

Translations

**Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2017  
[JA-GAAP]**

August 8, 2017  
Stock Exchange Listing: Tokyo

Company Name: MEC COMPANY LTD.

Stock Code No.: 4971 Company URL: <http://www.mec-co.com/en>

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Commencement Date of Dividend Payment (Scheduled) : -

Scheduled date for submitting quarterly reports: August 10, 2017

Creation of reference materials supplementary to the quarterly results: Yes

Holding of briefing sessions regarding the quarterly results: Yes (for institutional investors, securities analysts)

(Amounts less than one million yen have been disregarded.)

1. Consolidated financial results (April 1, 2017 to June 30, 2017)

(1) Financial results

Note: Percentages indicate year-on-year changes for quarter.

	Net sales		Operating income		Ordinary income		Net income attributable to parent company's shareholders	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2017	2,495	8.5	519	2.1	523	11.8	435	20.2
Three months ended June 30, 2016	2,300	5.3	508	2.5	467	-13.1	362	-3.9

Note: Comprehensive : June 30, 2017:402 million yen (432.7%); June 30, 2016:75 million yen (-79.2%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Three months ended June 30, 2017	22.74	-
Three months ended June 30, 2016	18.72	-

(2) Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2017	18,638	13,319	71.5	694.79
March 31, 2017	17,993	13,110	72.9	683.86

(Reference) Shareholder's equity : June 30, 2017: 13,319 million yen ; March 31,2017:13,110 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	-	10.00	-	10.00	20.00
Year ending December 31, 2017	-	-	-	-	-
Year ending December 31, 2017 (forecast)	-	10.00	-	10.00	20.00

(Note) Revision of recently announced dividends forecast: None

3. Forecast of Consolidated Results for the Year Ending December 31, 2017 (April 1, 2017 to December 31, 2017)

(Percentages show rates of change that are year-on-year comparisons for the full year and quarter-on-quarter comparisons for the quarter.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
1Q and 2Q (year to date)	5,100	12.8	1,000	(2.1)	1,050	8.8	750	(7.8)	39.12
Full year	9,000	-	1,400	-	1,500	-	1,100	-	57.37

(Note) Revision of recently announced earnings forecast: Yes

In response to the agenda of "Partial amendment to the articles of incorporation" being approved at the ordinary general meeting of shareholders held on June 21, 2017, the Company changed its settlement period from fiscal 2017, going from the one-year period ending on March 31 to the one-year period ending on December 31. Therefore, for the fiscal year ending December 2017, which is the transitional period, consolidated results for Japan

## Translations

alone cover the nine months from April 1, 2017 to December 31, 2017. Consolidated results for overseas subsidiaries cover the same period as before. The period subject to consolidated accounting is the 12-month span going from January 1, 2017 to December 31, 2017.

[Reference]

The percentages shown below (percentage change after adjustment) are the rate of change compared the results of 2016 with the forecast for consolidated results for the nine-month period (April 1, 2017 to December 31, 2017) of the Company.

Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
9,000	10.3%	1,400	(16.9)	1,500	(11.6)	1,100	(27.4)

(Millions of yen)

## \*Notes

(1) Changes in important subsidiaries during this quarter (changes to specified subsidiaries accompanying changes in the scope of consolidation): Yes  
 Newly consolidated companies: One (MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.); companies excluded from the scope of consolidation: None

(2) Application of concise accounting procedures or particular accounting procedures in the creation of consolidated financial statements during this quarter: Yes  
 Note: For details, please see "Application of accounting procedures specified to create consolidated financial statements for quarter" on page 8 of the attached materials.

(3) Changes of principles, procedures, presentation methods, etc., in accounting procedures  
 1) Changes that accompany amendment of accounting standards, etc.: Yes  
 2) Changes other than those of (1): Yes  
 3) Expected changes to accounting standards: No  
 4) Restatements: No  
 Note: For more information, please refer to "(3) Changes in accounting policies or accounting estimates, and restatement" on page 3 of the attachment.

(4) Number of shares outstanding (Common stock)

1) Number of outstanding shares at end of term (including treasury stock)	Three months ended June 30, 2017	20,071,093 shares	Year ended March 31, 2016	20,071,093 shares
2) Number of treasury stock at end of term	Three months ended June 30, 2017	900,089 shares	Year ended March 31, 2016	900,089 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Three months ended June 30, 2017	19,171,004 shares	Three months June 30, 2016	19,371,004 shares

\* Quarterly financial results are not covered by the quarterly review

\* Explanation of appropriate use of earnings forecasts. Other points of note

- Earnings forecasts have been created based on the available information as of the date of announcing this material and certain assumptions that are judged to be rational and a commitment to the achievement. Actual results may differ from the forecast figures for a variety of reasons. For details of the earnings forecasts, refer to "Analysis of forward-looking information, such as the consolidated earnings forecast" on page 3 of the attachment.
- We are planning to hold a financial results briefing for institutional investors and analysts on Wednesday, August 9, 2017. Materials of financial results briefings are posted on our website.

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## 1. Qualitative information regarding consolidated results for this quarter

## (1) Analysis of results of operations

Japan's economy during the consolidated first quarter under review (April 1, 2017 - June 30, 2017) saw a gradual recovery with an increase in exports against the backdrop of improved IT cycles and rebounding consumer spending thanks to a robust employment and income situation. However, the trends of the presidential administration in the United States, increasing geopolitical risk around the world, and fluctuations in exchange rates mean that the outlook is uncertain.

In the electronics industry, shipments of personal computers and tablet PCs continue to decline, but they have bottomed out in emerging markets, and sales of smartphones have increased due to steady sales in emerging Asian countries. Miniaturization of electronic parts used in smartphones is proceeding to secure space to increase the battery capacity. Therefore, electronic substrates on which electronic components are mounted are also tending to become higher density ones, and technological innovation for this is progressing. The IoT-related market is expected to continue growing at a high rate, and people are focusing on the switch from the fourth generation (4G) to the high-speed and high-capacity fifth generation (5G) with regards to communication. 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. Furthermore, accompanying the miniaturization of sensors, the density of electronic substrates has been increasing in ways we could not have assumed as well. In addition, there is growing demand for semiconductor memories such as NAND type ones, and the production volume of package boards on which they are mounted is also expanding.

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 ultra-roughening agents, which command a high 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 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 displays. And we have steadily had the series adopted for electronic boards mounted on smartphones. The flexible substrates used in smartphones, cars, robots, and such like are becoming increasingly miniaturized. In connection with this, we are 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, and they have been adopted by board makers. Several companies including rigid substrate manufacturers are conducting tests with them. Also, there is demand for the FlatBOND Series of products for use in high-frequency circuit boards that can cope with massive amounts of information processing as a result of the coming of the IoT era. They have been steadily mass-produced by customers and will continue to expand. Furthermore, sales of the SF Series for displays are expanding.

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 focused on sales activities for it, aiming to acquire new customers.

Looking at a breakdown of sales, sales of chemicals were 2,425 million yen (up 239 million yen, 11.0% compared with the same period last year), sales of materials were 29 million yen (down 46 million yen compared with the same period of the previous year, or 61.0% year-on-year), machinery sales were 39 million yen (up 1 million yen compared with the same period of the previous year, or 2.9% year-on-year), and other sales were 1 million yen (up 1 million yen compared with the same period of the previous year, or 446.3%).

The breakdown of chemical sales shows there were sales of 1,361 million yen for adhesion improvers, sales of 881 million yen for etching agents, and sales of 182 million yen for other chemicals.

As a result, total consolidated sales for the first quarter amounted to 2,495 million yen (up 195 million yen year-on-year, or 8.5%). Shipments of chemicals increased by 14.1% compared with the same period of the previous year, and use of our chemicals is expanding. Operating income amounted to 519 million yen (up 10 million yen year-on-year or 2.1%). Operating margin was 20.8%, down 1.3 points compared with the 22.1% in the same period last year. Ordinary income amounted to 523 million yen (up 55 million yen year-on-year or 11.8%). Quarterly net income before income taxes amounted to 566 million yen (a year-on-year increase of 93 million yen or 19.8%), and quarterly net income attributable to owners of parent was 435 million yen (an increase of 73 million yen, up 20.2% from the same period of the previous year).

The overseas sales ratio was 52.8%. At MEC Taiwan, sales of chemical sales for smartphones and tablet PCs were somewhat weak.

Sales of chemicals for smartphones were favorable in China, and MEC Europe was faced with a sluggish electronic board industry. Furthermore, in order to enhance our presence in the expanding Southeast Asian market in the future, on May 29, 2017 we established a subsidiary in Thailand as our sixth company. It is schedule to start operating in July 2018.

(2) Analysis relating to the financial situation

Assets grew to 18,638 million yen, up 644 million yen from the previous consolidated fiscal year, because cash and deposits increased as a result of establishing the subsidiary in Thailand.

Liabilities were 5,318 million yen, up 435 million yen from the previous consolidated fiscal year, due to an increase in short-term loans payable despite a decline in long-term loans payable and equipment-related payables.

As a result of an increase in retained earnings and such like, net assets were 13,319 million yen, up 209 million yen compared with the same period of the previous fiscal year.

As a result of the above, the equity ratio reached 71.5%.

(3) Analysis of forward-looking information, such as the consolidated earnings forecast

We have revised the consolidated earnings forecast for the first and second quarters and for the full year initially released on May 10, 2017, as announced today (August 8, 2017) in our "Revision to Consolidated Earnings Forecast." Please refer to it for details.

The forecasts mentioned in this material are determined based on the information available at this time. Actual results may differ from the earnings forecast due to various factors.

It should be noted that our outlook for the current year is premised on an exchange rate of 110 yen to the U.S. dollar.

## 2. Consolidated quarterly financial statements and major notes

## (1) Balance sheet

(Thousands of yen)

	As of March 31, 2017	As of June 30, 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	4,718,329	5,357,114
Notes and accounts receivable - trade	2,784,578	2,919,575
Merchandise and finished goods	289,112	295,346
Work in process	83,204	76,172
Raw materials and supplies	293,452	350,617
Deferred tax assets	212,240	224,065
Other	353,112	84,721
Allowance for doubtful accounts	-11,947	-11,716
<b>Total current assets</b>	<b>8,722,081</b>	<b>9,295,896</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	6,248,274	6,315,581
Accumulated depreciation	-2,103,366	-2,158,196
Buildings and structures, net	4,144,907	4,157,384
Machinery, equipment and vehicles	2,165,250	2,256,366
Accumulated depreciation	-1,495,486	-1,533,465
Machinery, equipment and vehicles, net	669,764	722,900
Tools, furniture and fixtures	972,954	992,247
Accumulated depreciation	-619,127	-636,939
Tools, furniture and fixtures, net	353,827	355,308
Land	2,842,430	2,855,079
Construction in progress	101,045	46,197
<b>Total property, plant and equipment</b>	<b>8,111,974</b>	<b>8,136,870</b>
Intangible assets	155,103	150,274
<b>Investments and other assets</b>		
Investment securities	462,583	517,338
Net defined benefit asset	479,261	470,311
Deferred tax assets	10,720	10,586
Other	81,782	86,212
Allowance for doubtful accounts	-29,836	-28,981
<b>Total investments and other assets</b>	<b>1,004,511</b>	<b>1,055,467</b>
<b>Total non-current assets</b>	<b>9,271,590</b>	<b>9,342,612</b>
<b>Total assets</b>	<b>17,993,671</b>	<b>18,638,508</b>

(Thousands of yen)

	As of March 31, 2017	As of June 30, 2017
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	1,072,085	962,720
Short-term loans payable	—	1,000,000
Current portion of long-term loans payable	500,000	500,000
Accounts payable - other	286,776	284,659
Accrued expenses	69,955	116,717
Income taxes payable	244,989	237,658
Provision for bonuses	227,956	155,930
Provision for directors' bonuses	32,797	9,491
Accounts payable - facilities	205,259	33,196
Other	477,709	521,196
<b>Total current liabilities</b>	<b>3,117,529</b>	<b>3,821,570</b>
<b>Non-current liabilities</b>		
Long-term loans payable	1,250,000	1,000,000
Deferred tax liabilities	397,122	400,345
Net defined benefit liability	50,812	52,916
Provision for Share-based compensation	43,484	19,457
Other	24,350	24,325
<b>Total non-current liabilities</b>	<b>1,765,769</b>	<b>1,497,044</b>
<b>Total liabilities</b>	<b>4,883,299</b>	<b>5,318,615</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	594,142	594,142
Capital surplus	456,912	456,912
Retained earnings	12,252,190	12,494,982
Treasury shares	-835,654	-835,654
<b>Total shareholders' equity</b>	<b>12,467,590</b>	<b>12,710,382</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	121,571	158,540
Foreign currency translation adjustment	385,223	360,399
Remeasurements of defined benefit plans	135,986	90,571
<b>Total accumulated other comprehensive income</b>	<b>642,782</b>	<b>609,511</b>
<b>Total net assets</b>	<b>13,110,372</b>	<b>13,319,893</b>
<b>Total liabilities and net assets</b>	<b>17,993,671</b>	<b>18,638,508</b>

(2) Statement of income and statement of comprehensive income  
 (Consolidated quarterly statements of income)  
 (Consolidated first quarter)

(Thousands of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Net sales	2,300,477	2,495,868
Cost of sales	826,680	927,457
Gross profit	1,473,796	1,568,410
Selling, general and administrative expenses	965,306	1,049,072
Operating profit	508,489	519,337
Non-operating income		
Interest income	10,160	4,575
Dividend income	4,037	4,443
Trial products income	4,426	3,972
Other	3,982	7,937
Total non-operating income	22,607	20,928
Non-operating expenses		
Interest expenses	28	742
Sales discounts	1,251	1,022
Foreign exchange losses	61,620	14,171
Other	245	966
Total non-operating expenses	63,146	16,901
Ordinary profit	467,950	523,364
Extraordinary income		
Gain on sales of non-current assets	1,282	901
Gain on sales of investment securities	4,021	—
Gain on shift of retirement benefit plan	—	44,867
Total extraordinary income	5,303	45,769
Extraordinary losses		
Loss on sales of non-current assets	—	1,495
Loss on retirement of non-current assets	259	959
Total extraordinary losses	259	2,454
Profit before income taxes	472,995	566,678
Income taxes	110,402	130,814
Profit	362,593	435,863
Profit attributable to owners of parent	362,593	435,863



(Comprehensive income)  
(Consolidated first quarter)

(Thousands of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit	362,593	435,863
Other comprehensive income		
Valuation difference on available-for-sale securities	-43,754	36,968
Foreign currency translation adjustment	-239,226	-24,824
Remeasurements of defined benefit plans, net of tax	-4,030	-45,414
Total other comprehensive income	-287,011	-33,270
Comprehensive income	75,581	402,593
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	75,581	402,593
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes on quarterly consolidated financial statements

(Notes on the premise of a going concern)

N/A

(Notes on marked changes in the amount of shareholders' equity)

N/A

(Changes in important subsidiaries during the period under review)

Since MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD. was newly established in the first quarter of the consolidated accounting period under review, it is included in the scope of consolidation.

(Application of accounting procedures specified to create consolidated financial statements for quarter)

For tax expenses, the Company has adopted the method of reasonably estimating the effective tax rate after the application of tax effect accounting to net income before income taxes for the consolidated fiscal year and multiplying quarterly net income before income taxes by this estimated effective tax rate. However, in cases where the result of calculating using this estimated effective tax rate lacks reasonableness in a striking manner, the Company bases calculations on the effective statutory tax rate.