

Translation

**Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2019
[JA-GAAP]**

May 10, 2019
Stock Exchange Listing: Tokyo

Company Name: MEC COMPANY LTD.

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

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Commencement Date of Dividend Payment (Scheduled) : -

Scheduled date for submitting quarterly reports: May 13, 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, 2019 to March 31, 2019)

(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 March 31, 2019	2,328	-12.5	205	-60.5	240	-53.0	158	-56.6
Three months ended June 30, 2018	2,660	-	520	-	511	-	365	-

Note: Comprehensive : March 31, 2019: 234 million yen (50.4%); March 31, 2018 : 156 million yen (-%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Three months ended March 31, 2019	8.36	-
Three months ended June 30, 2018	19.09	-

The company changed the settlement period from 2017 to 31 December.

The period FY12/2017 1Q(April 1, 2017 to June 30,2017) compared with FY12/2018 1Q (January 1, 2018 to March 31, 2018) is different period, it does not describe change rate.

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
March 31, 2019	18,508	15,132	81.8
December 31, 2018	18,601	15,166	81.5

(Reference) Shareholder's equity : March 31, 2019 : 15,132 million yen ; December 31,2018 : 15,166 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	-	12.00	-	14.00	26.00
Year ending December 31, 2019	-	-	-	-	-
Year ending December 31, 2019 (forecast)	-	12.00	-	14.00	26.00

(Note) Revision of recently announced dividends forecast: None

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

(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
1Q and 2Q(year to date)	5,600	1.8	850	-18.2	880	-15.6	580	-348	30.57
Full year	11,800	4.2	2,050	-7.8	2,100	-6.1	1,500	-15.6	79.07

(Note) Revision of recently announced earnings forecast: None

Translation

*Notes

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

3) Expected changes to accounting standards: No

4) Restatements: No

Note: For details, please see "Changes in accounting policies" on page 8 of the attached materials.

(4) Number of shares outstanding (Common stock)

1) Number of outstanding shares at end of term (including treasury stock)	Three months ended March 31, 2019	20,071,093 shares	Year ended December 31, 2018	20,071,093 shares
2) Number of treasury stock at end of term	Three months ended March 31, 2019	1,100,234 shares	Year ended December 31, 2018	1,100,232 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Three months ended March 31, 2019	18,970,860 shares	Three months ended March 31, 2018	19,171,004 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 2 of the attachment.

- We are planning to hold financial results briefing for institutional investors and analysts on Monday, May 13, 2019. Materials of financial results briefings are posted on our website.

* The method of displaying dates has been changed from Japanese calendar to Western calendar from Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2019

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1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

In the first quarter of the consolidated period under review (January 1, 2019–March 31, 2019), in terms of the global economy, there were concerns about an unclear outlook for overseas economies due to factors such as the U.S.–China trade friction, the slowing of economic growth in China, and the UK's withdrawal from the EU. Amid this situation, with regard to Japan's economy foreign demand has been weak against the background of a gradual slowdown of the global economy, but it has been supported by solid domestic demand, such as that relating to capital investment and personal consumption.

In the electronics industry, sales of smartphones have generally stalled, mainly those of high-end models. Sales of PCs and tablets have been weak, and since the second half of 2018 sales of semiconductors have been slowing down for use in memory for smartphones and servers.

In the electronic component industry, which is a market that relates to the Company's Group, shipments of smartphones have been sluggish, but electronic substrates are becoming denser and there is ongoing technological innovation.

The IoT related market is expected to continue to see high growth. With regard to mobile communication systems, people's attention is focused on the switch from the fourth-generation (4G) to the high-speed, large-capacity fifth-generation (5G), and there are intensifying efforts for commercialization in this area. Further, the technology of self-driving vehicles is also progressing steadily, and there has been an increase in demand for the sensors they use in devices such as millimeter-wave radar and cameras. Under these circumstances, the Company's Group focused on developing and selling products for high-density electronic substrates. However, sales of its chemicals remained weak amid a tough market environment.

As a result, total consolidated sales for the first quarter amounted to 2,328 million yen (down 332 million yen year-on-year, or 12.5%). Shipments of chemicals fell 11.6% compared with the same period last year. Operating income amounted to 205 million yen (down 314 million yen year-on-year or 60.5%).

Operating income to net sales was 8.8%, down 10.8 points compared with the same period last year.

Ordinary income amounted to 240 million yen (down 270 million yen year-on-year or 53.0%). Quarterly net income before income taxes amounted to 241 million yen (a year-on-year decrease of 268 million yen or 52.7%), and quarterly net income attributable to owners of parent was 158 million yen (a decrease of 207 million yen, down 56.6% from the same period of the previous year).

Looking at a breakdown of sales, sales of chemicals were 2,266 million yen (down 346 million yen or 13.2% year-on-year), sales of materials were 40 million yen (up 31 million yen or 329.2% year-on-year), machinery sales were 15 million yen (down 6 million yen or 29.5% year-on-year), and other sales were 6 million yen (down 10 million yen, or 63.2%).

Looking at a breakdown of sales of chemicals, sales of adhesion improver were 1,360 million yen (down 237 million yen or 14.9% year-on-year), sales of etching agents were 773 million yen (down 81 million yen or 9.6% year-on-year), and sales of other chemicals were 132 million yen (down 26 million yen or 16.7% year-on-year).

The overseas sales ratio was 54.9%, down 0.7 points compared with the same period last year.

By segment, sales of products related to smartphones decreased in Japan due to the slowdown in sales of smartphones. In Taiwan, the slowdown in sales of smartphones and virtual currency caused sales of related products to fall. The sluggish sales of smartphones also had a major impact in China (Suzhou). Also, in Hong Kong (Hong Kong and Zhuhai), sales of products related to smartphones fell due to the slower sales of smartphones and automobile-use substrates. In Europe, although there was an impact from the slower sales of smartphones, sales of substrates for general industrial use and for automobile use remained steady. 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 the Kingdom of 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

Looking at assets, there was an increase in tangible fixed assets related to our subsidiary in the Kingdom of Thailand and a fall in notes and accounts receivable. As a result, assets came to 18,508 million yen, down 92 million yen year on year.

In terms of liabilities, there was an increase in equipment-related payables and a fall in accounts payable. Hence, liabilities came to 3,376 million yen, down 58 million yen compared with the previous consolidated fiscal year.

Because of an increase in foreign currency translation adjustment and a decrease in retained earnings, net assets decreased by 33 million yen compared to the previous consolidated fiscal year, coming in at 15,132 million yen.

As a result of the above, the equity ratio reached 81.8%.

- (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 first half of the current fiscal year and the full year that were announced in "Consolidated Financial Results for the Year Ended December 31, 2018" on February 13, 2019.

2. Consolidated quarterly financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	4,388,263	4,771,633
Notes and accounts receivable - trade	3,569,104	2,779,999
Electronically Recorded Monetary Claims	7,681	111,013
Merchandise and finished goods	404,729	390,061
Work in process	234,523	209,934
Raw materials and supplies	473,357	489,684
Other	83,390	111,410
Allowance for doubtful accounts	-12,790	-10,057
Total current assets	9,148,261	8,853,679
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,376,133	6,390,825
Accumulated depreciation	-2,403,329	-2,458,544
Buildings and structures (net)	3,972,804	3,932,280
Machinery, equipment and vehicles	2,425,927	2,490,554
Accumulated depreciation	-1,645,168	-1,690,937
Machinery, equipment and vehicles (net)	780,759	799,617
Tools, furniture and fixtures	1,206,844	1,218,841
Accumulated depreciation	-766,187	-799,701
Tools, furniture and fixtures (net)	440,656	419,139
Land	2,924,091	2,923,146
Right-of-use asset	—	49,781
Accumulated depreciation	—	-8,422
Right-of-use asset (net)	—	41,358
Construction in progress	159,800	319,796
Total property, plant and equipment	8,278,111	8,435,339
Intangible assets	154,002	143,397
Investments and other assets		
Investment securities	393,309	441,544
Net defined benefit asset	538,059	542,335
Deferred tax assets	26,716	25,399
Other	63,090	67,170
Allowance for doubtful accounts	-79	-79
Total investments and other assets	1,021,095	1,076,370
Total non-current assets	9,453,209	9,655,107
Total assets	18,601,471	18,508,786

(Thousands of yen)

	As of December 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,067,221	986,660
Current portion of long-term loans payable	500,000	500,000
Accounts payable - other	389,569	301,830
Accrued expenses	134,669	121,846
Income taxes payable	226,390	163,429
Provision for bonuses	324,452	463,377
Provision for directors' bonuses	36,453	45,178
Accounts payable - facilities	119,473	30,941
Other	149,315	293,260
Total current liabilities	2,947,545	2,906,525
Non-current liabilities		
Long-term loans payable	250,000	250,000
Deferred tax liabilities	79,042	56,797
Net defined benefit liability	53,751	54,340
Provision for Share-based compensation	78,912	73,024
Other	25,850	35,489
Total non-current liabilities	487,556	469,651
Total liabilities	3,435,102	3,376,176
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	14,748,508	14,638,719
Treasury shares	-1,185,432	-1,185,435
Total shareholders' equity	14,698,491	14,588,699
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	62,077	94,518
Foreign currency translation adjustment	328,101	375,694
Remeasurements of defined benefit plans	77,699	73,697
Total accumulated other comprehensive income	467,878	543,910
Total net assets	15,166,369	15,132,610
Total liabilities and net assets	18,601,471	18,508,786

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

(Thousands of yen)

	Three months ended March 31, 2018	Three months ended March 31, 2019
Net sales	2,660,613	2,328,519
Cost of sales	970,003	944,754
Gross profit	1,690,609	1,383,765
Selling, general and administrative expenses	1,169,962	1,178,020
Operating profit	520,647	205,744
Non-operating income		
Interest income	3,629	3,801
Trial products income	8,308	7,849
Insurance income	—	20,301
Foreign exchange losses	—	715
Other	8,798	4,269
Total non-operating income	20,737	36,938
Non-operating expenses		
Interest expenses	519	781
Sales discounts	1,152	1,050
Foreign exchange losses	27,868	—
Other	492	314
Total non-operating expenses	30,033	2,146
Ordinary profit	511,350	240,535
Extraordinary income		
Gain on sales of non-current assets	917	1,382
Total extraordinary income	917	1,382
Extraordinary losses		
Loss on retirement of non-current assets	1,797	317
Total extraordinary losses	1,797	317
Profit before income taxes	510,471	241,601
Income taxes	144,524	82,933
Profit	365,947	158,668
Profit attributable to owners of parent	365,947	158,668

(Comprehensive income)
(Consolidated first quarter)

(Thousands of yen)

	Three months ended March 31, 2018	Three months ended March 31, 2019
Profit	365,947	158,668
Other comprehensive income		
Valuation difference on available-for-sale securities	-39,693	32,441
Foreign currency translation adjustment	-162,514	47,592
Remeasurements of defined benefit plans, net of tax	-7,738	-4,001
Total other comprehensive income	-209,947	76,032
Comprehensive income	156,000	234,700
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	156,000	234,700
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.

(Changes in accounting policies)

Overseas consolidated subsidiaries that have adopted International Financial Reporting Standards (IFRS) have applied IFRS 16 (Leases) from the beginning of the first quarter of the current consolidated accounting period.

As a result of adopting this accounting standard, right-of-use assets in the consolidated balance sheet for the first quarter increased by 41,358 thousand yen, "Other" in current liabilities increased 32,334 thousand yen, and "Other" in non-current liabilities increased 9,244 thousand yen.

The impact of this on the consolidated quarterly statements of income for the first quarter is immaterial.

(Additional information)

(Application of "Partial Amendments to 'Accounting Standard for Tax Effect Accounting'" etc.)

"Partial Amendments to 'Accounting Standard for Tax Effect Accounting'" (ASBJ Statement No. 28, issued on February 16, 2018) have been applied from the beginning of the first quarter of the consolidated accounting period, and deferred tax assets are shown in the category of "Investments and other assets," while deferred tax liabilities are shown in the category of "Fixed liabilities."