

Translation

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

August 9, 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) : September 3, 2019

Scheduled date for submitting quarterly reports: August 14, 2019

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 June 30, 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	%
Six months ended June 30, 2019	4,976	-9.5	610	-41.3	638	-38.7	457	-48.6
Six months ended June 30, 2018	5,499	-	1,039	-	1,042	-	889	-

Note: Comprehensive : June 30, 2019: 331 million yen (-45.1%); June 30, 2018 : 604 million yen (-%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Six months ended June 30, 2019	24.09	-
Six months ended June 30, 2018	46.39	-

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

The period FY12/2017 2Q(April 1, 2017 to September 30,2017) compared with FY12/2018 2Q (January 1, 2018 to June 30, 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	%
June 30, 2019	18,595	15,239	81.9
December 31, 2018	18,601	15,166	81.5

(Reference) Shareholder's equity : June 30, 2019 : 15,239 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	-	12.00	-	-	-
Year ending December 31, 2019 (forecast)	-	-	-	14.00	26.00

(Note) Revision of recently announced dividends forecast: None

3. Forecast of Consolidated Results for the Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

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

Full year	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
	10,700	-5.6	1,550	-30.3	1,600	-28.5	1,150	-35.3	60.61

(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)	Six months ended June 30, 2019	20,071,093 shares	Year ended December 31, 2018	20,071,093 shares
2) Number of treasury stock at end of term	Six months ended June 30, 2019	1,096,266 shares	Year ended December 31, 2018	1,100,232 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Six months ended June 30, 2019	18,973,107 shares	Six months ended March 31, 2018	19,171,998 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 Friday, August 9, 2019 and Monday, August 14, 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 and second quarters of the consolidated period under review (January 1, 2019 to June 30, 2019), economic recovery continued in the United States due to the expansion of personal consumption against the backdrop of an improved employment and income environments and a moderate increase in capital investment. In Europe, solid consumer spending supported the economy. On the other hand, in China, there was sluggish external demand and a delayed recovery in domestic demand. The Japanese economy was on a moderate recovery path, with stronger personal consumption in the midst of continued improvements to the employment and income environments and increased capital investment. However, with the U.S. administration's trade policies and uncertainty regarding overseas economies, heightened geopolitical risk around the world, and currency trends, there continued to be concerns about the future of the economy.

In the electronics industry, sales of smartphones were sluggish due to U.S.–China trade friction and other factors, and sales of automobiles, which are becoming increasingly electric, were sluggish.

In the electronic substrate and component industry, the Group's market, production volume decreased due to sluggish sales of electronics equipment.

Although shipments of smartphones are stagnant, the high-density features of electronic substrates and technological innovation are progressing. In addition, markets related to the IoT 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. Further, the development of self-driving technology for automobiles is steadily progressing.

In this environment, the Group has focused on developing and selling products for high-density electronic substrates. With the EXE Series, which manufacturers use to achieve a high-density wiring pattern with the etching method, we have already acquired a high market share for use in displays centered on flat-panel displays. And we have steadily had the series adopted for products for use in smartphones. On the other hand, sales of our super roughening agent CZ Series, which has a high market share for package substrates, BO Series, used for multilayer electronic substrates, SF Series, for displays, and UT Series, which achieves roughening regardless of the type of copper leaf, were affected by the difficult external environment, and were sluggish.

As a result, total consolidated sales for the first and second quarters amounted to 4,976 million yen (down 523 million yen year-on-year or 9.5%). Chemical shipments decreased by 8.2% compared with the same period last year. Operating income amounted to 610 million yen (down 428 million yen year-on-year or 41.3%). Operating income to net sales was 12.3%, down 6.6 points compared with the 18.9% in the same period last year. Ordinary income amounted to 638 million yen (down 403 million yen year-on-year or 38.7%). Net income before income taxes for the period under review amounted to 648 million yen (a year-on-year decrease of 470 million yen or 42.0%), and net income attributable to owners of parent was 457 million yen (a decrease of 432 million yen, down 48.6% from the same period of the previous year).

Looking at a breakdown of sales, sales of chemicals were 4,889 million yen (down 496 million yen or 9.2%, compared with the same period last year), machinery sales were 48 million yen (up 21 million yen or 78.1% year-on-year), sales of materials were 30 million yen (down 37 million yen or 55.1% year-on-year), and other sales were 7 million yen (down 10 million yen, or 57.6%).

The overseas sales ratio was 54.9%, down 0.1 points compared with the same period last year.

Looking at the status of each segment, sales of related products fell in Japan due to the slowdown in sales of smartphones, automotive substrates, and virtual currencies. In Taiwan, sales of related products decreased due to a slowdown in sales of smartphones and virtual currencies.

Also in China (Suzhou), sales of related products declined because they were greatly affected by the slowdown in sales of smartphones; in Hong Kong (Hong Kong and Zhuhai), sales of related products fell due to the slowdown in sales of smartphones and automotive substrates. In Europe, sales of related products declined due to the slowdown in sales of substrates for general industry and automotive substrates. 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.

(2) Analysis relating to the financial situation

Assets fell 5 million yen from the previous fiscal year, coming in at 18,595 million yen.

This was mainly due to an increase in property, plant and equipment related to a subsidiary in Thailand and a decrease in merchandise and finished goods, and work in process.

Liabilities were 3,356 million yen, down 78 million compared with the previous fiscal year.

This was mainly due to an increase in short-term loans payable, a decrease in long-term loans payable due to repayment of construction funds for the Amagasaki Plant, and a decrease in notes and accounts payable-trade. Net assets were 15,239 million yen, up 72 million yen compared with the previous fiscal year.

This was mainly due to a decrease in the foreign currency translation adjustment account due to the strong yen and an increase in retained earnings.

As a result of the above, the equity ratio reached 81.9%.

- (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 " Revision to Consolidated Earnings Forecast " on August 7, 2019.

2. Consolidated quarterly financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	4,388,263	4,795,665
Notes and accounts receivable - trade	3,569,104	2,949,356
Electronically Recorded Monetary Claims	7,681	121,486
Merchandise and finished goods	404,729	319,633
Work in process	234,523	159,082
Raw materials and supplies	473,357	495,719
Other	83,390	124,519
Allowance for doubtful accounts	-12,790	-12,156
Total current assets	9,148,261	8,953,307
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,376,133	6,359,641
Accumulated depreciation	-2,403,329	-2,493,108
Buildings and structures (net)	3,972,804	3,866,532
Machinery, equipment and vehicles	2,425,927	2,537,420
Accumulated depreciation	-1,645,168	-1,722,195
Machinery, equipment and vehicles (net)	780,759	815,224
Tools, furniture and fixtures	1,206,844	1,234,540
Accumulated depreciation	-766,187	-812,827
Tools, furniture and fixtures (net)	440,656	421,713
Land	2,924,091	2,905,693
Right-of-use asset	—	75,847
Accumulated depreciation	—	-16,707
Right-of-use asset (net)	—	59,140
Construction in progress	159,800	378,944
Total property, plant and equipment	8,278,111	8,447,249
Intangible assets	154,002	137,320
Investments and other assets		
Investment securities	393,309	442,822
Net defined benefit asset	538,059	546,925
Deferred tax assets	26,716	25,569
Other	63,090	42,472
Allowance for doubtful accounts	-79	—
Total investments and other assets	1,021,095	1,057,789
Total non-current assets	9,453,209	9,642,359
Total assets	18,601,471	18,595,667

(Thousands of yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,067,221	865,554
Short-term loans payable	—	400,000
Current portion of long-term loans payable	500,000	500,000
Accounts payable - other	389,569	300,865
Accrued expenses	134,669	140,338
Income taxes payable	226,390	162,262
Provision for bonuses	324,452	266,111
Provision for directors' bonuses	36,453	17,451
Accounts payable - facilities	119,473	139,487
Other	149,315	298,647
Total current liabilities	2,947,545	3,090,718
Non-current liabilities		
Long-term loans payable	250,000	—
Deferred tax liabilities	79,042	100,127
Net defined benefit liability	53,751	53,633
Provision for Share-based compensation	78,912	74,075
Other	25,850	38,096
Total non-current liabilities	487,556	265,932
Total liabilities	3,435,102	3,356,651
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	14,748,508	14,937,177
Treasury shares	-1,185,432	-1,175,738
Total shareholders' equity	14,698,491	14,896,854
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	62,077	94,364
Foreign currency translation adjustment	328,101	178,101
Remeasurements of defined benefit plans	77,699	69,696
Total accumulated other comprehensive income	467,878	342,162
Total net assets	15,166,369	15,239,016
Total liabilities and net assets	18,601,471	18,595,667

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

(Thousands of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Net sales	5,499,740	4,976,680
Cost of sales	2,008,283	1,946,275
Gross profit	3,491,456	3,030,405
Selling, general and administrative expenses	2,452,258	2,420,189
Operating profit	1,039,198	610,215
Non-operating income		
Interest income	9,716	7,713
Dividend income	5,358	4,543
Trial products income	14,708	16,414
Insurance income	—	31,735
Foreign exchange losses	18,726	9,835
Foreign exchange losses	48,509	70,242
Other		
Total non-operating income	924	1,587
Non-operating expenses	2,451	2,245
Interest expenses	41,341	37,021
Sales discounts	483	998
Foreign exchange losses	45,200	41,851
Other	1,042,506	638,605
Total non-operating expenses		
Ordinary profit	2,448	2,100
Extraordinary income	76,270	8,804
Gain on sales of non-current assets	78,719	10,904
Subsidy income		
Total extraordinary income	2,278	677
Extraordinary losses	2,278	677
Loss on retirement of non-current assets	1,118,948	648,833
Total extraordinary losses	229,626	191,706
Profit before income taxes	889,321	457,126
Income taxes	889,321	457,126
Profit	5,499,740	4,976,680
Profit attributable to owners of parent	2,008,283	1,946,275

(Comprehensive income)
(Consolidated first quarter)

(Thousands of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Profit	889,321	457,126
Other comprehensive income		
Valuation difference on available-for-sale securities	-30,382	32,287
Foreign currency translation adjustment	-239,420	-150,000
Remeasurements of defined benefit plans, net of tax	-15,477	-8,003
Total other comprehensive income	-285,279	-125,716
Comprehensive income	604,041	331,410
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	604,041	331,410
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 Second quarter increased by 59,140 thousand yen, "Other" in current liabilities increased 29,473 thousand yen, and "Other" in non-current liabilities increased 12,883 thousand yen.

The impact of this on the consolidated quarterly statements of income for the Second 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."