

Translation

**Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2018
[JA-GAAP]**

November 13, 2018
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: November 14, 2018

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 (January 1, 2018 to September 30, 2018)

(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	%
Nine months ended September 30, 2018	8,432	-	1,747	-	1,763	-	1,429	-
Nine months ended December 31, 2017	-	-	-	-	-	-	-	-

Note: Comprehensive : September 30, 2018: 1,244 million yen (-%); September 30, 2017 : - million yen (-%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Nine months ended June 30, 2018	74.58	-
Nine months ended December 31, 2017	-	-

From the fiscal year ended December 2017, the Company changed the closing date of the fiscal year from March 31 to December 31. Accompanying this, because we did not prepare consolidated financial statements for the third quarter of the fiscal year ended December 31, 2017, we have not stated consolidated operating results (cumulative total) for the third quarter of the fiscal year ended December 31, 2017 and not stated year-on-year comparisons for the first nine months (January 1, 2018 to September 30, 2018) of the current fiscal year.

(Reference) The following percentages (percentage change after adjustment) are percentage increases or decreases compared with the same period of the previous fiscal year (January 1, 2017 to September 30, 2017) that correspond to the first nine months (January 1, 2018 to September 30, 2018) of the current fiscal year.

Net sales	Operation income	ordinary income	Net income attributable to parent company's shareholders
7,771 8.5%	1,675 4.3%	1,699 3.8%	1,232 16.0%

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
September 30, 2018	19,530	15,368	78.7
December 31, 2017	19,247	14,587	75.8

[Reference]

Shareholder's equity: September 30, 2018 : 15,368 million yen ; December 31, 2017 : 14,587 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2017	-	10.00	-	12.00	22.00
Year ending December 31, 2018	-	12.00	-		
Year ending December 31, 2018 (forecast)				14.00	26.00

(Note) Revision of recently announced dividends forecast: Yes

For details of the revision to the expected dividend, please refer to "Revision (Increase) to Expected Dividend for the term ending in December 2018 (50th Term)" announced today (November 13, 2018).

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3. Forecast of Consolidated Results for the Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

Note: Percentages indicate year-on-year changes for 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
Full year	11,600	-	2,300	-	2,400	-	1,750	-	91.28

(Note) Revision of recently announced earnings forecast: No

(Since the fiscal year ended December 2017 is the elapsed period of the fiscal year change, the consolidated earnings forecast for the fiscal year ending December 31, The change in the same quarter of the previous year is omitted.)

[Reference]

The percentages shown below (percentage change after adjustment) are the rate of change compared with the same period last year from January 1, 2017 to March 31, 2017.

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Full year	11,600	7.9	2,300	-1.7	2,400	0.1	1,750	-3.0

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*Notes

(1) Changes in important subsidiaries during this quarter (changes to specified subsidiaries accompanying changes in the scope of consolidation): No

(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)	Nine months ended September 30, 2018	20,071,093 shares	Year ended December 31, 2017	20,071,093 shares
2) Number of treasury stock at end of term	Nine months ended September 30, 2018	900,232 Shares	Year ended December 31, 2017	900,089 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Nine months ended September 30, 2018	19,170,977 shares	Nine months ended December 31, 2017	- shares

From the fiscal year ended December 2017, the Company changed the closing date of the fiscal year from March 31 to December 31. Accompanying this, because we did not prepare consolidated financial statements for the third quarter of the fiscal year ended December 31, 2017, we have not stated the average number of shares during the period (quarterly cumulative total) for the third quarter of the fiscal year ended December 31, 2017.

* 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 19, 2018. Materials of financial results briefings are posted on our website.

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1. Qualitative information regarding consolidated results for this quarter

From the previous consolidated fiscal year, the Company changed the closing date of the fiscal year from March 31 to December 31. Accompanying this, for the previous consolidated fiscal year, which is the elapsed period of the changed fiscal year, the consolidation period is the nine-month span going from April 1, 2017 up to December 31, 2017. Please note that in the settlement ending in December for overseas subsidiaries, the consolidation period is the twelve-month span going from January 1, 2017 up to December 31, 2017.

For this reason, in the descriptions below, the results for the first nine months of the consolidated period under review are compared with the results (reference values) of the same period of the previous year, i.e., from January 1, 2017 to September 30, 2017.

(1) Analysis of results of operations

The global economy in the first nine months of the consolidated period under review (January 1, 2018 to September 30, 2018) continued to grow steadily against the background of factors such as an increase in personal consumption and capital expenditures in the United States. Although the economy in Europe recovered moderately in the first half of the year, it showed signs of decelerating in the second half. The economic growth rate also slowed in China and the trend was toward an economic slowdown. In addition, a factor for risk in emerging countries was currency concerns. Although a weakness was seen in the Japanese economy due to the effects of natural disasters, personal consumption has been on a recovery trend and capital investment has also been on the increase. However, there are ongoing concerns about the future of the economy against the background of factors such as the U.S. administration's trade policy, uncertainty regarding overseas economies, rising global geopolitical risks, and foreign exchange trends.

In the electronics industry, new and high-end models of smartphones have been released but it is uncertain whether or not they will see demand because they are highly priced. On the other hand, demand for servers remained steady but sales of personal computers and tablet PCs were weak. Also, the size of the display of flat-screen televisions continued to get larger and 4K televisions continued to diffuse in the market.

The electronic components industry saw a significant downtrend in semiconductor demand in the virtual currency market. Looking at electronic substrates on which electronic components are mounted, a greater number of parts are being mounted in electronic devices such as smartphones because they feature even more advanced functions. Hence, there is a trend toward higher-density electronic substrates and technological innovation is progressing. In addition, the greater demand for semiconductor memory is causing the production volume of package substrates that incorporate such memory to increase, and the switch to electric vehicles and greater use of electronics in automobiles along with steady growth of products for use in industry have been driving the expansion of this industry.

Markets related to the IoT (Internet of Things: a concept where everything is connected to the Internet) are expected to continue growing strongly. As attention is being placed on the switch from 4th generation (4G) to faster and higher capacity 5th generation (5G) mobile communication systems, there have been a growing number of initiatives aimed at commercializing these systems by 2019. 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 millimeter-wave radar and cameras.

In this environment, the Group has focused on developing and selling products for high-density electronic substrates and electronic components. Sales of the CZ Series, our super-roughening agent that enjoys a large market share for package substrate applications, remained steady because there was firm demand for using them on products used in substrates for automotive sensors, for which high reliability is a must. However, the CZ Series were affected by slowing demand for semiconductors for use in mining virtual currencies. Sales of the BO Series for use with multilayer electronic substrates and the SF Series for displays remained firm. Sale of the EXE Series, which manufacturers use to achieve a high-density wiring pattern with the etching method, were strong for display applications but weak for HDI substrate applications. We have proactively pushed forward with sales of the UT Series of chemicals that manufacturers can use to roughen a surface without needing to choose a type of copper leaf, and several companies have been carrying out tests with them. On the other hand, sales of the FlatBOND Series for use with high-frequency substrates and of AMALPHA, a technology for directly bonding metal and resin, have been weak.

As a result, total consolidated sales for the first nine-month period amounted to 8,432 million yen (up 661 million yen year-on-year, or 8.5%). Shipments of chemicals increased by 9.1% compared with the same period of the previous year, and use of our chemicals is expanding. Operating income amounted to 1,747 million yen (up 72 million yen year-on-year, or 4.3%). Operating income to net sales was 20.7%, down 0.9 points compared with the 21.6% in the same period last year. Ordinary income was 1,763 million yen (up 64 million yen year-on-year, or 3.8%). Quarterly net

income before income taxes amounted to 1,860 million yen (up 145 million yen year-on-year, or 8.5%), and quarterly net income attributable to owners of parent was 1,429 million yen (up 197 million yen year-on-year, or 16.0%).

Looking at a breakdown of sales, sales of chemicals were 8,284 million yen (up 694 million yen year-on-year, or 9.2%), sales of materials were 86 million yen (down 4 million yen year-on-year, or 4.5%), machinery sales were 37 million yen (down 37 million yen year-on-year, or 49.5%), and other sales were 23 million yen (up 7 million yen year-on-year, or 44.5%).

Looking at a breakdown of sales of chemicals, sales of adhesion improver were 4,881 million yen (up 492 million yen year-on-year, or 11.2%), sales of etching agents were 2,907 million yen (up 277 million yen year-on-year, or 10.6%), and sales of other chemicals were 496 million yen (down 75 million yen year-on-year, or 13.2%).

The overseas sales ratio was 54.7%.

In Taiwan, while overall sales were good, sales of some products for high-density electronic substrates and flexible substrates stagnated. In China (Suzhou), strong demand drove sales of chemicals for displays up while in Hong Kong (Hong Kong and Zhuhai), sales in the general-purpose electronic substrate market remained steady. The electronic substrate industry on the whole has been stagnant in Europe, but there has been some steady growth owing to our acquisition of new customers. 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, and we are at the stage of preparing to run it. It is scheduled to start operating in July 2019.

(2) Analysis relating to the financial situation

Assets came to 19,530 million yen, up 282 million yen year-on-year, due to an increase in inventories and construction in progress relating to MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.

Liabilities were 4,161 million yen, down 498 million yen from the previous consolidated fiscal year due to decreases in notes payable - facilities and income taxes payable, etc.

Net assets rose by 781 million yen year-on-year to total 15,368 million yen as a result of higher retained earnings posted despite a decrease in foreign currency translation adjustments, etc. As a result of the above, the equity ratio reached 78.7%.

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

For consolidated earnings forecasts, there is no change to the consolidated earnings forecasts for the full year that were announced in "Consolidated Financial Results for the Year Ended December 31, 2017" on February 13, 2018.

2. Consolidated quarterly financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2017	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	4,634,069	4,631,585
Notes and accounts receivable - trade	3,611,497	3,662,965
Merchandise and finished goods	376,705	484,979
Work in process	129,283	213,287
Raw materials and supplies	432,726	453,628
Deferred tax assets	282,859	312,379
Other	78,830	97,878
Allowance for doubtful accounts	-12,570	-13,210
Total current assets	9,533,400	9,843,493
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,494,076	6,482,334
Accumulated depreciation	-2,313,882	-2,460,277
Buildings and structures, net	4,180,194	4,022,056
Machinery, equipment and vehicles	2,431,251	2,421,339
Accumulated depreciation	-1,610,382	-1,622,101
Machinery, equipment and vehicles, net	820,868	799,237
Tools, furniture and fixtures	1,137,545	1,198,237
Accumulated depreciation	-693,682	-753,394
Tools, furniture and fixtures, net	443,862	444,842
Land	2,870,141	2,945,371
Construction in progress	27,168	158,094
Total property, plant and equipment	8,342,235	8,369,602
Intangible assets	183,431	154,506
Investments and other assets		
Investment securities	537,699	501,251
Net defined benefit asset	579,637	593,259
Deferred tax assets	6,406	6,433
Other	64,960	61,793
Total investments and other assets	1,188,704	1,162,738
Total non-current assets	9,714,371	9,686,847
Total assets	19,247,772	19,530,341

(Thousands of yen)

	As of December 31, 2017	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable – trade	1,019,041	1,171,467
Short-term debt	-	200,000
Long-term borrowings to be repaid within one year	500,000	500,000
Current portion of long-term loans payable	414,248	302,750
Accrued expenses	131,788	113,856
Income taxes payable	354,863	141,856
Provision for bonuses	290,012	433,107
Provision for directors' bonuses	38,447	29,001
Accounts payable - facilities	36,152	22,017
Other	497,497	170,104
Total current liabilities	3,282,051	3,084,162
Non-current liabilities		
Long-term loans payable	750,000	500,000
Deferred tax liabilities	486,777	419,644
Net defined benefit liability	53,522	54,625
Provision for Share-based compensation	62,406	76,910
Other	25,319	26,014
Total non-current liabilities	1,378,025	1,077,194
Total liabilities	4,660,076	4,161,357
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	456,912	541,273
Retained earnings	13,433,665	14,400,072
Treasury shares	-835,654	△920,296
Total shareholders' equity	13,649,064	14,615,191
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	168,439	138,751
Foreign currency translation adjustment	619,926	487,991
Remeasurements of defined benefit plans	150,265	127,049
Total accumulated other comprehensive income	938,631	753,792
Total net assets	14,587,695	15,368,984
Total liabilities and net assets	19,247,772	19,530,341

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

(Thousands of yen)

	Nine months ended September 30, 2018
Net sales	8,432,534
Cost of sales	3,019,512
Gross profit	5,413,021
Selling, general and administrative expenses	3,665,253
Operating profit	1,747,767
Non-operating income	
Interest income	14,350
Dividend income	7,507
Trial products income	23,201
Other	23,656
Total non-operating income	68,715
Non-operating expenses	
Interest expenses	1,696
Sales discounts	3,739
Foreign exchange losses	42,680
Other	4,659
Total non-operating expenses	52,776
Ordinary profit	1,763,706
Extraordinary income	
Gain on sales of non-current assets	4,247
Subsidy income	95,212
Total extraordinary income	99,460
Extraordinary losses	
Loss on retirement of non-current assets	2,867
Total extraordinary losses	2,867
Profit before income taxes	1,860,299
Income taxes	430,519
Profit	1,429,779
Profit attributable to owners of parent	1,429,779

(Comprehensive income)
(Consolidated third quarter)

(Thousands of yen)

	Six months ended June 30, 2018
Profit	1,429,779
Other comprehensive income	
Valuation difference on available-for-sale securities	-29,688
Foreign currency translation adjustment	-131,934
Remeasurements of defined benefit plans, net of tax	-23,215
Total other comprehensive income	-184,838
Comprehensive income	1,244,941
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	1,244,941
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

(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.