

MEC COMPANY LTD.



Securities Code: 4971

Notice of 49th Ordinary General Meeting of Shareholders

Date and
time



10 a.m. on Friday, March 23, 2018

Venue



2-7-1, Showa-dori, Amagasaki, Hyogo
3rd floor, HO-OH,
Miyako Hotel New Archaic

Matters to be
resolved



- Proposal No. 1 Appointment of Four Directors (excluding Directors who are Audit and Supervisory Committee Members)
- Proposal No. 2 Appointment of Three Directors who are Audit and Supervisory Committee Members
- Proposal No. 3 Appointment of One Substitute Director who is an Audit and Supervisory Committee Member

Table of Contents

- P.1 Notice of 49th Ordinary General Meeting of Shareholders
- P.7 Reference Document for the Annual Meeting of Shareholders
- P.17 Business Report
- P.39 Financial Statements
- P.43 Audit Report

(Securities Code: 4971)
March 1, 2018

To Our Shareholders

3-4-1, Kuise-minami-shimmachi, Amagasaki, Hyogo Prefecture
MEC COMPANY LTD.
CEO & President Kazuo MAEDA

Notice of 49th Ordinary General Meeting of Shareholders

You are cordially invited to attend the 49th Ordinary General Meeting of Shareholders of MEC COMPANY LTD. The meeting will be held as detailed below.

If you are unable to attend the meeting on the day, you can exercise your voting rights in writing or via the Internet. Please examine the Reference Documents for the General Meeting of Shareholders shown below, and exercise your voting rights by 5:15 p.m. of Thursday, March 22, 2018 in accordance with the guidance provided below.

Details

- 1. Date and time** 10 a.m. on Friday, March 23, 2018
(The date is different from the period of the previous ordinary general meeting of shareholders (June 21, 2017) due to the change in the Company's fiscal year-end from March 31 to December 31, starting from the 49th business period.)
- 2. Venue** 2-7-1, Showa-dori, Amagasaki, Hyogo
3rd floor, HO-OH, Miyako Hotel New Archaic
(Please refer to the map to the venue for the shareholders' meeting provided at the end of this document.)
- 3. Purposes:**
- Items to be reported:**
1. The business report, the consolidated financial statements and the results of consolidated financial statement audits by the Accounting Auditor and the Audit and Supervisory Committee for the 49th business period (April 1, 2017 to December 31, 2017)
 2. The non-consolidated financial statements for the 49th business period (April 1, 2017 to December 31, 2017)

Matters to be resolved:

- Proposal No. 1** Appointment of Four Directors (excluding Directors who are Audit and Supervisory Committee Members)
- Proposal No. 2** Appointment of Three Directors who are Audit and Supervisory Committee Members
- Proposal No. 3** Appointment of One Substitute Director who is an Audit and Supervisory Committee Member

4. Guidance for exercise of voting rights

- (1) Exercising voting rights in writing:
Please indicate whether you are “for” or “against” each proposal on the voting form enclosed herein, and return it to us so that it arrives by 5:15 p.m. of Thursday, March 22, 2018.
- (2) Exercising voting rights via the Internet:
Please see the “Guidance for Exercise of Voting Rights via the Internet” on pages 4 and 5, and exercise your voting rights by 5:15 p.m. of Thursday, March 22, 2018.
- (3) If you wish to exercise voting rights in a non-uniform manner, please notify us in writing of the reasons therefor by three days before the day of the shareholders’ meeting

-
- ⊙ When you attend the meeting, please hand in the enclosed voting form at the reception desk.
 - ⊙ Please note that if the need arises to revise the business report, consolidated financial statements, non-consolidated financial statements or reference documents for the general meeting of shareholders, we will post the revised matters on our website (<http://www.mec-co.com/en/>).
 - ⊙ Of the documents that we are required to provide in accordance with the provisions of laws and regulations and Article 15 of the Company’s Articles of Incorporation, we will post the following on our website (<http://www.mec-co.com/>). Therefore, they are not included in the attachments to this Notice of Ordinary General Meeting of Shareholders.
 - 1) “Matters concerning the Company’s shares,” “matters concerning new share subscription rights in the Company,” and “basic policy on control of the Company” of the Business Report
 - 2) “Consolidated statements of changes in net assets” and “notes to the consolidated financial statements” of the consolidated financial statements
 - 3) “Non-consolidated statements of changes in net assets” and “notes to the non- consolidated financial statements” of the non-consolidated financial statements

Guidance for exercise of voting rights

There are three ways to exercise your voting rights.

If you are able to attend the Meeting:



Please hand in the enclosed voting form at the reception desk.

Date and time

Friday, March 23, 2018
10 a.m.

If you are unable to attend the Meeting:



Exercising voting rights by mailing the voting form:

Please indicate whether you vote “for” or “against” each proposal on the voting form enclosed herein and drop it into a post box.

Deadline

Thursday, March 22, 2018
Arrival by 5:15 p.m.



**Exercising voting rights via the Internet:
(by PC or smartphone/cell phone)**

Enter whether you vote “for” or “against” each proposal. For how to exercise your voting rights, please read pages 4 and 5.

Deadline

Thursday, March 22, 2018
Entry by 5:15 p.m.

Notes

1. If you are attending the meeting, it is not necessary to exercise your voting rights by mailing or via the Internet. Please hand in the enclosed voting form at the reception desk on the date of the Meeting.
2. If you exercise your voting rights twice, once by mail and once via the Internet, we will treat your Internet vote as the valid exercise of your voting rights. If you exercise your voting rights several times via the Internet, or if you exercise your voting rights more than once using a computer and mobile phone, we will treat the most recent vote as the valid exercise of your voting rights.

<Guidance for Exercise of Voting Rights via the Internet>

If you prefer to exercise your voting rights via the Internet, please accept the following conditions before exercising your rights.

1. Website for the exercise of voting rights

Shareholders exercising their voting rights via the Internet can only do so via the following website designated by the Company.

[Website URL for the exercise of voting rights]
<https://www.web54.net>

* You may also access the website for exercising voting rights by scanning the “QR Code®” shown below using a mobile phone equipped with a barcode scanner. For details of how to do this, please check the instruction manual of your mobile phone. (“QR Code” is a registered trademark of DENSO WAVE INCORPORATED.)



How to access the website for the exercise of voting rights

<https://www.web54.net>

STEP 1

*** ようこそ、議決権行使ウェブサイトへ！ ***

下のインターネット上による議決権行使についてをクリックのうえ、記載内容をよくお読みください。インターネット上による議決権行使には、【次へ進む】ボタンをクリックして「議決権行使ウェブサイト」をご利用ください。

メールアドレス指定を希望される方は、こちらをクリックしてください。すでにご登録、お持ちしているメールアドレスなどの変更・解約を希望される方は、お持ちのメールアドレスの住所表示欄にアクセスしてこのホームページをご利用ください。

【次へ進む】ボタンをクリックして

次へ進む 閉じる

*** ログイン ***

● 議決権行使コードを入力し、【ログイン】ボタンをクリックしてください。議決権行使コードは議決権行使書封筒裏面に記載して電子メールにより投票通知が送られてくる株主さまの専用、投票通知電子メール本文に記載しております。

議決権行使コード: _____

パスワード: _____

ログイン 閉じる

*** パスワード認証 ***

● パスワードを入力し、【次へ】ボタンをクリックしてください。

● パスワードを忘れた場合は、右のリンクをクリックしてください。

● パスワードをお忘れの場合は、こちらをクリックしてください。

パスワード: _____

次へ

Follow the instructions on the screen to register your vote.

2. Handling of the exercise of voting rights

- (1) If you are exercising your voting rights via the Internet, please enter the code and password for the exercise of voting rights indicated on the voting form enclosed herein and follow the instructions on the screen to register whether you vote “for” or “against” each proposal.
- (2) Exercise of voting rights via the Internet is accepted until 5:15 p.m., Japan Standard Time, Thursday, March 22, 2018. Please exercise your voting rights as soon as possible.
- (3) If you exercise your voting rights twice, once by mail and once via the Internet, we will treat your Internet vote as the valid exercise of your voting rights. If you exercise your voting rights several times via the Internet, or if you exercise your voting rights more than once using a computer and mobile phone, we will treat the most recent vote as the valid exercise of your voting rights.
- (4) Connection fees payable to Internet providers and communication expenses payable to telecommunication carriers (including access charges) when accessing the website for the exercise of voting rights will be borne by the shareholders.

3. Handling of password and voting rights exercise code

- (1) A password is important information to identify the person exercising voting rights as our shareholder. Please carefully keep the password as you would a seal or PIN.
- (2) If you enter an invalid password a set number of times, your password will be disabled. If you would like your password to be reissued, please follow the screen guide for the procedure.
- (3) The voting rights exercise code stated in the voting form is valid only for this shareholders' meeting.

4. Inquiries about how to operate a personal computer or other devices

- (1) If you have any questions about how to operate a personal computer, mobile phone or other devices concerning the exercise of voting rights via the Internet on the website, please call the following number:
Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Web Support Dedicated dial-in number
Phone Number: 0120-652-031 (9:00–21:00, Japan time; accessible only in Japan)
- (2) For other inquiries, please contact the following.
 - a. Shareholders who have an account with a securities company:
If you have an account with a securities company, please direct your inquiries to that securities company.
 - b. Shareholders who do not have an account with a securities company (shareholders who have a special account):
Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Administration Center
Phone number: 0120-782-031 (weekdays 9:00–17:00, Japan time; accessible only in Japan)

To Our Shareholders On Shareholder Return

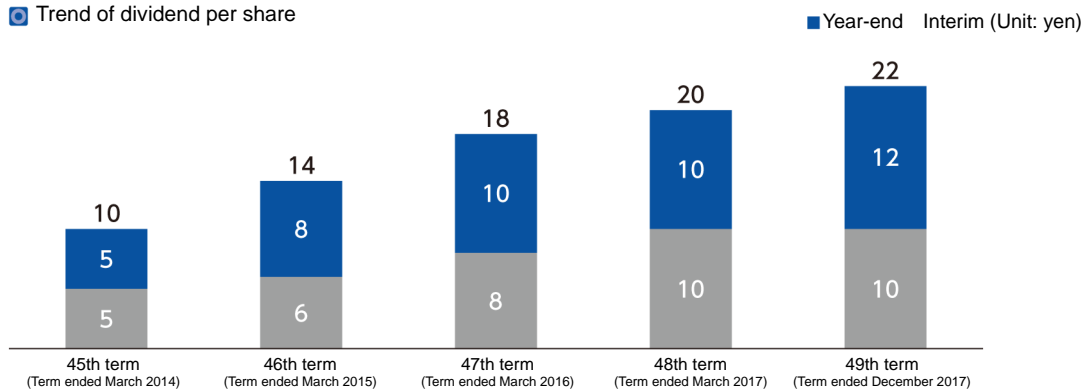
Shareholder return policy

The Company has a policy of actively returning profits to shareholders, with a medium-term target of 30% in consolidated payout ratio.

Situation of dividends

We have increased our dividend by 2 yen per share for the 49th business period from 20 yen per share for the 48th business period, bringing the annual dividend to 22 yen per share.

Trend of dividend per share



Introduction of our Shareholder Benefits Program

Once a year, a QUO Card will be given to shareholders who are listed or registered on the shareholder register as of December 31 according to the number of shares owned. The QUO Card will be sent around the end of March each year.

Number of shares owned	Benefit
100–999	1,000 yen QUO Card
1,000 or more	2,000 yen QUO Card

Reference Document for the Annual Meeting of Shareholders

Proposals and Reference Matters

Proposal No. 1 Appointment of Four Directors (excluding Directors who are Audit and Supervisory Committee Members)

The term of office of all four Directors (excluding Directors who are Audit and Supervisory Committee Members; the same shall apply hereinafter in this Proposal) will expire at the conclusion of this General Meeting of Shareholders.

Therefore, the Company proposes the appointment of four Directors.

With regard to this Proposal, the Audit and Supervisory Committee has decided that all candidates for Directors are qualified.

The candidates for Directors are as follows.

Candidate number	Name	Position at the Company and responsibility
1	Re-appointment Kazuo MAEDA	Representative Director & President Chief Executive Officer
2	Re-appointment Makoto NAGAI	Director and Senior Executive Operating Officer, and Head of Business Department
3	Re-appointment Toshiko NAKAGAWA	Director and Executive Operating Officer, Head of Corporate Planning Division
4	Re-appointment Yutaka NISHIYAMA	Independent Outside Director

Candidate number	Name (Date of birth)	Career history, position, responsibility and important concurrent positions	Number of shares of the Company owned
1	Kazuo MAEDA (April 15, 1962)	January 2000 Joined the Company April 2000 General Manager President's Office June 2000 General Manager of Director's and President's Office April 2001 Company Managing Director June 2002 CEO & President of the Company April 2011 CEO & President of the Company, and Head of Research and Development Division June 2012 CEO & President of the Company (current) July 2015 CEO of the Company (current) [Important concurrent positions] Director, MEC TAIWAN COMPANY LTD. Representative Director, MEC (HONG KONG) L TD. Representative Director, MEC FINE CHEMICAL (ZHUHAI) LTD. Representative Director, MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD. Director, MEC EUROPE NV. Director, MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.	726,000 shares
<p>[Reason for nomination] Since Mr. Kazuo Maeda assumed the position of the CEO & President of the Company in June 2002, he has committed himself to revitalizing the Board of Directors as Chairman thereof and strengthening corporate governance. In addition, from July 2015 as the CEO, he demonstrated strong leadership in driving the entire MEC Group and increasing corporate value through various initiatives, including the medium-term management plan and the ESG strategy, leveraging his extensive experience and track record as a manager. Therefore, we have determined that he is a suitable candidate and have nominated him to be re-appointed as Director.</p>			

Candidate number	Name (Date of birth)	Career history, position, responsibility and important concurrent positions	Number of shares of the Company owned
2	Makoto NAGAI (March 7, 1961)	<p>April 2001 Joined the Company</p> <p>May 2003 Managing Director, MEC EUROPE NV.</p> <p>June 2006 Corporate Officer</p> <p>April 2007 Executive Officer, Head of International Business Center</p> <p>January 2010 Corporate Officer and General Manager of MEC TAIWAN COMPANY LTD.</p> <p>June 2010 Managing Executive Officer</p> <p>April 2013 Managing Executive Officer, Head of Business Department</p> <p>June 2013 Director and Managing Executive Officer, Head of Business Department</p> <p>June 2015 Director and Senior Managing Executive Officer, Head of Business Department (current)</p> <p>[Important concurrent positions]</p> <p>Representative Director, MEC TAIWAN COMPANY LTD.</p> <p>Director, MEC (HONG KONG) LTD.</p> <p>Director, MEC FINE CHEMICAL (ZHUHAI) L TD.</p> <p>Director, MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD.</p> <p>Director, MEC EUROPE NV.</p> <p>Representative Director, MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.</p>	62,200 shares
<p>[Reason for nomination]</p> <p>Mr. Makoto Nagai, taking advantage of his experience as a Director of the Company and the deep insight gained through engagement in corporate management overseas, has contributed to active discussions at the Board of Directors, played a central role in global business management, including overseas expansion, and contributed significantly to the earnings expansion of the Company in recent years. Therefore, we have determined that he is a suitable candidate and have nominated him to be re-appointed as Director.</p>			

Candidate number	Name (Date of birth)	Career history, position, responsibility and important concurrent positions	Number of shares of the Company owned
3	Toshiko NAKAGAWA (August 3, 1961)	<p>April 1984 Joined the Company</p> <p>April 2004 Head of Research and Development Center</p> <p>June 2004 Managing Officer, Head of Research and Development Center</p> <p>June 2010 Managing Executive Officer, Head of Research and Development Center</p> <p>April 2011 Managing Executive Officer, Head of Business Department</p> <p>July 2011 Managing Executive Officer, Head of Business Department, Head of Business Support Office</p> <p>April 2012 Managing Executive Officer, Head of Business Department, Head of Business Planning Office</p> <p>April 2013 Managing Executive Officer, Head of Research and Development Division, Head of Planning Office</p> <p>June 2014 Director and Managing Executive Officer, Head of Research and Development Division, Head of Planning Office</p> <p>July 2015 Director and Managing Executive Officer, Head of Planning Office, Head of Innovation Office</p> <p>October 2016 Director and Managing Executive Officer, Head of Corporate Planning Division (current)</p> <p>[Important concurrent positions]</p> <p>Director, MEC TAIWAN COMPANY LTD.</p> <p>Director, MEC (HONG KONG) LTD.</p> <p>Director, MEC FINE CHEMICAL (ZHUHAI) LTD.</p> <p>Director, MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD.</p> <p>Director, MEC EUROPE NV.</p> <p>Director, MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.</p>	60,200 shares
<p>[Reason for nomination]</p> <p>Leveraging her deep knowledge of research and development, Ms. Toshiko Nakagawa as a Director has greatly contributed to enhancing corporate value through the development of the medium-term management plan and policy development of research and development in new business fields, and has also promoted business management in the areas of corporate planning, basic research and development, and production. In addition, she has endeavored to improve the Company's corporate value by strengthening Group management and corporate governance. Therefore, we have determined that she is a suitable candidate and have nominated her to be re-appointed as Director.</p>			

Candidate number	Name (Date of birth)	Career history, position, responsibility and important concurrent positions	Number of shares of the Company owned
4	Yutaka NISHIYAMA (March 13, 1960)	<p>April 1996 Assistant Professor, Faculty of Engineering, Kansai University</p> <p>March 2000 Overseas researcher (MIT), Kansai University</p> <p>April 2007 Professor at Faculty of Chemistry, Materials and Bioengineering, Kansai University (current)</p> <p>June 2014 Director of the Company (current)</p> <p>[Important concurrent positions] Professor at Faculty of Chemistry, Materials and Bioengineering, Kansai University</p>	1,200 shares
<p>[Reason for nomination] Mr. Yutaka Nishiyama has provided supervision and recommendations as independent Outside Director on the execution of duties by Directors from an independent standpoint in the areas of research and development, and new businesses. He has done so by leveraging his professional knowledge and extensive experience gained while serving as Professor at the Faculty of Chemistry, Materials and Bioengineering of Kansai University. Although Mr. Nishiyama does not have experience of being directly involved in corporate management, we have decided to nominate him to be reappointed as independent Outside Director based on his track record, experience and insight, as well as history of engagement in university operations as a professor.</p>			

- Notes:
1. There are no special interests between the candidates and the Company.
 2. Mr. Yutaka Nishiyama is a candidate for independent Outside Director, and is a candidate for registration as independent Director with the Tokyo Stock Exchange.
 3. Mr. Yutaka Nishiyama is currently an independent Outside Director of the Company, and his term of office as such will be three years and nine months at the conclusion of this General Meeting of Shareholders.
 4. The Company has entered into a limited liability agreement with Mr. Yutaka Nishiyama, with the following content. If his reappointment is approved, the Company plans to continue the limited liability agreement. In the event that he assumes liability for damages to the Company as a result of the acts stated in Article 423, paragraph 1 of the Companies Act, he shall assume responsibility up to the higher of 10 million yen or the amount prescribed by laws and regulations.

Opinions of the Audit and Supervisory Committee

The three independent Outside Directors who are Audit and Supervisory Committee Members are among the five members of the Nomination and Compensation Advisory Committee, accounting for a majority. When electing and dismissing any Director, whether he or she is qualified is determined after examination according to the appointment and dismissal standards of the Nomination and Compensation Advisory Committee and further review by the Audit and Supervisory Committee. As for compensation, we have a highly transparent compensation system with increased portions of compensation linked to short-, medium-, and long-term performance, as a result of implementing the performance-linked monetary compensation plan and the performance-linked share-based compensation plan.

Proposal No. 2 Appointment of Three Directors who are Audit and Supervisory Committee Members

The term of office of all three Directors who are Audit and Supervisory Committee Members will expire at the conclusion of this General Meeting of Shareholders.

Therefore, the Company proposes the appointment of three Directors who are Audit and Supervisory Committee Members.

We have obtained the consent of the Audit and Supervisory Committee with regard to this proposal. The candidates for Directors who are Audit and Supervisory Committee Members are as follows.

Candidate number	Name	Position at the Company and responsibility
1	Re-appointment Takayuki SATAKE	Independent Outside Director Audit and Supervisory Committee Member
2	Re-appointment Akiko TANAKA	Independent Outside Director Audit and Supervisory Committee Member
3	New appointment Mitsutoshi TAKAO	New candidate

Candidate number	Name (Date of birth)	Career history, position, responsibility and important concurrent positions	Number of shares of the Company owned
1	Takayuki SATAKE (November 22, 1960)	<p>April 1999 Assistant Professor, Department of Business Administration, School of Commerce and Economics, Kobe University of Commerce (currently University of Hyogo)</p> <p>April 2004 Professor, Department of Business Creation, School of Business Administration, University of Hyogo</p> <p>April 2010 Professor, Graduate School of Business Administration, University of Hyogo</p> <p>June 2012 Director of the Company</p> <p>April 2016 Professor, Institute of Business and Accounting, Professional Graduate School, Kwansei Gakuin University (current)</p> <p>Professor Emeritus, the University of Hyogo (current)</p> <p>June 2016 Director (Audit and Supervisory Committee Member) of the Company (current)</p> <p>July 2016 Outside Director, OAK Co., Ltd.</p> <p>[Important concurrent positions] Professor, Institute of Business and Accounting, Professional Graduate School, Kwansei Gakuin University</p>	1,900 shares
<p>[Reason for nomination] Mr. Takayuki Satake has greatly contributed to ensuring audit effectiveness and securing soundness and adequacy as well as enhancing the transparency of the Company's management decision-making as an independent Outside Director who is an Audit and Supervisory Committee Member. He has done so by leveraging his professional knowledge and experience gained while serving as a professor at the Institute of Business and Accounting, Professional Graduate School, Kwansei Gakuin University. Although Mr. Satake does not have experience of being directly involved in corporate management, we have determined that he is a suitable candidate and have nominated him to be re-appointed as independent Outside Director who is an Audit and Supervisory Committee Member.</p>			

Candidate number	Name (Date of birth)	Career history, position, responsibility and important concurrent positions	Number of shares of the Company owned
2	Akiko TANAKA (November 29, 1959)	April 1983 Joined Osaka Regional Taxation Bureau April 1999 Registered as a tax accountant April 2001 Partner, Accounting Corporation Kyoto Keiei Network September 2010 Representative Director, COCORO DESIGN Co., Ltd. (current) October 2010 Head of Akiko Tanaka Tax Accounting Office (Retired in October 2015 due to incorporation) June 2012 Auditor of the Company October 2015 Partner/Representative, Shinwa Tax Corporation (current) June 2016 Director (Audit and Supervisory Committee Member) of the Company (current) [Important concurrent positions] Partner/Representative, Shinwa Tax Corporation Representative Director, COCORO DESIGN Co., Ltd.	900 shares
[Reason for nomination] Ms. Akiko Tanaka has contributed to ensuring audit effectiveness from the perspective of accounting and tax affairs and securing soundness and adequacy as well as enhancing the transparency of the Company's management decision-making as an independent Outside Director who is an Audit and Supervisory Committee Member. She has done so by leveraging her knowledge gained as a tax accountant and experience in instructing corporate management. Therefore, we have determined that she is a suitable candidate and have nominated her to be re-appointed as independent Outside Director who is an Audit and Supervisory Committee Member.			

Candidate number	Name (Date of birth)	Career history, position, responsibility and important concurrent positions	Number of shares of the Company owned
3	Mitsutoshi TAKAO (April 1, 1950)	<p>April 1972 Joined Kawasaki Heavy Industries, Ltd. (KHI)</p> <p>June 2008 Representative Director, Senior Vice President and Head of Finance & Accounting Division of KHI</p> <p>April 2012 Representative Director, Senior Executive Vice President of KHI Assistant to President in charge of Corporate Planning, Finance & Accounting, CSR Promoting, Personnel & Labor Administration, and General Administration Divisions of KHI</p> <p>April 2014 Outside Auditor of TechnoPro Holdings, Inc. (current)</p> <p>[Important concurrent positions] Outside Auditor of TechnoPro Holdings, Inc.</p>	—
<p>[Reason for nomination] Mr. Mitsutoshi Takao has deep insight into business administration gained through his extensive experience as a corporate manager while serving as representative director, senior vice president of a listed company. Furthermore, he has a well-balanced, broad and deep knowledge, in addition to knowledge of finance and accounting, through his experience in overseeing divisions such as Corporate Planning, Personnel & Labor Administration and CSR as head of the Finance & Accounting Division. He also serves as outside auditor of another company, where he carries out audit and supervision from an objective perspective based on his broad knowledge of corporate governance. Therefore, we have determined that he is a suitable candidate and have nominated him to be an independent Outside Director who is an Audit and Supervisory Committee Member.</p>			

- Notes:
1. There are no special interests between the candidates and the Company.
 2. Mr. Takayuki Satake, Ms. Akiko Tanaka and Mr. Mitsutoshi Takao are candidates for independent Outside Directors, and are candidates for registration as independent Director with the Tokyo Stock Exchange.
 3. Mr. Takayuki Satake is currently an independent Outside Director of the Company, and his term of office as such will be five years and nine months at the conclusion of this General Meeting of Shareholders. Ms. Akiko Tanaka is currently an independent Outside Director of the Company, and her term of office as such will be one year and nine months at the conclusion of this General Meeting of Shareholders.
 4. The Company has entered into a limited liability agreement with Mr. Takayuki Satake and Ms. Akiko Tanaka, with the following content. If their reappointments are approved, the Company plans to continue the limited liability agreement. Furthermore, if Mr. Mitsutoshi Takao is appointed, the Company plans to enter into the same limited liability agreement with Mr. Takao.
In the event that they assume liability for damages to the Company as a result of the acts stated in Article 423, paragraph 1 of the Companies Act, they shall assume responsibility up to the higher of 10 million yen or the amount prescribed by laws and regulations.

Proposal No. 3 Appointment of One Substitute Director who is an Audit and Supervisory Committee Member

In order to be prepared for cases in which there is a shortfall in the number of Directors who are Audit and Supervisory Committee Members provided for by laws and regulations, we propose the appointment of one substitute Director who is an Audit and Supervisory Committee Member.

In addition, we will be able to cancel the appointment of the substitute Director who is an Audit and Supervisory Committee Member by resolution of the Board of Directors and with the consent of the Audit and Supervisory Committee, but only before such Director takes office.

Also, we have obtained the consent of the Audit and Supervisory Committee with regard to this proposal. The candidate for Substitute Director who is an Audit and Supervisory Committee Member is as follows.

Name (Date of birth)	Career history and important concurrent positions		Number of shares of the Company owned
Takao OKUDA (September 25, 1967)	April 1996	Registered with Osaka Bar Association Joined Kitahama Partners	-
	October 2002	Founded Okuda Kinoshita Law Firm, Co-Representative Lawyer	
	October 2005	Renamed to Minami-morimachi Law Firm, Co-Representative Lawyer (current)	
	May 2015	Auditor of the Company	
	June 2015	Resigned from position of Auditor of the Company	

- Notes:
- There are no special interests between the candidate and the Company.
 - Mr. Takao Okuda is a candidate for substitute independent Outside Director and meets the requirements for registration as an independent Director stipulated by the Tokyo Stock Exchange.
 - The reason for proposing Mr. Takao Okuda as a candidate for substitute Outside Auditor is that in the eventuality the Company has an insufficient number of Directors who are Audit and Supervisory Committee Members as stipulated in laws and regulations, we have determined it is appropriate for him to serve as an Outside Auditor since he is familiar with corporate legal affairs.
 - The reason why Mr. Takao Okuda is judged to be able to properly perform the duties of an Outside Director is that, though he does not have experience being involved in the management of a company, he is familiar with corporate legal affairs, and has sufficient insight to govern the Company's management.
 - A summary of the contents of the liability limitation agreement that the Company scheduled to be concluded with Mr. Takao Okuda if he is appointed as Outside Director is as follows.
In the event that he assumes liability for damages to the Company as a result of the acts stated in Article 423, paragraph 1 of the Companies Act, he shall assume responsibility up to the higher of 10 million yen or the amount prescribed by laws and regulations.

(Attachment)**Business Report**

(From April 1, 2017 to December 31, 2017)

1. Matters concerning the state of the corporate group

In order to ensure timely and appropriate disclosure of corporate information by aligning the business year with that of overseas consolidated subsidiaries, and to improve operational efficiency in such areas as budgeting and operating control of the Group, we have changed our account closing date from March 31 to December 31 effective the term under review, following the approval for partial amendments to the Articles of Incorporation at the 48th Ordinary General Meeting of Shareholders held on June 21, 2017. Therefore, we have set the nine-month period from April 1, 2017 to December 31, 2017 as the consolidated period for the consolidated fiscal year under review, which is the transitional period for the change in business year. Please note that for overseas subsidiaries that close their account in December, the consolidation period is the twelve-month period from January 1, 2017 to December 31, 2017. Due to this, we have not indicated any year-on-year changes.

(1) Progress and results of business

Japan's economy during the consolidated fiscal year under review (April 1, 2017 – December 31, 2017) saw a gradual recovery with an increase in exports mainly in the IT industry and healthy consumer spending thanks to a robust employment and income situation. However, the trends of the administration in the United States, increasing geopolitical risk around the world, and fluctuations in exchange rates mean that concerns about the future outlook remain.

In the electronic components industry, the electronic components used in smartphones are becoming more functionally advanced and miniaturized. Therefore, the electronic substrates on which electronic components are mounted are also tending to become higher density ones, and technological innovation for this is progressing. In addition, there is growing demand for semiconductor memories, and the production volume of package boards on which they are mounted is also expanding. The use of electronics in automobiles is also driving the expansion of the industry.

The IoT (Internet of Things) related market is expected to continue to see high growth, and people's attention is focused on the switch to the fifth-generation (5G) mobile communication system, offering higher speed and higher capacity, resulting in a rise in the need for electronic boards, which can handle high-speed communication processing. Moreover, the technology of self-driving vehicles is also progressing steadily, and there has been a large increase in demand for the sensors they use in devices such as lasers and cameras. There has also been an increase in demand for the package boards on which these sensors are mounted. We also believe that the shift to electric vehicles, the future means of transport, will become clearer and sales of electronic boards will increase accordingly.

In this environment, the Group has focused on developing and selling products for high-density electronic substrates. In particular, we accelerated the development of the CZ Series of super-roughening agents, which is seeing an expansion in market share for use in the production of package substrates for smartphones and tablet computers, and actively promoted sales. With its high reliability, the CZ Series of products have been increasingly adopted in boards for mounting self-driving sensors for car makers. With the EXE Series, which manufacturers use to achieve a high-density wiring pattern with the etching method, we have acquired a high market share for use in components for displays. And we have steadily had the series adopted for electronic boards mounted on smartphones. We have also expanded sales of the SF Series for use in displays. The flexible substrates used in smartphones, cars, robots, and such like are becoming increasingly miniaturized. In connection with this, as a result of making proactive efforts to sell the UT Series of products which can roughen a surface without manufacturers needing to choose a type of copper foil, they have been started being adopted by board makers for use in their mass production activities. Several companies including rigid substrate manufacturers are continuing to conduct tests with them. In addition, although small in volume, we are continuing to stably supply customers with the FlatBOND Series for high-frequency circuit boards that meet the needs of high-speed communication processing, aiming at the coming of the full-fledged IoT age. We see demand for them expanding in future in line with the switch to 5G.

AMALPHA is a technique for joining metal and resin directly, and it is used in the process of manufacturing the metal casing of some mobile devices. We are struggling with it in terms of sales but we are focused on sales activities for it, aiming to acquire new customers.

Looking at a breakdown of sales, sales of chemicals were 9,480 million yen, machinery sales were 56 million yen, sales of materials were 94 million yen, and other sales were 9 million yen.

The breakdown of chemical sales shows there were sales of 5,437 million yen for adhesion improvers, sales of 3,290 million yen for etching agents, and sales of 751 million yen for other chemicals.

As a result, total consolidated sales for the consolidated fiscal year under review amounted to 9,641 million yen. Operating income amounted to 1,993 million yen, and the operating margin was 20.7%.

Ordinary income ended at 2,063 million yen. Net income before income taxes amounted to 2,104 million yen, and net income attributable to owners of parent was 1,567 million yen.

In MEC Taiwan, there were steady sales of chemicals for use with packaging substrates for displays and of chemicals for use in high-density electronic substrates. In MEC Suzhou in China, chemicals for use with HDI substrates for smartphones performed steadily, while sales at MEC Zhuhai remained robust in the general-purpose electronic substrate market. MEC Europe was steady due to the acquisition of new customers, despite a stagnant electronic board industry as a whole in Europe. Furthermore, in order to enhance our presence in the expanding Southeast Asian market in the future, in May 2017 we established a subsidiary in Thailand as our sixth company. It is scheduled to start operating in July 2019.

Looking at cash flow, cash and cash equivalents at the end of the consolidated fiscal year under review amounted to 3,664 million yen, a decrease of 58 million yen from the end of the previous consolidated fiscal year. This was because net cash gained from operating activities came to 1,591 million yen, net cash used in investing activities was 832 million yen, and net cash used in financing activities was 885 million yen.

As a result, ROE was 11.3%.

Further, with regard to the return of profits to shareholders, dividends were increased by 2 yen per share compared with the previous year, and the dividend payout ratio was 26.9%.

The situation of sales by product category is as follows.

Category	48th term (previous fiscal year)		49th term (fiscal year under review)		
	Net sales (Millions of yen)	Composition ratio (%)	Net sales (Millions of yen)	Composition ratio (%)	Year-on-year (%)
Chemicals for use with electronic substrates Chemicals for use with electronic parts	8,862	95.7	9,480	98.3	—
Machines for electronic substrates	130	1.4	56	0.6	—
Materials for electronic substrates	239	2.6	94	1.0	—
Other	26	0.3	9	0.1	—
Total	9,259	100.0	9,641	100.0	—

Year-on-year comparisons have been omitted since the consolidated fiscal year under review is the transitional period for the business year change.

(2) Situation with regard to capital investment

The total capital investment we implemented during the fiscal year under review came to 647 million yen, with the major areas being as follows.

- 1) Major facilities completed during the fiscal year under review
 - Amagasaki Headquarters Experiment device for research, production facilities at Amagasaki Headquarters and solar power generation facilities
 - Nagaoka Factory Renewal of production facilities
- 2) Ongoing new construction and expansion of major facilities during the fiscal year under review
 - Office and factory construction at MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.
- 3) Sale, removal and destruction of significant fixed assets carried out during the fiscal year under review
 - N/A

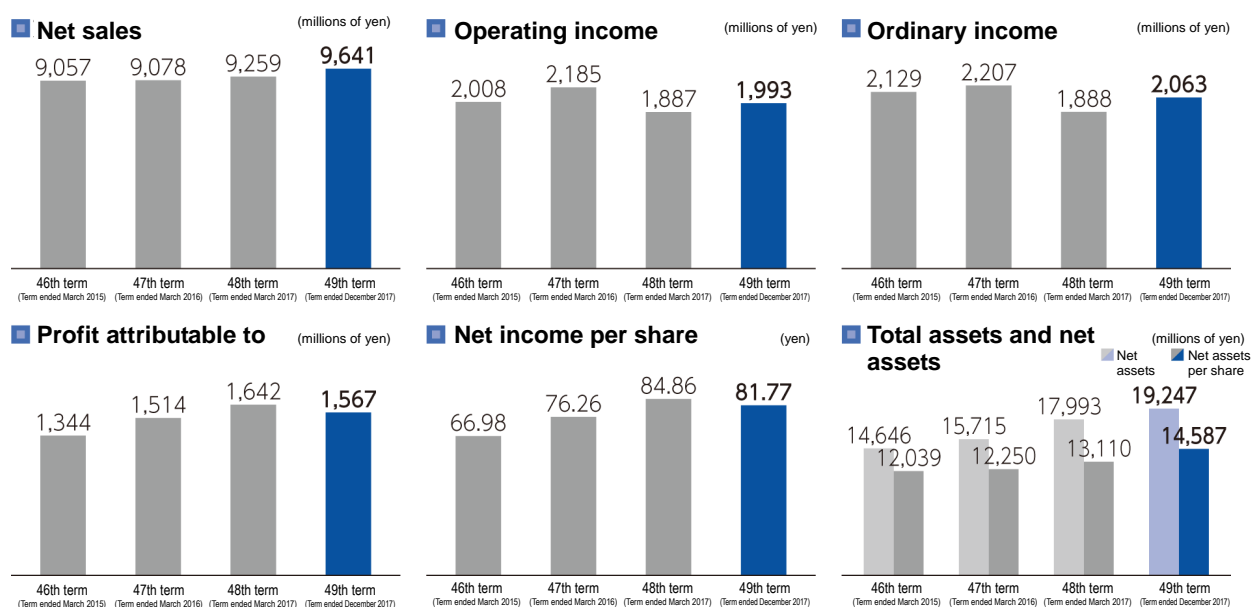
(3) Financing

As for financing during the consolidated fiscal year under review, the Company procured a short-term loan of 1 billion yen from a domestic financial institution as establishment funds and working capital for a subsidiary in Thailand. However, repayment has been completed at the end of the consolidated fiscal year under review.

(4) Changes in assets and profit and loss

Category	46th term (Term ended March 2015)	47th term (Term ended March 2016)	48th term (Term ended March 2017)	49th term (Fiscal year under review) (Term ended December 2017)
Net sales (millions of yen)	9,057	9,078	9,259	9,641
Operating income (millions of yen)	2,008	2,185	1,887	1,993
Ordinary income (millions of yen)	2,129	2,207	1,888	2,063
Profit attributable to owners of parent (millions of yen)	1,344	1,514	1,642	1,567
Net income per share (yen)	66.98	76.26	84.86	81.77
Total assets (millions of yen)	14,646	15,715	17,993	19,247
Net assets (millions of yen)	12,039	12,250	13,110	14,587
Net assets per share (yen)	599.85	632.41	683.86	760.92
ROE (%)	12.1	12.5	13.0	11.3
Number of employees (persons)	284	301	321	333

- Notes:
1. Per share indicators are calculated by deducting the number of treasury shares.
 2. The number of employees is the number of regular employees, and does not include part-time and fixed-term employees.
 3. The 49th term is a nine-month period due to the change in the account closing date to December 31.



Note: The 49th term is a nine-month period due to the change in the account closing date to December 31.

(5) Issues to be addressed

The environment surrounding the Group is as described in “(1) Progress and results of business” in “1. Matters concerning the current state of the corporate group,” and the economic outlook remains uncertain.

Amid this business environment, the Group has operated its business upholding the corporate motto of “Enjoy your Work,” which is the source of our corporate value, and based on the principles of “Visionary Technology,” “Reliable Quality” and “Meticulous Service.” In order to realize the above principles and contribute to the common interests of shareholders, we have developed a medium-term management plan “e-frontier next plus” covering three business years ending December 31, 2020 and are striving to increase our corporate value by pushing forward the plan. The plan “e-frontier next plus” sets forth, in addition to the above principles, “enhancement of technology marketing” and “promotion of open innovation” as new qualitative targets that serve as essential elements of management strategies, as well as “promotion of ESG-H strategy” to strengthen the management base.

In addition, in order to realize further routes for growth, we will do our utmost to tackle management issues, and strive to maximize corporate value.

1) Enhancement of technology marketing

Traditionally, most of the Group’s customers were manufacturers of electronic substrates/parts. Going forward, the Group will significantly expand its scope and strengthen activities such as joint assessment with “upstream” material manufacturers, introduction of our technologies to “downstream” end users and assembly manufacturers, and acquisition of certifications. We believe that enhanced technology marketing will also contribute to faster product development. We will find potential customers and expand sales, and develop new products, through marketing activities that emphasize the Company’s core technologies.

2) Promotion of open innovation

In recent years, the progress and innovation in technology using IoT, artificial intelligence (AI) and big data in the world has been dramatic. In order to quickly capture these trends and seize opportunities for business expansion, the Group will tap its latent strengths and find new values in order to conduct commercialization by actively utilizing external ideas and development capabilities in addition to its principle of “Visionary Technology.” Also, we believe that making active use of external sources besides internal ones will enable us to expedite our development activities.

3) Promotion of ESG-H strategy

The strategy for ESG-H, which stands for environment, social, governance and human resources, is a cornerstone of businesses. For example, in the area of the environment, the Company, which is engaged in the chemicals business, will strive to manage chemical substances properly and protect nature and biodiversity. In the area of social efforts, the Company helps its employees to achieve a work-life balance and actively promotes activities and contributions to fulfill corporate social responsibilities to our stakeholders such as shareholders, customers and the community. Furthermore, the greatest source of a company's competitiveness in achieving its medium- to long-term goals is human resources. We will make efforts in developing human resources that can maximize our corporate value.

The Company has the ESG Committee chaired by the CEO & President. The Committee meets quarterly and promotes the ESG strategy. For example, the Amagasaki Headquarters also serves as an evacuation site for local residents partly because it is located in a residential area. Also, we held briefing sessions and site tours for community residents so that they can have a deeper understanding of the Company. We will continue such initiatives on an ad hoc basis.

Furthermore, we will also push forward with the ESG strategy in product development, focusing on environmental aspects.

In the area of governance, we actively invite outside officers in light of management diversification and ensuring transparency, and work on information disclosure and improved capital efficiency at all times.

By overcoming these issues, we at the Group will aim to acquire a position in multiple areas where we are the only company or the number one company, and will do our utmost to continue realizing high growth on an ongoing basis.

(6) Parent company and principal subsidiaries

1) Parent company

N/A

2) Principal subsidiaries

Company name	Capital	Investment ratio	Main businesses
MEC TAIWAN COMPANY LTD.	NT\$ 25 million	100 %	Electronic boards and parts materials business
MEC (HONG KONG) LTD.	HK\$ 4.5 million	100 %	Electronic boards and parts materials business
MEC FINE CHEMICAL (ZHUHAI) LTD.	HK\$ 8 million	100 % (100) (*1)	Electronic boards and parts materials business
MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO.,LTD.	US\$ 4 million	100 %	Electronic boards and parts materials business
MEC EUROPE NV.	EUR 1 million	100 % (*2)	Electronic boards and parts materials business
MEC SPECIALTY CHEMICAL (THAILAND) CO.,LTD. (*3)	THB 215 million	100 % (*4)	Electronic boards and parts materials business

(*1) This is the portion owned by MEC (HONG KONG) LTD.

(*2) MEC TAIWAN COMPANY LTD. invests 0.05%.

(*3) MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD. was established on May 29, 2017.

(*4) A related party to the Company invests 0.01%.

(7) Main businesses (as of December 31, 2017)

The Group positions the electronic substrate and parts materials business as its main business, with product and merchandise classification and major products and merchandise as below.

Product and merchandise classification		Main manufactured products
Product	Chemicals for use with electronic substrates Chemicals for use with electronic parts	Adhesion improvers Etching agents Other surface processing agents
	Machines for electronic substrates	Machines for chemical treatment Various types of machines for use before and after chemical treatment
Merchandise	Materials for electronic substrates	Copper foil Dry film
Others		Mechanical repair

(8) Major offices and factories (as of December 31, 2017)

Name	Location
MEC COMPANY LTD.: Head Office, R&D center, Amagasaki Factory	Amagasaki, Hyogo
MEC COMPANY LTD.: Nishinomiya Factory	Nishinomiya, Hyogo
MEC COMPANY LTD.: Nagaoka Factory	Nagaoka, Niigata
MEC COMPANY LTD.: Tokyo Sales Office	Tachikawa, Tokyo
MEC TAIWAN COMPANY LTD.: Head Office and factory	Taoyuan, Taiwan
MEC (HONG KONG) LTD.: Head Office	Kowloon, Hong Kong
MEC FINE CHEMICAL (ZHUHAI) LTD.: Head Office and factory	Zhuhai, China
MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD.: Head Office and factory	Suzhou, China
MEC EUROPE NV.: Head Office and factory	Ghent, Belgium
MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.: Head Office	Ayutaya, Thailand

(9) Employees (as of December 31, 2017)

1) Employees of the corporate group

Number of employees	Increase or decrease compared with the end of the previous fiscal year
333	Increase of 12

Note: The number of employees is the number of regular employees, and does not include part-time and fixed-term employees.

2) Employees of the Company

Number of employees	Increase or decrease compared with the end of the previous fiscal year	Average age	Average years of service
184 (133 male) (51 female)	Increase of 7	40.6	12.7

Note: The number of employees is the number of regular employees, and does not include part-time and fixed-term employees.

(10) Major borrowings (as of December 31, 2017)

Creditors	Balance of borrowings
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	625 million yen
Sumitomo Mitsui Banking Corporation	625

2. Matters related to Officers**(1) Directors (as of December 31, 2017)**

Position	Name	Responsibility and important concurrent positions
CEO & President	Kazuo MAEDA	Chief Executive Officer Director, MEC TAIWAN COMPANY LTD. Representative Director, MEC (HONG KONG) LTD. Representative Director, MEC FINE CHEMICAL (ZHUHAI) LTD. Representative Director, MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD. Director, MEC EUROPE NV. Director, MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.
Director	Makoto NAGAI	Senior Managing Executive Officer, Head of Business Department Representative Director, MEC TAIWAN COMPANY LTD. Director, MEC (HONG KONG) LTD. Director, MEC FINE CHEMICAL (ZHUHAI) LTD. Director, MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD. Director, MEC EUROPE NV. Representative Director, MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.
Director	Toshiko NAKAGAWA	Managing Executive Officer, Head of Corporate Planning Division Director, MEC TAIWAN COMPANY LTD. Director, MEC (HONG KONG) LTD. Director, MEC FINE CHEMICAL (ZHUHAI) LTD. Director, MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD. Director, MEC EUROPE NV. Director, MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.
Director	Yutaka NISHIYAMA	Professor at Faculty of Chemistry, Materials and Bioengineering, Kansai University
Director (Audit and Supervisory Committee Member)	Katsuhiro MAEDA	
Director (Audit and Supervisory Committee Member)	Takayuki SATAKE	Professor, Institute of Business and Accounting, Professional Graduate School, Kwansai Gakuin University
Director (Audit and Supervisory Committee Member)	Akiko TANAKA	Partner/Representative, Shinwa Tax Corporation Representative Director, COCORO DESIGN Co., Ltd.

- Notes:
1. Director Yutaka Nishiyama and Directors (Audit and Supervisory Committee Members) Katsuhiro Maeda, Takayuki Satake and Akiko Tanaka are independent Outside Directors, and have been registered as independent Directors with the Tokyo Stock Exchange.
 2. Director (Audit and Supervisory Committee Member) Akiko Tanaka is a certified tax accountant, and has considerable knowledge of finance and accounting.
 3. In line with the intent of the audit and supervisory committee system, the Company has a closely connected structure by placing the Internal Control Office directly under the Audit and Supervisory Committee, systematically conducting audits by leveraging the internal control system, and establishing a secretariat of employees who assist the Audit and Supervisory Committee. Also, the Audit and Supervisory Committee sets forth the division of roles for each year utilizing the framework for appointing Audit and Supervisory Committee members for specific roles. It maintains the quality of audits by, for example, conducting field audits of all business offices together with the Internal Control Office. In addition, all Audit and Supervisory Committee Members as independent Outside Directors serve as members of the Nomination and Compensation Advisory Committee and the ESG Committee, as well as other organs including the Board of Directors, and strive to fulfill the relegated supervisory function.
Furthermore, the Company intends to select one of the Audit and Supervisory Committee Members to appropriately handle duties as the occasion demands.
The monthly Audit and Supervisory Committee meetings are also attended by Outside Directors and the Internal Control Office to share information and exchange opinions. Therefore, the Company does not appoint full-time Audit and Supervisory Committee Members.
 4. In accordance with the provisions of Article 427, paragraph 1 of the Companies Act, the Company and each of Messrs. Yutaka Nishiyama, Katsuhiro Maeda and Takayuki Satake, and Ms. Akiko Tanaka have entered into an agreement to limit their liability for damages as specified in Article 423, paragraph 1 of the Act.
The maximum amount of liability for damages for each of the four persons under this agreement is 10 million yen or the amount stipulated in laws and regulations, whichever is higher.

(2) Total amount of compensation, etc. of Directors

Category	Number of persons	Total amount of compensation, etc.
Director (excluding Audit and Supervisory Committee Members) (Of whom, independent Outside Directors)	4 (1)	124 million yen (3)
Director (Audit and Supervisory Committee Members) (Of whom, independent Outside Directors)	3 (3)	19 (19)
Total	7	143

- Notes:
1. The compensation limit for Directors (excluding Audit and Supervisory Committee Members) was resolved to be an annual amount of no more than 170 million yen (of which no more than 20 million yen for Outside Directors; does not include employee salaries for employees who are Directors) at the 47th Ordinary General Meeting of Shareholders held on June 21, 2016.
 2. The compensation limit for Directors who are Audit and Supervisory Committee Members was resolved to be an annual amount of no more than 50 million yen at the 47th Ordinary General Meeting of Shareholders held on June 21, 2016.
 3. The compensation for independent Outside Directors is a fixed monthly compensation.
 4. The compensation for Directors (excluding independent Outside Directors) is a fixed monthly compensation and performance-linked compensation. Performance-linked compensation consists of performance-based monetary compensation linked to consolidated ordinary income and performance-linked share-based compensation as medium- to long-term compensation, the weightings of which are decided depending on the position of the relevant person.
 5. The total amount of compensation, etc. for Directors (excluding Audit and Supervisory Committee Members) includes 26 million yen as performance-linked share-based compensation.

(3) Matters related to outside officers

1) Establishment of criteria when outside officers are not independent

We have established the following strict criteria for use if outside officers are not independent from the Company. By referring to the criteria, we ensure that all outside officers are independent.

- a. Has worked for an organization that is our major shareholder which holds 5% or more of the voting rights or is a major shareholder.
- b. Has worked for the main bank or major creditor of the Company.
- c. Has worked for a major business counterparty of the Company or an organization for which the Company is a major business counterparty.
- d. Has worked for the Company's audit corporation, law firm, or main securities firm.
- e. There have been cases where compensation such as consulting fees, attorneys' fees and tax accountant compensation have been paid by the Company in addition to executive compensation.
- f. The corresponding period for the above a through e is within the past 5 years from the present time.
- g. Is next of kin of a person listed in any of the following A through B.
 - A. Persons listed in a through f.
 - B. Person who executes business, non-executive person who does not execute business, or employee at the Company or its subsidiaries or affiliates.

2) Organizations where significant concurrent positions are held and relationship with the Company

As a general rule for concurrent directorates of all officers, we have limited the number of companies to four including the Company for non-executive officers, and two including the Company for executive officers. Officers with concurrent positions are as follows.

Category	Name	Important concurrent positions	Relationship with the Company
Independent Outside Director	Yutaka NISHIYAMA	Professor at Faculty of Chemistry, Materials and Bioengineering, Kansai University	No special relationship
Independent Outside Director (Audit and Supervisory Committee Member)	Takayuki SATAKE	Professor, Institute of Business and Accounting, Professional Graduate School, Kwansai Gakuin University	No special relationship
Independent Outside Director (Audit and Supervisory Committee Member)	Akiko TANAKA	Partner/Representative, Shinwa Tax Corporation Representative Director, COCORO DESIGN Co., Ltd.	No special relationship

3) Major activities during the fiscal year under review

We have made it a rule that the attendance rate of each Outside Director at Board of Directors meetings and the attendance rate of each Outside Director who is an Audit and Supervisory Committee Member at Audit and Supervisory Committee meetings must be at least 85%.

Category	Name	Major activities
Independent Outside Director	Yutaka NISHIYAMA	<p>He has attended all 14 Board of Directors meetings and attended as an observer 7 of 13 Audit and Supervisory Committee meetings held during the fiscal year under review.</p> <p>He has greatly contributed to the promotion of R&D by providing useful recommendations mainly in the area of research and development based on his professional knowledge and experience gained while serving as Professor at the Faculty of Chemistry, Materials and Bioengineering. Also, as a member of the ESG Committee, he actively presented his objective opinions on ESG promotion especially from environmental aspects.</p>
Independent Outside Director (Audit and Supervisory Committee Member)	Katsuhiro MAEDA	<p>He attended all 14 Board of Directors meetings and 13 Audit and Supervisory Committee meetings held during the fiscal year under review. In addition to the operation of the Audit and Supervisory Committee as the chair, he is also a member of the Nomination and Compensation Advisory Committee and the ESG Committee.</p> <p>He provided his opinions and recommendations in wide-ranging fields, including measures for enhancing audit and oversight functions by the Audit and Supervisory Committee and responses to managerial issues from professional viewpoints based on his experience as a manager and by learning.</p>
Independent Outside Director (Audit and Supervisory Committee Member)	Takayuki SATAKE	<p>He attended all 14 Board of Directors meetings and 13 Audit and Supervisory Committee meetings held during the fiscal year under review, and utilized the specialized knowledge and experience he has cultivated as Professor at the Graduate School of Business Studies in his audit and supervision activities.</p> <p>In particular, he contributed to the establishment of strategies to improve corporate value as a company that can achieve management based on the creation of customer value and contribute to local communities as a public organ of society. In addition, he contributed to establishing an in-house system that aims for the improvement of ES, the improvement of CS, and further practice of CSR, and serves as a coordinator for opinion exchange meetings between the CEO & President, senior management and Outside Directors. He also endeavored to offer supervision and advice for the establishment of the medium-term management plan. As a member of the Nomination and Compensation Advisory Committee and the ESG Committee, he contributed greatly, especially in the promotion of ESG, and actively expressed his objective opinions.</p>
Independent Outside Director (Audit and Supervisory Committee Member)	Akiko TANAKA	<p>She attended 11 of 14 Board of Directors meetings and 12 of 13 Audit and Supervisory Committee meetings held during the fiscal year under review. In addition to performing the duties of an Audit and Supervisory Committee Member, she is engaged in activities as a member of the Nomination and Compensation Advisory Committee.</p> <p>Utilizing her knowledge and experience as a tax accountant, she provided information on such areas as developments in international taxation, in addition to seeking common recognition on general managerial issues through the exchange of information with other Directors, and expressing opinions on the issues.</p>

Note: Due to medical treatment, independent Outside Director (Audit and Supervisory Committee Member) Akiko Tanaka did not attend three Board of Directors meetings and one Audit and Supervisory Committee meeting held during the fiscal year under review. She has since recovered and has no obstacles in her activities as Outside Director.

3. Matters relating to Accounting Auditor

(1) **Name of Accounting Auditor** Deloitte Touche Tohmatsu LLC

(2) Amount of compensation, etc. for the Accounting Auditor

Category	Amount of compensation, etc.
Amount of compensation, etc. to be paid by the Company	22 million yen
Total amount of the money to be paid by the Company and its subsidiaries, and other economic benefits	22 million yen

Notes:

1. In the audit contract entered into between the Company and the Accounting Auditor, the amounts of audit fee for an audit based on the Companies Act and an audit based on the Financial Instruments and Exchange Law are not clearly distinguished and cannot be distinguished in practice. Therefore, the amount of compensation, etc. stated above that is to be paid by the Company is indicated as the total amount of these.
2. The Audit and Supervisory Committee has given consent to the amount of compensation, etc. for the Accounting Auditor based on a review of the appropriateness and validity of the details of the audit plan performed by the Accounting Auditor, the execution of duties conducted by the Accounting Auditor and the basis for the calculation of compensation estimates by obtaining the necessary documents and reports from the Directors, the relevant departments of the Company and the Accounting Auditor.
3. Of the Company's subsidiaries, the audit of the financial statements of MEC EUROPE NV. was carried out by an audit firm that is outside the network of the Company's Accounting Auditor. As audit fees for audits on other subsidiaries, the total amount to be paid to the Accounting Auditor in the same network as the Company's Accounting Auditor, Deloitte Touche Tohmatsu, is 14 million yen.

(3) Contents of non-audit services

N/A

(4) Policy for determining the dismissal or non-reappointment of the Accounting Auditor

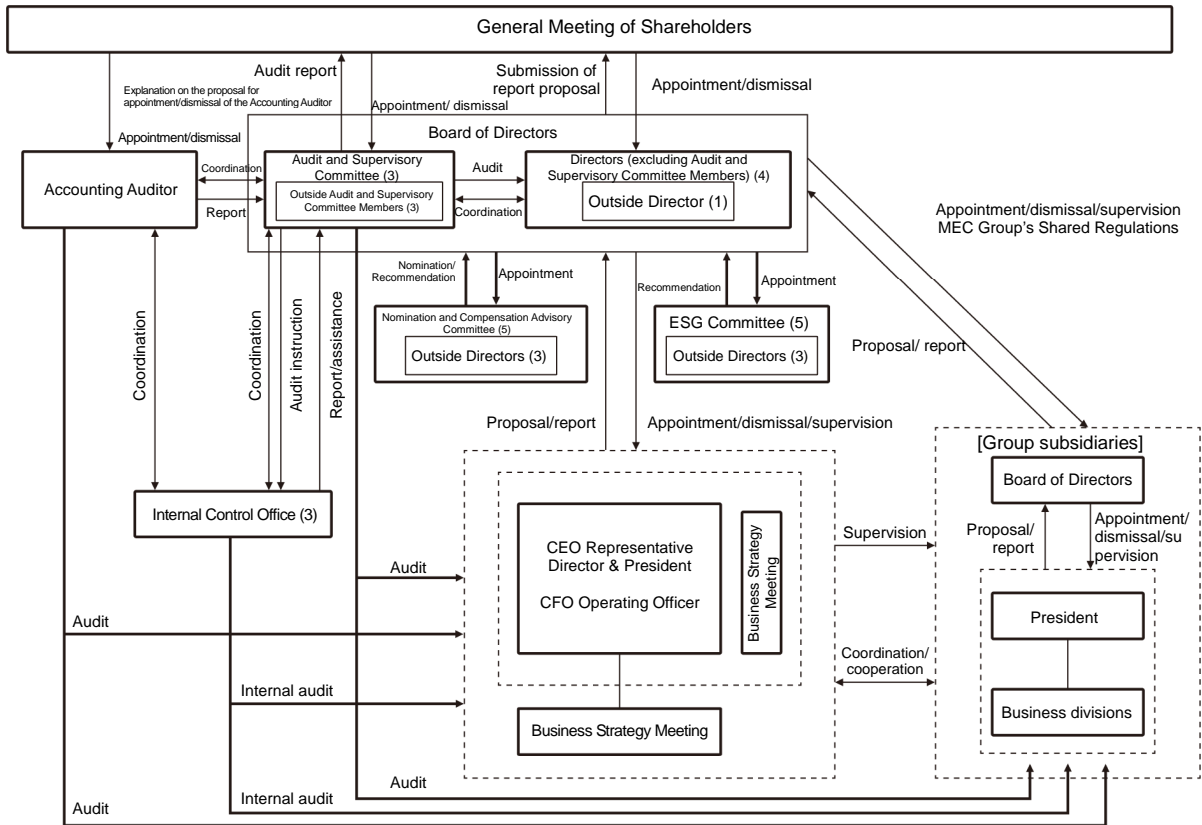
The Audit and Supervisory Committee has established appointment criteria and evaluation standards for an Accounting Auditor, and confirms the independence and expertise of such Auditor each term. If a change in the Accounting Auditor is deemed desirable, the Committee determines the contents of a proposal for the dismissal or non-reappointment of the Accounting Auditor which is to be submitted to the Ordinary General Meeting of Shareholders in response to a report from the Review Committee.

In addition, if the Audit and Supervisory Committee deems that the Accounting Auditor falls under any of the items listed in Article 340, paragraph 1 of the Companies Act, it will dismiss the Accounting Auditor based on the consent of all Audit and Supervisory Committee Members. In this case, an Audit and Supervisory Committee Member appointed by the Audit and Supervisory Committee shall, at the first general meeting of shareholders to be convened after the dismissal, report on the fact that the Accounting Auditor has been dismissed and the reasons therefor.

(5) Overview of the contents of liability limitation agreements

N/A

**4. Systems and policies of the company
[Group corporate governance]**



(1) Systems to ensure the appropriateness of business operations of the Company and its subsidiaries and affiliates (hereinafter referred to as the “MEC Group”)

An overview of the system to ensure Directors’ performance of their duties is in compliance with laws and regulations and the Articles of Incorporation and other systems to ensure the appropriateness of the company’s business is as follows.

- 1) System to ensure that the performance of duties of the MEC Group’s Directors and employees complies with laws and regulations and the Articles of Incorporation
 - (i) As the basis for the internal control and compliance systems of the MEC Group, the Company stipulates MEC Group’s Charter of Corporate Behavior and Corporate Code of Conduct, as well as MEC Group’s Internal Control, Internal Audit and J- SOX Regulations, and Compliance Regulations. The Company shall establish the Internal Control Committee and the Compliance Committee, which are chaired by the President, and while promoting the building, maintenance and improvement of the internal control system, the Company shall also develop the relevant regulations and guidelines, and implement employee education as necessary.

- (ii) If the Directors discover a material fact on serious legal violations or other compliance issues in the MEC Group, they shall report immediately to the Audit and Supervisory Committee Members and other Directors.
 - (iii) The Company shall establish the Internal Control Office, which is an internal audit department, as an organization that is under the direct control of the Audit and Supervisory Committee with the aim of carrying out appropriate and efficient operations as well as auditing the development and operation of the internal control system so that it prevents fraud before it occurs. Decisions concerning personnel affairs (e.g., transfers, compensation) of employees who belong to the Internal Control Office shall be made upon obtaining consent of the Audit and Supervisory Committee. The Internal Control Office shall conduct internal audits according to the annual plan and report on the audit results to the Audit and Supervisory Committee, Directors, the Internal Control Committee and other relevant organs.
 - (iv) As the MEC Group's whistle-blowing system for reporting facts relating to acts in violation of laws and regulations, acts in violation of internal rules such as work rules, and inhumane acts such as sexual harassment, the Company shall establish a whistle-blowing system. With it, one person from among the Outside Directors and external lawyers and the head of the Internal Control Office shall be the direct recipients of information. The Company ensures that it prevents disadvantageous treatment of any whistleblower or other persons due to their reporting or cooperating with investigations.
 - (v) If the Audit and Supervisory Committee finds that there is a problem with the operation of the Company's legal compliance system and internal reporting system, they shall give their opinion to the CEO & President and at the same time request the development of improvement measures.
 - (vi) The Audit and Supervisory Committee shall hold meetings by requesting Outside Directors who are not Audit and Supervisory Committee Members and the Internal Control Office to attend as observers at the Audit and Supervisory Committee meetings once a month, in principle, to report on audit results and other matters and exchange opinions.
- 2) System to ensure that the duties of MEC Group's Directors are performed efficiently
- (i) In order to ensure that the duties of MEC Group's Directors are performed efficiently in accordance with basic management policies, the Board of Directors shall meet monthly and on an ad hoc basis as the occasion demands. With regard to important matters relating to the business strategy of the Company, discussions shall be held and results shall be thoroughly made known to all at the business strategy meeting held once a month and composed of Directors and Executive Officers, etc., and at the company-wide policy meeting held twice a year and consisting of managers.
 - (ii) In order to enhance the supervisory function over the performance of duties by the Directors, Outside Directors shall be appointed so that they will account for a majority or half of the Board of Directors. At the same time, the Company shall enhance the Executive Officer System with the aim of separating supervision and execution.
 - (iii) The Company shall establish the Nomination and Compensation Advisory Committee and the ESG Committee, the majority of whose members are Outside Directors reporting directly to the Board of Directors. These Committees shall nominate candidates and provide various recommendations to the Board of Directors based on multifaceted discussions.

- (iv) In principle, the Outside Directors shall hold a meeting with the President and other Directors and the CFO once every three months to exchange opinions and information.
This meeting shall be operated by the lead Outside Director.
 - (v) In order to ensure the decisions made by the Board of Directors are carried out efficiently, the Company shall establish organization rules, regulations on the division of duties, administrative authority regulations, and regulations on ringi (method of reaching a decision by using a circular letter), and stipulate the details of the responsible persons, decision-making authorities and enforcement procedures of each business.
- 3) System for the storage and management of information related to the performance of duties by Directors of the MEC Group
The MEC Group shall establish matters concerning creating, storing and managing minutes of important meetings such as the Board of Directors meetings and ringi documents in the board of directors' regulations, ringi regulations and document retention regulations, based on which business processes shall be carried out.
- 4) Regulations and other systems for management of risk of loss in the MEC Group
- (i) The Company shall recognize the following risks as the main risks that arise in the Company's business activities: A. risk of violation of laws, regulations or the Articles of Incorporation; B. quality risk; C. environment risk; D. personal information protection and risk of lack of protection of specific personal information; E. information leakage and security risk; F. disaster risk; G. supply-chain risk; and other risks. Based on this recognition, it shall develop an internal system in order to capture and manage the risks.
 - (ii) As the basic framework of risk management, the Company shall establish the Risk Management Committee chaired by the President, as well as MEC Group Risk Management Regulations and related regulations, and establish a system where management responsibilities are set out for each individual risk.
 - (iii) The Company shall formulate a business continuity plan (BCP), and, if unforeseen circumstances arise, shall act quickly by setting up a task force headed by the President and obtaining support of external experts where necessary, to prevent or minimize any damage.
- 5) System to ensure the appropriateness of business in each Group company
- (i) In order to ensure the proper operation of business in each Group company, regulations shall be shared throughout the Group such as the group-wide management philosophy, the mission statement, the Group Charter of Corporate Behavior, the Corporate Code of Conduct, Regulations on Affiliate Management, Internal Control/Internal Audit/J-SOX Regulations, Whistle-blowing Regulations, Risk Management Regulations and other documents. In addition, each company in the MEC Group shall formulate relevant rules and guidelines, and implement employee training.
 - (ii) In order to manage the business of each Group company, the Company shall establish the Regulations on Affiliate Management, based on which each Group company makes decisions and reporting. For important matters, group companies are managed by requiring resolution of the Company's Board of Directors for such matters.
In addition, domestic business divisions including the business headquarters shall oversee, and coordinate/cooperate with, business divisions of the Group companies in their respective business areas.

- (iii) If the Directors discover an important matter about legal violations or other compliance issues in a Group company, they shall report immediately to the Audit and Supervisory Committee and other Directors.
 - (iv) If a Group company recognizes there is a violation of laws or other compliance issues in the business management and management guidance provided by the Company, it shall report to the Audit and Supervisory Committee and the Internal Control Office, which shall give their opinion to the CEO & President and at the same time request the development of improvement measures.
 - (v) To enhance the MEC Group's audit and internal control, the Company shall make it a policy whereby the Auditor and Supervisory Committee and the Internal Control Office both survey all business offices, departments and offices in Japan and abroad. When conducting a survey on overseas Group companies, information shall be exchanged not only with the Group's Accounting Auditor but also with local accounting auditors.
- 6) System for Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees of the MEC Group to report to the Audit and Supervisory Committee, and other systems for reporting to the Audit and Supervisory Committee
- (i) With regard to the matters that Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees should report to the Audit and Supervisory Committee and the timing of such reporting, the Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees shall report to the Audit and Supervisory Committee on important matters that affect the Company's business or financial performance each time they arise in accordance with relevant internal regulations. In addition, the Company shall ensure that the person who has made such report will not be treated disadvantageously due to his or her reporting.
 - (ii) Notwithstanding the preceding paragraph, the Audit and Supervisory Committee may, whenever necessary, request reports from Directors and employees.
- 7) Other systems to ensure that audits by the Audit and Supervisory Committee are conducted effectively
- (i) The Audit and Supervisory Committee and the Internal Control Office, in principle, shall hold five meetings per year with the Accounting Auditor to exchange opinions and information in order to achieve cooperation and mutual checks and balances.
 - (ii) The Audit and Supervisory Committee may, when they deem it necessary in the practice of an audit, independently appoint a lawyer, certified public accountant or other external experts. Any prepayment or reimbursement of expenses arising from the execution of each Audit and Supervisory Committee Member's duties shall be properly treated upon request from the Audit and Supervisory Committee Member.
- 8) Matters relating to the corresponding employee in cases where the Audit and Supervisory Committee requests the stationing of an employee (auxiliary employee) to assist them in their duties
The Company shall establish regulations on assistance to the Audit and Supervisory Committee that set forth procedures for appointing an auxiliary employee upon request by the Audit and Supervisory Committee.
The secretariat to which such auxiliary employee belongs will be established in the Internal Control Office in accordance with the provisions of the Audit and Supervisory Committee Regulations.

- 9) Matters concerning independence of auxiliary employees from Directors (excluding Directors who are Audit and Supervisory Committee Members)
 - (i) To ensure the independence of auxiliary employees from Directors, the Board of Directors shall make decisions on personnel affairs (e.g., transfer, compensation) of auxiliary employees after obtaining the consent of the Audit and Supervisory Committee. Auxiliary employees who have received necessary orders for their auditing work from Audit and Supervisory Committee Members shall not receive orders or instructions related to the Audit and Supervisory Committee Members' orders from any Director (excluding Audit and Supervisory Committee Members) or employee.
 - (ii) Auxiliary employees shall not concurrently serve as Officers related to the execution of business.

(2) Overview of the operational status of the system to ensure the appropriateness of the MEC Group's business operations

- 1) Operational status regarding the system to ensure compliance with laws and regulations and the Articles of Incorporation
 - (i) The Company held meetings of the Internal Control Committee and the Compliance Committee twice semiannually during the fiscal year under review, in which all Directors attended. In either meeting, there was no identification of significant deficiencies that required disclosure. The Internal Control Office has reported the annual audit plan approved by the Audit and Supervisory Committee to the Board of Directors, as well as the results of internal audits to the Audit and Supervisory Committee, the Board of Directors and other organs on a case by case basis.
 - (ii) In order to further enhance the whistle-blowing system in view of future global expansion, the Company has developed a global whistle-blowing system for the Group. The operational status of the whistle-blowing system was reported in the Compliance Committee.
 - (iii) Outside Directors and the head of Internal Control Office attend meetings of the Audit and Supervisory Committee held monthly, in principle, and exchange opinions effectively with Directors who are Audit and Supervisory Committee Members.
 - (iv) To ensure employees' understanding and compliance with the MEC Group's management policy and the Corporate Code of Conduct so that they can act as good corporate citizens, the Company provides thorough compliance education to all newly joined employees (including contract and temporary workers) with "Labor and Ethics Guidelines."
 - (v) To encourage Directors, Operating Officers and employees of Group companies to understand and act on the MEC Group's management philosophy and the medium-term management plan with shared values, we provided dissemination and training programs for penetration.
 - (vi) The Company conducts monitoring surveys on a regular basis for the purpose of understanding the compliance status of the entire company, and report to the Compliance Committee.
- 2) Operational status regarding the system to ensure efficient execution of duties by Directors
 - (i) The Company held 14 Board of Directors meetings during the fiscal year under review, and actively deliberated and discussed the follow-up on the medium-term management plan, the budget, enhancement of corporate governance, establishment of overseas subsidiaries and other matters.
 - (ii) The Nomination and Compensation Advisory Committee and the ESG Committee held three meetings, respectively, to provide useful recommendations to the Board of Directors. The meetings focused on the deliberation of the proposal for electing Directors, the successor development plan, assessment of the Board of Directors, responding to Japan's Corporate Governance Code, and other matters.

- (iii) Quarterly opinion exchange meetings are held between Outside Directors, the CEO & President and senior executives where active discussions take place mainly on themes relating to the basics of management.
- (iv) In transitioning to a system of a company with an Audit and Supervisory Committee, the Company has delegated decisions on the execution of important operations to the CEO & President, and delegated/reviewed authority to execute duties to contribute to prompt execution of duties.

3) Operational status regarding the storage and management of information

The Company has established record-keeping periods for the minutes of the General Meeting of Shareholders, meeting minutes of the Board of Directors, financial statements, and the like, in accordance with laws and regulations, and keeps them appropriately.

4) Operational status of risk management

Being engaged in an industry where chemicals are handled, the Company focuses on safety and the risk assessment of chemicals. During the fiscal year under review, the Company conducted inspections on the management system for poisonous materials at all business offices and confirmed that they were appropriate. Information sharing and identification of deficiencies are conducted and checked at the Risk Management Committee held twice a year.

5) Operational status regarding the system to ensure the appropriateness of Group companies' business operations

The appointed Audit and Supervisory Committee Member and the Internal Control Office examined Group companies and exchanged opinions with local accounting auditors.

6) Operational status regarding audits by the Audit and Supervisory Committee

- (i) Audit and Supervisory Committee Members attended discussions held by important bodies, such as the Business Strategy Meeting and company-wide policy meetings, and confirmed the status of design and operation of the internal control system together with the results of on-site audits.
- (ii) The Audit and Supervisory Committee held opinion and information exchange meetings four times with the Accounting Auditor and 13 times with the Internal Control Office, as well as attending meetings with the Accounting Auditor and the Internal Control Office organized by the Accounting Division. The Audit and Supervisory Committee reports to the Board of Directors the details of the discussions with the Accounting Auditor each time the meeting occurs.

<Reference>

Major initiatives regarding Japan's Corporate Governance Code

- 1) Early disclosure of convening notices for general shareholder meetings and electronic voting
The Company strives to effectively secure shareholder rights including voting rights at general shareholder meetings.

During the business year ended December 2017, in order to allow sufficient time for shareholders to exercise their voting rights, the Company sent the convening notice of the general shareholders meeting three weeks in advance of the meeting and electronically disclosed it on the Company's website one week earlier, in an effort to provide accurate information promptly and fairly. The Company also introduced electronic voting in consideration of shareholders' convenience.

2) Introduction of performance-linked share-based compensation

The Company introduced the performance-linked share-based compensation plan in order to strengthen the aligning of interests with shareholders, as well as to contribute to enhancing medium- to long-term performance and the increase corporate value of the Company.

3) Assessment of the Board of Directors and the Audit and Supervisory Committee

The Company has assessed the Board of Directors and the Audit and Supervisory Committee to ensure the effectiveness of these organs.

With regard to the assessment of the Board of Directors, the Company ensures the effectiveness of the Board of Directors by conducting self-assessment of all Directors, the results of which are used to improve subsequent operation and contents of the Board of Directors.

With regard to the assessment of the Audit and Supervisory Committee, self-assessment by Audit and Supervisory Committee Members as well as outside assessment by independent Outside Directors (excluding Audit and Supervisory Committee Members) and the head of the Internal Control Office are conducted on selected items concerning auditing and supervision.

(3) Policy related to determining dividend of surplus

1) Policy on determining dividend of surplus

Concerning the allocation of surplus, the Company's policy is to allocate the surplus after taking into account the business performance for the corresponding term and the future, based on a balance between re-investing profits in business activities for long-term corporate value expansion and returning profits to stakeholders such as shareholders. As examples of re-investment of profits in business activities, the Company will strive to build up internal reserves to establish a stable financial structure that can support our ongoing business activities, with a focus on investment in R&D to maintain and strengthen competitiveness, investment in production facilities, and international strategic investment. With regard to dividends, the Company intends to reflect the profits of the period in dividends while maintaining the concept of paying stable dividends.

2) Appropriation of surplus for the term under review

With regard to the appropriation of retained earnings brought forward of 2,302,860,070 yen, we based our decision on the above-mentioned basic policy and set the dividend to thank our shareholders for their daily support. By resolution of the Board of Directors meeting held on February 20, 2018, the year-end per share dividend was set at 12 yen. Adding this to the interim dividend of 10 yen that has been paid already, the annual dividend comes to 22 yen per share. The total amount of the year-end dividends paid will be 231,686,148 yen. In addition, we have added 1,000,000,000 yen of funds to a separate reserve, and the balance of 1,071,173,922 yen will be retained earnings carried over to the next term.

Consolidated balance sheet

(As of December 31, 2017)

(Thousands of yen)

ASSETS		LIABILITIES	
Current assets:	9,533,400	Current liabilities:	3,282,051
Cash and deposits	4,634,069	Notes and accounts payable - trade	1,019,041
Notes and accounts receivable - trade	3,611,497	Current portion of long-term loans payable	500,000
Merchandise and finished goods	376,705	Accounts payable - other	414,248
Work in process	129,283	Accrued expenses	131,788
Raw materials and supplies	432,726	Income taxes payable	354,863
Deferred tax assets	282,859	Allowance for bonuses	290,012
Other	78,830	Provision for directors' bonuses	38,447
Allowance for doubtful accounts	(12,570)	Accounts payable - facilities	36,152
		Other	497,497
Noncurrent assets:	9,714,371	Noncurrent liabilities:	1,378,025
Property, plant and equipment	8,342,235	Long-term loans payable	750,000
Buildings and structures	4,180,194	Deferred tax liabilities	486,777
Machinery, equipment and vehicles	820,868	Net defined benefit liability	53,522
Tools, furniture and fixtures	443,862	Provision for share-based compensation	62,406
Land	2,870,141	Other	25,319
Construction in progress	27,168		
Intangible assets	183,431	Total liabilities	4,660,076
Investments and other assets	1,188,704	NET ASSETS	
Investment securities	537,699	Shareholders' equity:	13,649,064
Net defined benefit assets	579,637	Capital	594,142
Deferred tax assets	6,406	Capital surplus	456,912
Other	64,960	Retained earnings	13,433,665
		Treasury stock	(835,654)
Total assets	19,247,772	Total of other comprehensive income:	938,631
		Valuation difference on available-for-sale securities	168,439
		Foreign currency translation adjustment	619,926
		Remeasurements of defined benefit plans	150,265
		Total net assets	14,587,695
		Total liabilities and net assets	19,247,772

Consolidated statement of income

(From April 1, 2017 to December 31, 2017)

(Thousands of yen)

Item		
Net sales		9,641,783
Cost of sales		3,739,830
Gross profit		5,901,953
Selling, general and administrative expenses		3,908,043
Operating income		1,993,910
Non-operating income		
Interest income	17,205	
Dividend income	11,081	
Trial products income	15,154	
Insurance income	8,541	
Foreign exchange gains	4,564	
Other	21,635	78,183
Non-operating expenses:		
Interest expenses	1,973	
Sales discounts	4,471	
Other	2,463	8,908
Ordinary income		2,063,185
Extraordinary income		
Gain on sales of noncurrent assets	2,678	
Gain on transition of retirement benefit plan	44,867	
Other	1,776	49,321
Extraordinary loss		
Loss on sales of noncurrent assets	2,080	
Loss on retirement of noncurrent assets	4,499	
Loss on reduction of noncurrent assets	1,776	8,355
Income before income taxes		2,104,151
Income taxes - current	538,649	
Income taxes - deferred	(2,116)	536,533
Net income		1,567,618
Profit attributable to owners of parent		1,567,618

Non-consolidated balance sheet

(As of December 31, 2017)

(Thousands of yen)

ASSETS		LIABILITIES	
Current assets:	4,936,460	Current liabilities:	2,683,563
Cash and deposits	2,007,128	Notes payable - trade	509,237
Notes receivable - trade	162,124	Accounts payable - trade	279,495
Accounts receivable - trade	2,098,929	Current portion of long-term loans payable	500,000
Merchandise and finished goods	110,477	Accounts payable - other	268,802
Raw materials and supplies	262,207	Accrued expenses	105,916
Prepaid expenses	14,978	Income taxes payable	252,829
Deferred tax assets	143,371	Deposits received	67,317
Accounts receivable - other	133,411	Allowance for bonuses	287,744
Other	3,831	Provision for directors' bonuses	38,447
Noncurrent assets:	9,396,044	Notes payable - facilities	340,658
Property, plant and equipment	6,918,391	Accounts payable - facilities	33,114
Buildings	3,549,429	Noncurrent liabilities:	998,683
Structures	126,064	Long-term loans payable	750,000
Machinery and equipment	626,177	Deferred tax liabilities	121,344
Vehicles	23,098	Asset retirement obligations	587
Tools, furniture and fixtures	319,151	Provision for retirement benefits	41,420
Land	2,274,036	Provision for share-based compensation	62,406
Construction in progress	434	Other	22,925
Intangible assets	160,427	Total liabilities	3,682,247
Leasehold right	29,380	NET ASSETS	
Software	128,978	Shareholders' equity:	10,481,817
Other	2,068	Capital	594,142
Investments and other assets	2,317,224	Capital surplus	456,912
Investment securities	537,699	Legal capital surplus	446,358
Shares of subsidiaries and affiliates	1,401,636	Other capital surplus	10,553
Investments in capital	5	Retained earnings	10,266,417
Long-term prepaid expenses	444	Legal retained earnings	63,557
Prepaid pension cost	363,179	Other retained earnings	10,202,860
Other	14,260	General reserve	7,900,000
		Retained earnings brought forward	2,302,860
		Treasury stock	(835,654)
		Valuation and translation adjustments:	168,439
		Valuation difference on available-for-sale securities	168,439
Total assets	14,332,504	Total net assets	10,650,257
		Total liabilities and net assets	14,332,504

Non-consolidated statement of income

(From April 1, 2017 to December 31, 2017)

(Thousands of yen)

Item		
Net sales		5,925,872
Cost of sales		2,053,942
Gross profit		3,871,930
Selling, general and administrative expenses		2,461,062
Operating income		1,410,867
Non-operating income		
Interest and dividend income	11,206	
Trial products income	15,154	
Foreign exchange gains	18,553	
Other	11,547	56,461
Non-operating expenses:		
Interest expenses	1,973	
Miscellaneous loss	550	
Other	268	2,791
Ordinary income		1,464,537
Extraordinary income		
Gain on sales of noncurrent assets	8	
Gain on transition of retirement benefit plan	44,867	
Other	1,776	46,651
Extraordinary loss		
Loss on retirement of noncurrent assets	1,946	
Loss on reduction of noncurrent assets	1,776	3,722
Income before income taxes		1,507,466
Income taxes - current	350,836	
Income taxes - deferred	(21,239)	329,597
Net income		1,177,869

Copy of the Accounting Auditor's report relating to consolidated financial statements

Independent Auditor's Report

February 14, 2018

The Board of Directors
MEC COMPANY LTD.

Deloitte Touche Tohmatsu LLC

<u>Designated Limited Liability Partner Engagement Partner</u>	Certified Public Accountant	Tomoyoshi WADA (Seal)
<u>Designated Limited Liability Partner Engagement Partner</u>	Certified Public Accountant	Yukihiro YAGURA (Seal)

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and notes to consolidated financial statements of MEC Co., Ltd. for the year from April 1, 2017 to December 31, 2017 in accordance with Article 444, paragraph 4 of the Companies Act.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the general preparation and fair presentation of consolidated financial statements in conformity with the corporate accounting standards that are accepted as fair and reasonable in Japan. This includes putting in place and managing internal control that the management deems to be necessary in order to properly prepare and present consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit as independent Auditor. Our audit was conducted in accordance with auditing standards that are generally accepted as being fair and reasonable in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures, at our judgment, are selected and applied based on the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of the audit is not to express an opinion on the effectiveness of internal control, but in order to design audit procedures that are appropriate in the circumstances when conducting risk assessment, we examine the effectiveness of the entity's internal control that is relevant to the preparation and fair presentation of the consolidated financial statements. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above, which were prepared in accordance with accounting standards that are generally accepted in Japan, present fairly, in all material respects, the status of profit and loss of MEC Co., Ltd. and its consolidated subsidiaries for the period for which the consolidated financial statements were prepared.

Interest

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

Copy of the Accounting Auditor's report relating to non-consolidated financial statementsIndependent Auditor's Report

February 14, 2018

The Board of Directors
MEC COMPANY LTD.Deloitte Touche Tohmatsu LLC

Designated Limited Liability Partner <u>Engagement Partner</u>	Certified Public Accountant	Tomoyoshi WADA (Seal)
Designated Limited Liability Partner <u>Engagement Partner</u>	Certified Public Accountant	Yukihiro YAGURA (Seal)

We have audited the non-consolidated financial statements, comprising the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity and notes to non-consolidated financial statements and supplementary schedules of MEC Co., Ltd. for the 49th term from April 1, 2017 to December 31, 2017 in accordance with Article 436, paragraph 2, Item 1 of the Companies Act.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the general preparation and fair presentation of non-consolidated financial statements and their supplementary schedules in conformity with the corporate accounting standards that are accepted as fair and reasonable in Japan. This includes putting in place and managing internal control that the management deems to be necessary in order to properly prepare and present non-consolidated financial statements and their supplementary schedules that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the non-consolidated financial statements and their supplementary schedules based on our audit as independent Auditor. Our audit was conducted in accordance with auditing standards that are generally accepted as being fair and reasonable in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and their supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and their supplementary schedules. The audit procedures, at our judgment, are selected and applied based on the assessment of risks of material misstatement of the non-consolidated financial statements and their supplementary schedules, whether due to fraud or error. The purpose of the audit is not to express an opinion on the effectiveness of internal control, but in order to design audit procedures that are appropriate in the circumstances when conducting risk assessment, we examine the effectiveness of the entity's internal control that is relevant to the preparation and fair presentation of the non-consolidated financial statements and their supplementary schedules. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and their supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements and their supplementary schedules referred to above, which were prepared in accordance with accounting standards that are generally accepted in Japan, present fairly, in all material respects, the status of profit and loss of the non-consolidated financial statements and their supplementary schedules for the period for which the non-consolidated financial statements and their supplementary schedules were prepared.

Interest

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

Copy of the Audit and Supervisory Committee's audit report

Audit Report

The Audit and Supervisory Committee audited the execution of duties by Directors during the 49th business year from April 1, 2017 to December 31, 2017. We report on the methods and results of the audits as follows. Since the Company changed its business year at the 48th Ordinary General Meeting of Shareholders held on June 21, 2017, the business year for the 49th term is a nine-month period.

1. Method and details of the audit

With regard to the details of the resolution by the Board of Directors on matters listed in Article 399-13, paragraph 1, Item 1, (b) and (c) of the Companies Act and the system established based on said resolution (internal control system), the Audit and Supervisory Committee received regular reports from Directors, the Internal Control Office and other employees on the development and operation of the system, sought explanations where necessary, and expressed opinions. In addition, we conducted an audit according to the following method.

In accordance with the audit and supervisory standards set forth by the Audit and Supervisory Committee as well as audit policies, audit plans and division of duties, we gathered information and worked to improve the environment for conducting audits in coordination with the Internal Audit Office. We also attended the business strategy meetings and other important meetings, received reports on the execution of duties from the Directors and employees, etc., sought explanations as necessary, inspected important decision documents, and examined the status of the business and assets at the head office and all business offices. Outside Directors including the Audit and Supervisory Committee Members had three quarterly meetings with the CEO & President and senior executives, and 13 monthly meetings with the Internal Control Office, to exchange opinions. In addition, with respect to subsidiaries, we communicated and exchanged information with the directors and employees of the subsidiaries, and received business reports from the subsidiaries where necessary. Furthermore, we visited subsidiaries excluding MEC (HONG KONG) LTD. which is small in scale, inspected important documents, and investigated the status of their business and assets.

With respect to the basic policy presented in the Business Report stipulated in Article 118, Item 3, (A) of the Enforcement Regulations of the Companies Act, and each measure stipulated in Article 118, Item 3, (B) of said act, we examined the content thereof in light of the status of discussions by the Board of Directors and other organs. We examined whether the Accounting Auditor had maintained an independent position and had implemented an appropriate audit backed by expertise. At the same time, we received an explanation on the audit plan in advance from the Accounting Auditor, as well as a report on the performance of its duties, and sought explanations where necessary. Furthermore, we received a notice from the Accounting Auditor that the "System for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Company Accounting Regulations) is established in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council; October 28, 2005) and other standards, and sought explanations where necessary. We had four meetings with the Accounting Auditor. In addition, we held meetings and exchanged opinions and information with the accounting auditors of all subsidiaries at which we conducted on-site audits.

Based on the above methods, we examined the business report and supplementary schedules thereof, and the consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and notes to consolidated financial statements) as well as the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated income statement, non-consolidated statement of changes in equity, non-consolidated statement of changes and notes to non-consolidated financial statements) and supplementary schedules thereof, for the relevant fiscal year.

2. Results of the audit

(1) Results of audit of the business report, etc.

- (i) We acknowledge that the business report and supplementary schedules thereof fairly present the Company's conditions in accordance with laws, regulations and the Articles of Incorporation.
- (ii) With regard to the performance of duties of Directors, no unfair conduct, nor any material breach of laws, regulations or the Company's Articles of Incorporation has been found.
- (iii) The details of resolutions approved by the Board of Directors concerning the internal control system are proper and fair. In addition, no matters that necessitate comment have been found regarding the details defined in the Company's Business Report and performance of duties of Directors both with respect to the internal control system.
- (iv) No matters that necessitate comment have been found regarding the basic policy related to the individuals responsible for determining the financial and business policies presented in the Company's Business Report. As described in the Business Report, we recognize that the measures stated in Article 118, Item 3, (B) of the Enforcement Regulations of the Companies Act are in line with the basic policy and do not detract from the common interests of shareholders; in addition, we recognize that they are not intended for the Directors of the Company to maintain their positions.

(2) Results of audit of the consolidated financial statements

The method and results of audit by the Accounting Auditor Deloitte Touche Tohmatsu LLC are fair and reasonable.

(3) Results of audit of the non-consolidated financial statements and supplementary schedules

The method and results of audit by the Accounting Auditor Deloitte Touche Tohmatsu LLC are fair and reasonable.

February 19, 2018

Audit and Supervisory Committee	MEC COMPANY LTD.
<u>Audit and Supervisory Committee Member</u>	<u>Katsuhiko MAEDA</u> (Seal)
<u>Audit and Supervisory Committee Member</u>	<u>Takayuki Satake</u> (Seal)
<u>Audit and Supervisory Committee Member</u>	<u>Akiko Tanaka</u> (Seal)

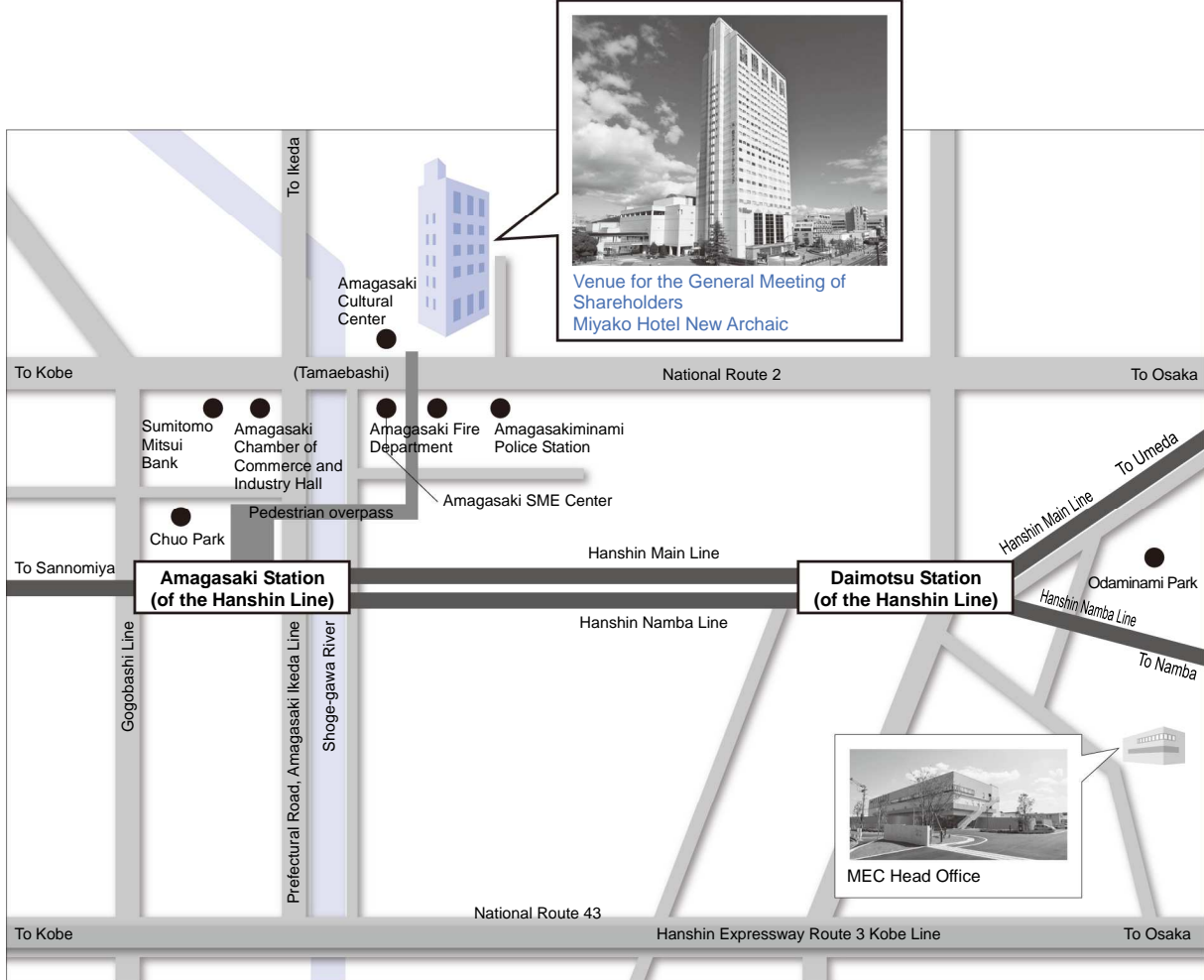
Note: The three Audit and Supervisory Committee Members are Outside Directors as stipulated in Article 2, Item 15 and Article 331, paragraph 6 of the Companies Act.

以上

Map to the venue for the general meeting of shareholders

Venue 2-7-1, Showa-dori, Amagasaki, Hyogo
3rd floor, HO-OH, Miyako Hotel New Archaic

Access Approx. six minutes from Amagasaki Station (of the Hanshin Line) via a pedestrian overpass



This material uses a universal design font to make it legible and easy to read.

