

Translations

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

November 2, 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) : December 5, 2017

Scheduled date for submitting quarterly reports: November 13, 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 September 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	%
Six months ended September 30, 2017	5,239	15.9	1,315	28.8	1,343	39.2	1,028	26.5
Six months ended September 30, 2016	4,520	1.5	1,021	3.2	964	-4.2	813	15.7

Note: Comprehensive : September 30, 2017:1,028 million yen (-); September 30, 2016:85 million yen (-88.7%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Six months ended September 30, 2017	53.67	-
Six months ended September 30, 2016	41.98	-

(2) Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2017	18,557	13,945	75.2	727.44
March 31, 2017	17,993	13,110	72.9	683.86

(Reference) Shareholder's equity : September 30, 2017: 13,945 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	-	10.00	-	-	-
Year ending December 31, 2017 (forecast)	-	-	-	12.00	22.00

(Note) Revision of recently announced dividends forecast: Yes

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

(Percentages represent annual changes over the preceding year unless otherwise stated.)

	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
Full year	9,200	-	1,900	-	1,950	-	1,400	-	73.03

(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 alone cover the nine months from April 1, 2017 to December 31, 2017. Please note that for overseas subsidiaries, the consolidation period is the twelve-month span going from January 1, 2017 to December 31, 2017.

Translations

[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 (from April 1, 2017 to December 31, 2017) of the Company.

Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
9,200	12.8%	1,900	12.7%	1,950	14.9%	1,400	-7.6%

(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.: No
 2) Changes other than those of (1): No
 3) Expected changes to accounting standards: No
 4) Restatements: No

(4) Number of shares outstanding (Common stock)

1) Number of outstanding shares at end of term (including treasury stock)	Six months ended September 30, 2017	20,071,093 shares	Year ended March 31, 2017	20,071,093 shares
2) Number of treasury stock at end of term	Six months ended September 30, 2017	900,089 shares	Year ended March 31, 2017	900,089 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Six months ended September 30, 2017	19,171,004 shares	Six months ended September 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 financial results briefing for institutional investors and analysts on Monday, November 6, 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 and second quarters under review (April 1, 2017 – September 30, 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 outlook remain.

In the electronics industry, shipments of personal computers and tablet computers have continued to decline, although the speed of such decline has slowed. In addition, sales of smartphones have remained steady against the backdrop of demand in emerging countries. The electronic components used in smartphones are becoming more functionally advanced and miniaturized. Therefore, 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 IoT related market is expected to continue to see high growth, and people's attention is focused on the switch from the fourth-generation (4G) mobile communication system to the fifth-generation (5G) one, offering high speed and high capacity. Further, electronic boards, which can handle high-speed communication processing, are drawing attention. 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 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 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 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 focused on sales activities for it, aiming to acquire new customers.

Looking at a breakdown of sales, sales of chemicals were 5,127 million yen (up 841 million yen, 19.6% compared with the same period last year), sales of materials were 57 million yen (down 114 million yen or 66.4% year-on-year), machinery sales were 47 million yen (down 1 million yen or 3.1% year-on-year), and other sales were 7 million yen (down 6 million yen, or 48.9%).

The breakdown of chemical sales shows there were sales of 2,881 million yen for adhesion improvers, sales of 1,827 million yen for etching agents, and sales of 418 million yen for other chemicals.

As a result, total consolidated sales for the first and second quarters amounted to 5,239 million yen (up 719 million yen year-on-year, or 15.9%). Shipments of chemicals increased by 18.1% compared with the same period of the previous year, and use of our chemicals is expanding. Operating income amounted to 1,315 million yen (up 294 million yen year-on-year or 28.8%). Operating margin was 25.1%, up 2.5 points compared with the 22.6% in the same period last year. Ordinary income was 1,343 million yen (up 378 million yen or 39.2% year-on-year). Quarterly net income before income taxes amounted to 1,386 million yen (a year-on-year increase of 412 million yen or 42.3%), and quarterly net income attributable to owners of parent was 1,028 million yen (an increase of 215 million yen, up 26.5% from the same period of the previous year).

The overseas sales ratio was 52.0%. In MEC Taiwan, there were steady sales of chemicals for use with packaging substrates for automobiles, smartphones, and tablet computers and of chemicals for use in high-density electronic substrates. In Suzhou in China, chemicals for use with HDI substrates for

smartphones performed steadily, but profits declined due to a fall in the unit selling price. On the other hand, sales in Hong Kong and Zhuhai remained steady in the general-purpose electronic substrate market, but profit fell as a result of a review of the transaction terms with Japan. Both sales and profits fell at MEC Europe, with a stagnant electronic board industry as a whole. 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 2018.

(2) Analysis relating to the financial situation

Notes and accounts receivable increased accompanying an increase in sales and so assets came to 18,557 million yen, up 563 million yen year on year.

Due to the repayment of borrowings taken out to construct the Amagasaki Headquarters, liabilities decreased by 272 million yen compared with the previous fiscal year, coming in at 4,611 million yen.

As a result of an increase in retained earnings and such like, net assets were 13,945 million yen, up 835 million yen compared with the same period of the previous fiscal year.

As a result of the above, the equity ratio reached 75.2%.

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

We have revised the full-year consolidated earnings forecast, initially released on August 8, 2017, as announced today (November 2, 2017) in "Difference Between Earnings Forecast and Actual Results for the First and Second Quarters of the Fiscal Year Ending in December 2017 and Revision to the Full-Year 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 112 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 September 30, 2017
Assets		
Current assets		
Cash and deposits	4,718,329	4,810,772
Notes and accounts receivable - trade	2,784,578	3,212,728
Merchandise and finished goods	289,112	329,983
Work in process	83,204	98,113
Raw materials and supplies	293,452	360,809
Deferred tax assets	212,240	211,108
Other	353,112	116,352
Allowance for doubtful accounts	-11,947	-11,973
Total current assets	8,722,081	9,127,895
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,248,274	6,353,867
Accumulated depreciation	-2,103,366	-2,228,745
Buildings and structures, net	4,144,907	4,125,122
Machinery, equipment and vehicles	2,165,250	2,283,735
Accumulated depreciation	-1,495,486	-1,549,184
Machinery, equipment and vehicles, net	669,764	734,550
Tools, furniture and fixtures	972,954	1,078,897
Accumulated depreciation	-619,127	-650,538
Tools, furniture and fixtures, net	353,827	428,358
Land	2,842,430	2,852,537
Construction in progress	101,045	32,664
Total property, plant and equipment	8,111,974	8,173,233
Intangible assets	155,103	178,626
Investments and other assets		
Investment securities	462,583	530,941
Net defined benefit asset	479,261	474,896
Deferred tax assets	10,720	10,645
Other	81,782	90,101
Allowance for doubtful accounts	-29,836	-29,319
Total investments and other assets	1,004,511	1,077,264
Total non-current assets	9,271,590	9,429,124
Total assets	17,993,671	18,557,020

(Thousands of yen)

	As of March 31, 2017	As of September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,072,085	929,465
Short-term loans payable	—	300,000
Current portion of long-term loans payable	500,000	500,000
Accounts payable - other	286,776	321,476
Accrued expenses	69,955	112,585
Income taxes payable	244,989	354,465
Provision for bonuses	227,956	265,750
Provision for directors' bonuses	32,797	20,830
Accounts payable - facilities	205,259	35,269
Other	477,709	255,706
Total current liabilities	3,117,529	3,095,548
Non-current liabilities		
Long-term loans payable	1,250,000	1,000,000
Deferred tax liabilities	397,122	411,046
Net defined benefit liability	50,812	53,340
Provision for Share-based compensation	43,484	26,972
Other	24,350	24,355
Total non-current liabilities	1,765,769	1,515,715
Total liabilities	4,883,299	4,611,264
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	456,912	456,912
Retained earnings	12,252,190	13,087,995
Treasury shares	-835,654	-835,654
Total shareholders' equity	12,467,590	13,303,395
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	121,571	165,739
Foreign currency translation adjustment	385,223	390,967
Remeasurements of defined benefit plans	135,986	85,654
Total accumulated other comprehensive income	642,782	642,360
Total net assets	13,110,372	13,945,755
Total liabilities and net assets	17,993,671	18,557,020

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

(Thousands of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	4,520,646	5,239,683
Cost of sales	1,572,615	1,802,580
Gross profit	2,948,030	3,437,103
Selling, general and administrative expenses	1,926,857	2,121,660
Operating profit	1,021,172	1,315,443
Non-operating income		
Interest income	12,293	9,150
Dividend income	5,941	6,492
Trial products income	11,742	6,649
Other	6,976	12,619
Total non-operating income	36,954	34,912
Non-operating expenses		
Interest expenses	785	1,379
Sales discounts	2,327	2,118
Foreign exchange losses	71,248	2,399
Other	18,992	1,200
Total non-operating expenses	93,354	7,097
Ordinary profit	964,772	1,343,257
Extraordinary income		
Gain on sales of non-current assets	6,673	1,816
Gain on sales of investment securities	7,382	-
Gain on shift of retirement benefit plan	-	44,867
Other		1,776
Total extraordinary income	14,056	48,459
Extraordinary losses		
Loss on sales of non-current assets	-	1,509
Loss on retirement of non-current assets	4,987	2,363
Loss on fixed asset compression	-	1,776
Total extraordinary losses	4,987	5,649
Profit before income taxes	973,842	1,386,067
Income taxes	160,606	357,190
Profit	813,235	1,028,876
Profit attributable to owners of parent	813,235	1,028,876

(Comprehensive income)
(Consolidated first quarter)

(Thousands of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Profit	813,235	1,028,876
Other comprehensive income		
Valuation difference on available-for-sale securities	-12,886	44,167
Foreign currency translation adjustment	-706,603	5,743
Remeasurements of defined benefit plans, net of tax	-8,060	-50,332
Total other comprehensive income	-727,550	-421
Comprehensive income	85,685	1,028,455
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	85,685	1,028,455
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.