-on-year basis.

4 The major new facility whose establishment was scheduled at the end of the previous fiscal year and has been completed is as follows:

Company name	Site name Location	Facility Content	Capital investments Yen	Completion date	Production capacity after completion
W-SCOPE KOREA CO.,LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	No. 5 and No. 6 Coating Production Facilities	932	2019 March	Approx. 200% increase in processing production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	No.10 Production Line	6,347	2019 February	Approx. 60% increase in production

5 "Increase capacity after completion" is stated on a year-on-year basis.