

Consolidated Financial Results for the Three Months Ended March 31, 2016 [Japanese GAAP]



May 10, 2016

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 Stock exchange listing: Tokyo Stock Exchange
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 Scheduled date of filing quarterly securities report: May 12, 2016
 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and securities analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended March 31, 2016 (January 1, 2016 to March 31, 2016)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Sales volume		Operating profit		Ordinary profit		Net profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended March 31, 2016	2,149	70.9	812	414.8	754	360.1	556	296.9
March 31, 2015	1,257	49.8	157	-	163	-	140	-

(Note) Comprehensive income: Three months ended March 31, 2016: ¥(72) million [- %]

Three months ended March 31, 2015: ¥151 million [- %]

	Net profit per share	Diluted net profit per share
	Yen	Yen
Three months ended March 31, 2016	39.20	37.21
March 31, 2015	9.90	9.78

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2016	19,802	12,209	61.3
As of December 31, 2015	17,047	12,405	72.5

(Reference) Equity: As of March 31, 2016: ¥12,147 million

As of December 31, 2015: ¥12,360 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2015	-	0.00	-	10.00	10.00
Fiscal year ending December 31, 2016	-				
Fiscal year ending December 31, 2016 (Forecast)		0.00	-	5.00	5.00

(Note) Revision to the forecast for dividends announced most recently: No
Breakdown of year-end dividend for fiscal year ended December 31, 2015:
Normal dividend: ¥5.00 Commemorative dividend: ¥5.00

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(% indicates changes from the previous corresponding period.)

	Sales volume		Operating profit		Ordinary profit		Net profit attributable to owners of parent		Net profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	4,400	39.4	1,300	103.6	1,200	64.1	1,000	55.3	70.39
Full year	10,400	34.3	2,600	31.1	2,500	21.7	2,300	25.7	161.89

(Note) Revision to the financial results forecast announced most recently: Yes
For revision to the consolidated financial results forecast, please refer to "Notice of Adjustments to Earnings Forecast" announced today on May 10, 2016.

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No
New: - companies (company name), Excluded: - companies (company name)
- (2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
March 31, 2016: 14,209,100 shares
December 31, 2015: 14,206,600 shares
 - 2) Total number of treasury shares at the end of the period:
March 31, 2016: 90 shares
December 31, 2015: 43 shares
 - 3) Average number of shares during the period:
Three months ended March 31, 2016: 14,207,519 shares
Three months ended March 31, 2015: 14,171,600 shares

* Presentation regarding the implementation status of the quarterly review procedures

These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial results, review procedures for the quarterly financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of the proper use of financial results forecast and other notes

(Notes concerning forward-looking statements)

Forward-looking statements concerning financial forecasts contained in these documents are based on information the Company has currently obtained and certain assumptions judged to be reasonable. However, the Company makes no guarantee that these forecasts will be achieved. Actual results may differ significantly from the forecasts due to a variety of factors. For information concerning the assumptions used for financial forecasts and notes on the use of financial forecasts, please refer to “1. Qualitative Information on Quarterly Financial Results for the Period under Review (1) Explanation of Operating Results” on page 2 of the Appendix.

(Method for acquiring supplementary briefing material on annual financial results and details of annual financial results briefing session)

The Company plans to hold a briefing session for institutional investors and securities analysts on Wednesday, May 11, 2016. A video of this briefing session and briefing material on annual financial results used on that day will be posted on the Company’s website promptly after the briefing session.

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

(1) Explanation of Operating Results

In the global economy during the three months ended March 31, 2016, the US economy recovered steadily while the recovery of the European economy remained modest due to geopolitical risks. In China, challenging conditions persisted as the economic slowdown became evident. Owing to the factors above, the global economy continued a moderate recovery overall.

Under these circumstances, sales volume continued to expand in the W-SCOPE Group's (hereinafter, the "Group") core lithium-ion secondary battery separators business. In consumer electronics applications that account for 70% of the entire market, annual growth in sales volume was stable at approximately 10%, mainly reflecting the expanded capacity of batteries. Transportation equipment applications that account for 30% of the market showed conspicuous annual growth in sales volume of more than 30%. In transportation equipment applications, the expansion of demand resulting from China's policy guidance to EV (electric vehicles) and EV buses significantly contributed to such growth. In Japan, Europe and the US, demand for EV and HEV (hybrid vehicles) too is increasing but has not yet developed into a full-fledged expansion, and is expected to further expand in the future.

Owing to these factors, demand expanded steadily in the separator market.

Sales volume in the Chinese market, the Group's main sales region, for the three months ended March 31, 2016 was ¥1,239,748 thousand, up 77.9% compared to the same period of the previous fiscal year, although the period under review was an offseason for the market as it fell on the Chinese New Year. Sales in South Korea were ¥826,527 thousand, up 160.7% compared to the same period of the previous fiscal year, thanks to the contribution of increased sales to the LG Group. Meanwhile, sales in the US were ¥68,606 thousand, down 71.6% compared to the same period of the previous fiscal year, mainly due to temporary adjustment of the Company's customers. Shipment of coated-type products for Japanese customers is scheduled to commence in future, and sales volume is expected to increase after April this year.

Due to the above factors, during the three months ended March 31, 2016, both sales volume and unit prices remained solid. As for operating profit, the qualitative improvement in the sales composition and the effects of cost reductions were greater than expected, and the rate of the Korean won against the US dollar, which affects manufacturing costs, depreciated more than expected. These factors contributed to operating profit margin.

Average exchange rates for the three months ended March 31, 2016 were ¥115.21 to the US dollar, an appreciation of approximately ¥3.94 compared to the same period of the previous fiscal year, and 1,201.44 Korean won to the US dollar, a depreciation of 101.18 Korean won compared to the same period of the previous fiscal year, and ¥95.9 for 1,000 Korean won, an appreciation of approximately ¥12.4 compared to the same period of the previous fiscal year.

In this environment, sales volume grew by ¥891,660 thousand or 70.9% compared to the same period of the previous fiscal year to ¥2,149,463 thousand. Meanwhile, operating profit increased by ¥654,455 thousand or 414.8% compared to the same period of the previous fiscal year to ¥812,244 thousand, net profit before taxes and other adjustment grew by ¥590,385 thousand or 360.1% compared to the same period of the previous fiscal year to ¥754,356 thousand, and net profit attributable to owners of parent grew by ¥416,658 thousand or 296.9% compared to the same period of the previous fiscal year to ¥556,995 thousand.

(2) Explanation of Financial Position

Total assets as of March 31, 2016 stood at ¥19,802,857 thousand, up ¥2,754,910 thousand from the end of the previous fiscal year. The main causes are as follows.

(Assets)

Current assets stood at ¥7,739,351 thousand, a ¥1,299,597 thousand increases from the end of the previous fiscal year. This was mainly due to a ¥1,266,991 thousand increase in cash and bank deposits and a ¥176,599 thousand decrease in notes and accounts receivable - trade. Fixed assets were ¥12,063,505 thousand, a ¥1,455,313 thousand increase from the end of the previous fiscal year. This was mainly due to a ¥1,941,805

thousand increase in construction in progress and a ¥532,315 thousand decrease in machinery, equipment and vehicles.

(Liabilities)

Liabilities stood at ¥7,593,522 thousand, up ¥2,950,663 thousand from the end of the previous fiscal year. Current liabilities as of March 31, 2016 stood at ¥1,723,928 thousand, up ¥415,816 thousand from the end of the previous fiscal year. This was mainly due to a ¥387,700 thousand increase in current portion of long-term debt. Fixed liabilities stood at ¥5,869,593 thousand, up ¥2,534,846 thousand from the end of the previous fiscal year. This was due mainly to a ¥2,512,300 thousand increase in long-term debt.

(Net assets)

Net assets stood at ¥12,209,334 thousand, down ¥195,752 thousand from the end of the previous fiscal year. This was due mainly to the recording of ¥556,995 thousand in net profit attributable to owners of parent and a ¥629,440 thousand decrease in foreign currency translation adjustment.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The global economy for the six months ending June 30, 2016 and thereafter is expected to continue on a recovery trend, despite the impact of the economic downturn in China.

In the separators market, the expansion of volume is expected to continue as in the three months ended March 31, 2016. High growth is anticipated to continue for separators even over the long term against a backdrop of the expansion of demand for transportation equipment.

Under such circumstances, the Group plans to increase sales volume by stably expanding sales to main customers. Production Lines #6 and #7 have already been installed at the Company's subsidiary in South Korea and are scheduled to commence operation in May or later this year. Installation of Production Line #5 is scheduled to be completed in June this year and test run will start thereafter, with operation expected to commence from the third quarter or later as initially scheduled.

In addition, capital investments for Production Lines #8 and #9 have started and are scheduled to be completed during 2017. The projected average exchange rates for the six months ending June 30, 2016 and thereafter as the premise for the financial results forecast are ¥105.0 to the US dollar, 1,050.0 Korean won to the US dollar, and ¥100.0 for 1,000 Korean won.

In light of this environment, consolidated financial results forecast for the full year ending December 31, 2016 was revised. For details, please refer to "Notice of Adjustments to Earnings Forecast" announced today on May 10, 2016.

2. Matters Concerning Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period under Review

There is no relevant information.

(2) Accounting Policies Adopted Specially for the Preparation of Quarterly Consolidated Financial Statements

(Calculation of tax expenses)

Tax expenses are calculated by first reasonably estimating the effective tax rate after applying tax effect accounting against net profit before taxes and other adjustment for the current fiscal year, and then multiplying net profit before taxes and other adjustment by the estimated effective tax rate.

In case it is impossible to reasonably estimate the effective tax rate, tax expenses are calculated in a manner similar to the calculation of tax expenses for the fiscal year. Deferred tax assets and deferred tax liabilities are recorded on the Quarterly Consolidated Balance Sheets after assessing recoverability and other factors.

(3) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement

(Changes in accounting policies)

Starting from the three month ended March 31, 2016, the Company has applied the “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) and others. Accordingly, the Company has changed the presentation of net profit and other related items, and the presentation of “minority interests” to “non-controlling interests.” To reflect this change in presentation, reclassifications of accounts have been made to the Quarterly Consolidated Financial Statements for the three months ended March 31, 2015 and the Consolidated Financial Statements for the fiscal year ended December 31, 2015.

(4) Additional Information

(Changes in the method of presentation)

Starting from the three month ended March 31, 2016, gain on sales of scraps, which was previously stated under non-operating revenue, is now a deduction item from cost of goods sold to reflect appropriately in the financial statements. This change in presentation is in line with the modification to the Company’s policy for cost management including scraps as part of cost components, in keeping with an increase in the amount of such gain led by production growth in recent years, and also due to an expected rise in the volume of scraps boosted by future expansion of production lines.

As a result, ¥16,787 thousand presented as gain on sales of scraps under non-operating revenue in the Quarterly Consolidated Statements of Income for the three months ended March 31, 2015 was deducted from cost of goods sold.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and bank deposits	3,948,636	5,215,627
Notes and accounts receivable - trade	1,546,383	1,369,783
Merchandise and finished goods	530,828	633,069
Raw materials and supplies	197,071	204,579
Other	216,834	316,290
Total current assets	6,439,754	7,739,351
Fixed assets		
Tangible fixed assets		
Buildings and structures	2,161,205	2,275,368
Accumulated depreciation	(370,539)	(371,803)
Buildings and structures, net	1,790,665	1,903,564
Machinery, equipment and vehicles	10,066,876	9,570,322
Accumulated depreciation	(3,673,481)	(3,709,243)
Machinery, equipment and vehicles, net	6,393,394	5,861,078
Construction in progress	2,077,069	4,018,874
Other	194,201	204,379
Accumulated depreciation	(126,720)	(127,397)
Other, net	67,481	76,981
Total tangible fixed assets	10,328,610	11,860,499
Intangible fixed assets		
Other	61,297	55,752
Total intangible fixed assets	61,297	55,752
Investments and other assets		
Deferred tax assets	197,633	125,563
Other	20,650	21,689
Total investments and other assets	218,284	147,253
Total fixed assets	10,608,192	12,063,505
Total assets	17,047,946	19,802,857

(Thousand yen)

	As of December 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	57,679	60,292
Short-term debt	100,000	100,000
Current portion of long-term debt	287,700	675,400
Accounts payable - other	483,277	504,060
Income taxes payable	226,746	241,133
Deferred tax liabilities	38,942	45,405
Other	113,766	97,636
Total current liabilities	1,308,112	1,723,928
Fixed liabilities		
Long-term debt	3,112,300	5,624,600
Net defined benefit liability	104,571	123,980
Deferred tax liabilities	92	68
Other	117,783	120,944
Total fixed liabilities	3,334,747	5,869,593
Total liabilities	4,642,859	7,593,522
Net assets		
Shareholders' equity		
Capital	4,131,720	4,132,720
Capital surplus	4,077,720	4,078,720
Retained earnings	2,328,962	2,743,892
Treasury shares	(72)	(286)
Total shareholders' equity	10,538,330	10,955,045
Accumulated other comprehensive income		
Foreign currency translation adjustment	1,821,756	1,192,316
Total accumulated other comprehensive income	1,821,756	1,192,316
Stock warrants	45,000	61,972
Total net assets	12,405,087	12,209,334
Total liabilities and net assets	17,047,946	19,802,857

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three months ended March 31

(Thousand yen)

	For the three months ended March 31, 2015	For the three months ended March 31, 2016
Sales volume	1,257,803	2,149,463
Cost of goods sold	887,070	1,083,645
Gross profit	370,732	1,065,818
Selling, general and administrative expenses	212,943	253,573
Operating profit	157,789	812,244
Non-operating revenue		
Interest income	534	1,433
Foreign exchange gains	6,236	—
Subsidy income	—	57,766
Other	3,366	797
Total non-operating revenue	10,137	59,997
Non-operating expenses		
Interest expenses	3,955	8,575
Foreign exchange losses	—	104,557
Commission fee	—	3,953
Other	—	798
Total non-operating expenses	3,955	117,885
Ordinary profit	163,971	754,356
Net profit before taxes and other adjustment	163,971	754,356
Income taxes	23,634	197,361
Net profit	140,336	556,995
Net profit attributable to non-controlling interests	—	—
Net profit attributable to owners of parent	140,336	556,995

Quarterly Consolidated Statements of Comprehensive Income

Three months ended March 31

(Thousand yen)

	For the three months ended March 31, 2015	For the three months ended March 31, 2016
Net profit	140,336	556,995
Other comprehensive income		
Foreign currency translation adjustment	11,303	(629,440)
Total other comprehensive income	11,303	(629,440)
Comprehensive income	151,640	(72,445)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	151,640	(72,445)
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the case of significant changes in shareholders' equity)

There is no relevant information.

(Segment information)

For the three months ended March 31, 2016 (January 1, 2016 to March 31, 2016)

The Company and its consolidated subsidiaries comprise a single segment of lithium-ion secondary battery separators business. Hence the statement is omitted, as there are no other segments to be disclosed.

(Significant subsequent events)

There is no relevant information.

4. Supplementary Information

(1) Sales

(i) Sales

Sales for the three months ended March 31, 2016 were as follows.

Business segment	For the three months ended March 31, 2016	
	Sales amount (Thousand yen)	Y-o-Y ratio (%)
Lithium-ion secondary battery separators	2,149,463	170.9
Total	2,149,463	170.9

(Notes) 1. Statement regarding sales associated with segment information is omitted, as the Company and its consolidated subsidiaries comprise a single segment of lithium-ion secondary battery separators business.

2. Sales to major customers and ratio of such sales to total sales were as follows.

Customer	For the three months ended March 31, 2015		For the three months ended March 31, 2016	
	Sales amount (Thousand yen)	Ratio (%)	Sales amount (Thousand yen)	Ratio (%)
Dongguan Xuran Electronics Co., Ltd.	417,895	33.2	821,156	38.2
LG Group	273,334	21.7	762,301	35.5
A123 Systems, LLC	241,989	19.2	—	—

3. The amounts indicated above do not include consumption taxes and other taxes.

4. Information on sales to A123 systems, LLC for the three months ended March 31, 2016 is omitted as the ratio of such sales to total sales was less than 10%.

5. LG Group includes LG Chem, Ltd.

(2) Estimated Capital Investments

Estimated capital investments

Name of company	Name of office (Location)	Details of the facilities	Scheduled investment amount		Financing method	Commence-ment date	Scheduled completion date	Increase in capacity after completion
			Total (Thousand yen)	Amount already paid (Thousand yen)				
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Production Line #5	2,459,945	640,230	Own funds and borrowings from banks	July 2015	August 2016	Approx. 15% increase in production
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Production Lines #6 and #7	3,391,472	2,280,132	Own funds and borrowings from banks	October 2015	May 2016	Approx. 15% increase in production
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Production Lines #8 and #9	5,152,368	906,953	Own funds and borrowings from banks	February 2016	October 2017	Approx. 40% increase in production

- (Notes)
1. The amounts indicated above do not include consumption taxes and other taxes.
 2. Statement by segment is omitted, as the Company and its consolidated subsidiaries comprise a single segment of lithium-ion secondary battery separators business.
 3. "Increase in capacity after completion" is stated relative to the end of the previous fiscal year.