

Summary of Consolidated Financial Results for the Financial Year Ended December 31, 2020 [JA-GAAP]

February 12, 2021
Stock exchange listing: Tokyo Stock Exchange

Company Name: MEC COMPANY LTD.

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

Representative: Kazuo MAEDA, CEO & President

Contact: Yoshihiro SAKAMOTO, Corporate Communication Office TEL: +81-(0)6-6401-8160

Date of General Meeting of Shareholders (Scheduled): March 24, 2021

Commencement Date of Dividend Payment (Scheduled): March 3, 2021

Date of Filing the Financial Report (Scheduled): March 25, 2021

Creation of reference materials supplementary to the results: Yes

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

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

1. Consolidated Results for the Year Ended December 31, 2020 (January 1, 2020 to December 31, 2020)

(1) Results of operations

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

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2020	11,956	10.0	2,370	44.8	2,388	38.7	1,595	29.1
Fiscal year ended December 31, 2019	10,865	-4.1	1,637	-26.4	1,722	-23.0	1,236	-30.5

Note: Comprehensive income for fiscal year ended December 31, 2020: 1,877 million yen (32.7%); fiscal year ended December 31, 2019: 1,414 million yen (8.2%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2020	84.09	-	9.5	11.5	19.8
Fiscal year ended December 31, 2019	65.16	-	7.9	8.9	15.1

(Reference) Investment profit or loss according to the equity method: Year ended December 31, 2020: - million yen Year ended December 31, 2019: - million yen

(2) Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2020	21,510	17,470	81.2	920.60
As of December 31, 2019	19,991	16,091	80.5	847.94

(Reference) Shareholder's equity: Year ended December 31, 2020: 17,470 million yen Year ended December 31, 2019: 16,091 million yen

(3) Cash flow

	Cash flow from operating activities	Cash flow from investment activities	Cash flow from financial activities	Cash and cash equivalents at fiscal year end
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended December 31, 2020	2,429	-1,149	-771	4,471
Fiscal year ended December 31, 2019	2,162	-1,190	-632	3,952

2. Dividends

	Annual dividend					Total cash dividends (Annual)	Payout ratio (Consolidated)	Dividends on equity (Consolidated)
	1Q	2Q	3Q	4Q	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2019	-	12.00	-	14.00	26.00	498	39.9	3.2
Fiscal year ended December 31, 2020	-	12.00	-	14.00	26.00	498	30.9	3.0
Fiscal year ending December 31, 2021 (Forecast)	-	14.00	-	14.00	28.00		30.4	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2021 (January 1, 2021 to December 31, 2021)

(Percentages indicate changes from previous fiscal year for full-year figures, and year-on-year changes for quarterly changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to parent company's shareholders		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
1st half	6,100	7.0	1,150	1.4	1,150	2.1	800	0.7	42.15
Full year	12,800	7.1	2,500	5.5	2,500	4.7	1,750	9.7	92.21

Translation

* Notes

(1) Changes of major subsidiary companies during the period (Change of specific subsidiary companies that involves changes in the scope of consolidation): No

(2) 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

(3) Number of shares outstanding (Common stock)

1) Number of shares outstanding (including treasury stock) issued as of:	As of December 31, 2020	20,071,093 shares	As of December 31, 2019	20,071,093 shares
2) Number of shares of treasury stock:	As of December 31, 2020	1,093,341 shares	As of December 31, 2019	1,093,311 shares
3) Average number of shares during the period:	Year ended of December 31, 2020	18,977,757 shares	Year ended of December 31, 2019	18,975,272 shares

(Reference) Non-consolidated Results

1 Non-consolidated Results for the Year Ended December 31, 2020 (January 1, 2020 to December 31, 2020)

(1) Non-consolidated Results of operations

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

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2020	8,397	15.7	1,660	56.5	1,981	48.9	1,163	12.7
Fiscal year ended December 31, 2019	7,256	-8.8	1,061	-28.8	1,330	-21.7	1,032	-25.0

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended December 31, 2020	61.30	-
Fiscal year ended December 31, 2019	54.42	-

(2) Non-consolidated Results of Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
Fiscal year ended December 31, 2020	15,774	12,712	80.6	669.84
Fiscal year ended December 31, 2019	14,898	11,859	79.6	624.93

(Reference) Shareholder's equity: Year ended December 31, 2020: 12,712 million yen Year ended December 31, 2019: 11,859 million yen

* Display on the status of implementation of audit procedures

At the time of disclosing the financial results, auditing procedures on the financial statements are being carried out based on the Financial Instruments and Exchange Law.

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

- The business forecasts and such like stated in this material are based on the information currently available to the Company and certain assumptions that are judged to be rational. Actual results may vary significantly from the forecasts due to various factors. In addition, for matters concerning the above forecasts, please refer to "1. Overview of business results etc. (4) Statement of forward looking" on page 4 of the attachment.
- We are planning to hold financial results briefing for institutional investors and analysts on Friday, February 12, 2021. Materials of financial results briefings are posted on our website.

○ Table of Contents for Attached Material

1. Overview of business results, etc.	2
(1) Analysis relating to the operating results.....	2
(2) Analysis relating to the financial situation.....	3
(3) Analysis relating to the cash flows	3
(4) Statement of forward looking.	4
2. Basic policy for the selection of accounting standards	6
3. Consolidated financial statements and major notes	7
(1) Consolidated balance sheet.....	7
(2) Consolidated statement of income and consolidated statement of comprehensive income	9
Consolidated statement of income	9
Consolidated statement of comprehensive income	10
(3) Consolidated statement of changes in shareholders' equity.....	11
(4) Consolidated statement of cash flows.....	13
(5) Notes to consolidated financial statements	15
(Notes on the premise of a going concern)	15
(Basis of presentation and summary of significant accounting policies for the preparation of consolidated financial statements).....	15
(Unapplied accounting standards, etc.).....	17
(Notes to consolidated balance sheet).....	18
(Notes to consolidated statement of income).....	18
(Matters related to consolidated statement of comprehensive income)	19
(Matters related to consolidated statement of changes in shareholders' equity).....	20
(Consolidated statement of cash flows)	21
(Retirement benefit).....	22
(Tax effect accounting).....	25
(Segment information).....	27
(Per share information).....	30
(Important subsequent events).....	30
4. Non-consolidated financial statements and major notes.....	31
(1) Balance sheet.....	31
(2) Statement of income	33
(3) Statement of changes in shareholders' equity	34
5. Other	36
Transfer of Directors	36

1. Overview of business results, etc.
(1) Analysis relating to the operating results
[Outline of the current period]

The global economy during the consolidated fiscal year under review (January 1, 2020-December 31, 2020) began with a gradual recovery trend. However, due to the new coronavirus pandemic (hereinafter referred to as "COVID-19"), the global economy experienced significant negative growth. The Japanese economy was expected to recover, centered on domestic demand, amid continued improvements in the employment and income environments and the development of a virtuous cycle in the economy. However, the situation has been difficult due to the effects of COVID-19.

The International Monetary Fund (IMF) forecasts a recovery from negative growth in 2020, with a growth rate of +5.5% year-on-year for the global economy and +3.1% year-on-year for Japan in 2021. Nevertheless, uncertainty remains extremely high, as ever, and the outlook is uncertain.

In the electronics industry, COVID-19 has accelerated the trend around the world to go online and operate remotely. The rapid increase in data traffic accompanying this has led to strong demand for servers, personal computers, tablets, and so on. Sales of automobiles, which had been declining due to the spread of COVID-19, began a recovery trend in the latter half of the year. Sales of smartphones were strong for some high-performance models, but overall were sluggish.

The electronic board and parts industry, which is a related market of the Group, was affected by the electronics industry. Demand for servers, personal computers, and tablets remained strong, and also the production of automobiles was recovering, so we saw a recovery trend in demand for the semiconductors and electronic components installed in them. Sales of products related to smartphones were sluggish.

Against the backdrop of the spread of technologies such as the IoT, AI, and 5G, electronic boards are becoming more dense and technologically innovative. The related markets are 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 even more active efforts are being made to switch to and popularize 5G. In particular, manufacturers are making capital investments to strengthen their production systems for high-performance package substrates that will be used in next-generation data centers.

In this environment, the Group has focused on developing and selling products for high-density electronic substrates. Looking at sales trends of our major products, the CZ Series of super-roughening adhesion improvers, which have a high market share for package substrates on which semiconductors are mounted, increased significantly from the previous fiscal year. This was due to greater demand for servers and personal computers. And although sales of the SF Series for use in displays slowed down in the latter half of the year, overall sales were favorable compared with the previous fiscal year due to demand for tablets. Sales of the EXE Series of products, which make it possible to form fine wiring, showed a tendency to exhaust demand for related electronic devices, and were almost flat compared with the previous fiscal year. The V-Bond Series of adhesion improvers for multilayer electronic boards showed signs of recovery due to the influence of the related automobile market, but were down compared with the previous fiscal year.

As a result, total consolidated sales for the consolidated fiscal year under review amounted to 11,956 million yen (up 1,090 million yen or 10.0% year-on-year). Selling, general and administrative expenses were 5,025 million yen (up 44 million yen year-on-year, or 0.9%), and operating income was 2,370 million yen (up 733 million yen year-on-year, or 44.8%). The operating income margin was 19.8%, an improvement of 4.7 points from the 15.1% marked in the previous fiscal year. Ordinary income was 2,388 million yen (up 666 million yen or 38.7% year-on-year). Net income before income taxes amounted to 2,309 million yen (a year-on-year increase of 598 million yen or 35.0%), and net income attributable to owners of parent was 1,595 million yen (up 359 million yen or 29.1% year-on-year).

Looking at a breakdown of sales, sales of chemicals were 11,598 million yen (up 940 million yen or 8.8% year-on-year), machinery sales were 282 million yen (up 198 million yen or 237.4% year-on-year), sales of materials were 68 million yen (down 37 million yen or 35.6% year-on-year), and other sales were 7 million yen (down 11 million yen or 59.3% year-on-year).

The overseas sales ratio was 53.3%, down 1.9 points compared with the 55.2% marked in the previous fiscal year.

The results for each segment are as follows.

In Japan, sales of personal computers and tablets were strong and related products fared well due to the influence of demand from people refraining from going out. Sales for the consolidated fiscal year under review were 5,785 million yen (up 741 million yen year-on-year, or 14.7%), and segment profit was 1,660 million yen (up 599 million yen year-on-year, or 56.5%).

In Taiwan, sales of package substrates for servers and base stations were strong, and sales of related products grew. Sales for the consolidated fiscal year under review came to 2,432 million yen (up 251 million yen year-on-year, or 11.5%), and segment profit was 316 million yen (up 43 million yen year-on-year, or 16.0%).

In Hong Kong (Hong Kong, Zhuhai), demand temporarily fell due to the effects of COVID-19, but sales recovered in a subsequent reaction, and for the consolidated fiscal year under review they came to 1,139 million yen (up 113 million yen year-on-year, or 11.1%), and segment profit was 247 million yen (up 68 million yen year-on-year, or 38.6%).

In China (Suzhou), our production of tablets was transferred to Japan and the Zhuhai area, and sales decreased. However, sales of high-margin products were favorable due to strong sales of package substrates for servers and personal computers. As a result, sales for the consolidated fiscal year under review were 2,012 million yen (up 21 million yen year-on-year, or 1.1%), and segment profit was 335 million yen (up 170 million yen year-on-year, or 103.1%).

In Europe, sales of related products were sluggish due to the impact of COVID-19, especially due to the decrease in sales of in-vehicle substrates. Sales for the consolidated fiscal year under review amounted to 546 million yen (down 78 million yen year-on-year, or 12.5%) and segment profit was 61 million yen (down 1 million yen year-on-year, or 2.2%).

In Thailand, in order to cultivate the Southeast Asian market that will expand in the future, we established our sixth subsidiary on May 29, 2017 and it started operating in September 2019, but it made little contribution to sales for the consolidated fiscal year under review. They came in at 40 million yen (no contribution to sales in the previous fiscal year), and segment loss was 176 million yen (loss of 136 million yen in the previous fiscal year).

(2) Analysis relating to the financial situation

Assets were 21,510 million yen, up 1,518 million yen compared with the previous fiscal year.

This was due to an increase in notes and accounts receivable - trade due to cash and deposits and higher sales, and an increase in investment securities because of a higher market value.

Liabilities were 4,039 million yen, up 140 million yen compared with the previous fiscal year.

This was due to an increase in income taxes payable and accounts payable - facilities for the construction of a building to manufacture dangerous goods, and a decrease in notes payable - facilities and long-term borrowings related to the construction of the former research building.

Net assets were 17,470 million yen, up 1,378 million yen compared with the previous fiscal year.

This was because of an increase in the valuation difference on other securities due to greater retained earnings and an increase in the market value of investment securities.

As a result of the above, the equity ratio reached 81.2% and ROE was 9.5%.

In addition, the consolidated dividend payout ratio was 30.9%.

(3) Analysis relating to the cash flow

Looking at the financial position in the consolidated fiscal year under review, cash and cash equivalents (hereinafter referred to as "cash") rose 518 million yen compared with the previous fiscal year to record 4,471 million yen.

Outlines of cash flow conditions and reasons for fluctuations in the consolidated fiscal year under review are as follows:

(Cash flow from operating activities)

Cash from operating activities amounted to 2,429 million yen (up 267 million yen compared with the end of the previous fiscal year).

This was mainly because income before income taxes came to 2,309 million yen, depreciation expenses were

784 million yen, there was an increase in notes and accounts receivable - trade of 526 million yen, and income taxes paid amounted to 408 million yen.

(Cash flow from investment activities)

As a result of investment activities, cash used amounted to 1,149 million yen (down 41 million yen compared with the end of the previous fiscal year).

This was mainly because payments to acquire tangible fixed assets came to 975 million yen.

(Cash flow from financial activities)

As a result of financial activities, cash used amounted to 771 million yen (up 138 million yen compared with the end of the previous fiscal year).

This was mainly because there were expenditures from repaying long-term borrowings in the amount of 250 million yen and a payment of dividends in the amount of 498 million yen.

Changes in cash flow indicators

	As of March 31, 2017	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019	As of December 31, 2020
Equity ratio (%)	73.7	76.8	81.5	80.5	81.2
Equity ratio based on market value (%)	137.2	237.6	109.2	143.6	200.3
Debt repayment period (years)	1.1	0.8	0.4	0.3	0.2
Interest coverage ratio	586.9	700.2	1,425.5	855.2	1,839.8

Notes: Equity ratio : Shareholders' equity / total assets
 Equity ratio based on market value : Market capitalization / total assets
 Debt repayment period : Interest-bearing liability / operating cash flow
 Interest coverage ratio : Operating cash flow / interest payments

- All indicators are calculated based on consolidated financial figures.
- Market capitalization is calculated by multiplying the closing share price by the number of shares outstanding issued at the end of the period.
- Operating cash flows are calculated using the cash flow from operating activities in the consolidated statements of cash flows. Interest-bearing liabilities also include all liabilities for which interest is paid out of liabilities recorded on the consolidated balance sheet. In addition, we use the amount of interest paid in the consolidated statements of cash flows as the figure for interest paid.
- "Partial Amendments to 'Accounting Standards for Tax Effect Accounting'" (Corporate Accounting Standard No. 28, February 16, 2018) has been applied since the beginning of the fiscal year ended December 2019. From the fiscal year ended March 2017, the cash flow indicators for the fiscal year ended December 2018 are those after applying the relevant accounting standards retroactively.

(4) Statement of forward looking

In the next fiscal year, we expect there will continue to be concerns about the global economy due to uncertainties about the situation with COVID-19 and the degree of its impact on the economy, geopolitical risks, and foreign currency exchange trends. The Japanese economy is expected to follow an improving trend, supported by a recovery in external demand, the accommodative financial environment, and the effects of economic measures. However, the pace will be slow amid an ongoing sense of caution about COVID-19.

In the electronics industry, we believe that the market will expand against the backdrop of earnest efforts related to the IoT, AI, and 5G and strong demand. However, there is a possibility of a tight supply of semiconductors due to strong demand for semiconductors, and so we must keep an eye on future trends.

Given this assumed external environment, the Group believes that demand in markets in the electronics industry related to our products will grow. In particular, sales of the CZ Series are expected to increase against the backdrop of rising demand for package substrates on which semiconductors are mounted. We will make sure we take opportunities for the EXE Series of products, which are mainly used for displays, so they are adopted for HDI boards for smartphones.

Based on the above, for the consolidated results of the Group for the next fiscal year we forecast sales of 12,800

Translation

million yen (up 843 million yen or 7.1% year-on-year), operating income of 2,500 million yen (up 129 million yen or 5.5% year-on-year), an operating income to net sales ratio of 19.5% (down 0.3 percentage points year-on-year), ordinary income of 2,500 million yen (up 111 million yen or 4.7% year-on-year), and net income attributable to the parent company of 1,750 million yen (up 154 million yen or 9.7% year-on-year). ROE is forecast to be 9.7%.

(Reference)

	FY 2020 (Million yen)	FY 2021 (Forecast) (Million yen)	* Increase or decrease after adjustment (%)
Net sales	11,956	12,800	7.1
Operating income	2,370	2,500	5.5
Ordinary income	2,388	2,500	4.7
Profit attributable to owners of parent	1,595	1,750	9.7
Net income per share	84.09	92.21	-
ROE (%)	9.5	9.7	0.2

Exchange rates for the current fiscal year and the next fiscal year

	FY 2020 (Yen)	FY 2021 (Forecast) (Yen)
US \$	106.66	103.50
NT \$	3.62	3.62
RMB ¥	15.44	15.44
HK \$	13.75	13.75
€	122.00	122.00
THB	3.42	3.42

2. Basic policy for the selection of accounting standards

The Group places great importance on ensuring comparability between companies and over time, and intends to continue applying Japanese standards for the time being.

Further, regarding the application of International Financial Reporting Standards (IFRS), we will take appropriate measures while paying close attention to future changes in the ratio of foreign shareholders and the trends of the application of IFRS at other companies in the same industry.

Translation

3. Consolidated financial statements and major notes

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	4,957,484	5,579,463
Notes and accounts receivable - trade	* 1 3,128,711	* 1 3,620,577
Merchandise and finished goods	* 1 262,127	* 1 329,006
Work in process	420,647	415,861
Raw materials and supplies	132,689	159,982
Deferred tax assets	391,591	350,560
Other	149,125	123,606
Allowance for doubtful accounts	-3,845	-3,558
Total current assets	9,438,532	10,575,499
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,939,730	7,037,708
Accumulated depreciation	-2,571,047	-2,805,486
Buildings and structures, net	* 2 4,368,683	* 2 4,232,222
Machinery, equipment and vehicles	2,734,071	3,074,090
Accumulated depreciation	-1,847,339	-2,137,588
Machinery, equipment and vehicles, net	886,732	936,501
Tools, furniture and fixtures	1,254,504	1,277,402
Accumulated depreciation	-871,792	-954,464
Tools, furniture and fixtures, net	382,711	322,938
Land	* 2 2,933,082	* 2 2,935,817
Right-of-use asset	79,786	60,811
Accumulated depreciation	-35,075	-20,657
Right-of-use asset, net	44,710	40,153
Construction in progress	381,422	530,961
Total property, plant and equipment	8,997,342	8,998,594
Intangible assets	139,574	140,370
Investments and other assets		
Investment securities	580,704	859,665
Retirement benefits assets	690,913	809,578
Deferred tax assets	47,426	3,256
Other	97,344	123,788
Total investments and other assets	1,416,389	1,796,289
Total non-current assets	10,553,306	10,935,253
Total assets	19,991,839	21,510,752

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,166,724	1,263,258
Short-term loans	400,000	400,000
Current portion of long-term loans payable	250,000	—
Accounts payable - other	372,262	477,481
Accrued expenses	135,894	143,020
Income taxes payable	122,431	362,044
Provision for bonuses	313,740	317,936
Provision for directors' bonuses	30,470	38,005
Accounts payable - facilities	62,075	247,948
Other	657,582	278,982
Total current liabilities	3,511,180	3,528,677
Non-current liabilities		
Deferred tax liabilities	236,967	369,916
Retirement benefit liability	43,271	24,997
Provision for Share-based compensation	71,972	79,699
Other	36,447	36,599
Total non-current liabilities	388,659	511,213
Total liabilities	3,899,840	4,039,890
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	15,486,355	16,583,712
Treasury shares	-1,175,796	-1,175,844
Total shareholders' equity	15,445,974	16,543,283
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	185,948	373,484
Foreign currency translation adjustment	304,802	363,902
Remeasurements of defined benefit plans	155,273	190,190
Total accumulated other comprehensive income	646,024	927,578
Total net assets	16,091,998	17,470,862
Total liabilities and net assets	19,991,839	21,510,752

Translation

(2) Consolidated statement of income and consolidated statement of comprehensive income
(Consolidated statement of income)

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net sales	10,865,978	11,956,625
Cost of sales	* 1 4,247,377	* 1 4,560,825
Gross profit	6,618,600	7,395,800
Selling, general and administrative expenses	* 2,* 3 4,981,500	* 2,* 3 5,025,528
Operating profit	1,637,100	2,370,271
Non-operating income		
Interest income	18,430	23,579
Dividends income	11,599	10,882
Proceeds from sales of prototypes	32,465	10,028
Insurance income	31,827	—
Other	23,301	27,079
Total non-operating income	117,625	71,569
Non-operating expenses		
Interest expenses	2,807	1,594
Sales discounts	4,353	3,305
Foreign exchange losses	24,418	42,536
Other	796	5,928
Total non-operating expenses	32,375	53,365
Ordinary profit	1,722,350	2,388,475
Extraordinary income		
Gain on sales of non-current assets	* 4 1,770	* 4 812
Gain on sales of investment securities	—	2,018
Subsidy income	8,804	—
Total extraordinary income	10,574	2,830
Extraordinary losses		
Loss on sales of noncurrent assets	* 5 32	* 5 10,694
Loss on retirement of non-current assets	* 6 22,111	* 6 71,567
Total extraordinary losses	22,143	82,261
Profit before income taxes	1,710,781	2,309,044
Income taxes - current	424,744	636,348
Income taxes - deferred	49,626	76,777
Total income taxes	474,370	713,125
Net income	1,236,410	1,595,919
Profit attributable to owners of parent	1,236,410	1,595,919

Translation

(Consolidated statement of comprehensive income)

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Profit	1,236,410	1,595,919
Other comprehensive income		
Valuation difference on available-for-sale securities	123,871	187,536
Foreign currency translation adjustment	-23,299	59,100
Remeasurements of defined benefit plans	77,574	34,916
Total other comprehensive income	* 178,146	* 281,553
Comprehensive income	1,414,556	1,877,472
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,414,556	1,877,472
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statement of changes in shareholders' equity

Previous fiscal year (January 1, 2019 to December 31, 2019)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	594,142	541,273	14,748,508	-1,185,432	14,698,491
Changes during the period					
Dividends of surplus			-498,563		-498,563
Net income			1,236,410		1,236,410
Purchase of treasury shares				-104	-104
Disposal of treasury shares	—			9,740	9,740
Net changes of items other than shareholders' equity(net)					
Total changes of items during period	-	-	737,846	9,636	747,483
Balance at end of current period	594,142	541,273	15,486,355	-1,175,796	15,445,974

(Thousands of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	62,077	328,101	77,699	467,878	15,166,369
Changes during the period					
Dividends of surplus					-498,563
Net income					1,236,410
Purchase of treasury shares					-104
Disposal of treasury shares					9,740
Net changes of items other than shareholders' equity(net)	123,871	-23,299	77,574	178,146	178,146
Total changes of items during period	123,871	-23,299	77,574	178,146	925,629
Balance at end of current period	185,948	304,802	155,273	646,024	16,091,998

Translation

Current fiscal year (January 1, 2020 to December 31, 2020)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	594,142	541,273	15,486,355	-1,175,796	15,445,974
Changes of items during period					
Dividends of surplus			-498,561		-498,561
Net income			1,595,919		1,595,919
Purchase of treasury shares				-48	-48
Disposal of treasury shares					-
Net changes of items other than shareholders' equity(net)					
Total changes of items during period	-	-	1,097,357	-48	1,097,309
Balance at end of current period	594,142	541,273	16,583,712	-1,175,844	16,543,283

(Thousands of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	185,948	304,802	155,273	646,024	16,091,998
Changes of items during period					
Dividends of surplus					-498,561
Net income					1,595,919
Purchase of treasury shares					-48
Disposal of treasury shares					-
Net changes of items other than shareholders' equity(net)	187,536	59,100	34,916	281,553	281,553
Total changes of items during period	187,536	59,100	34,916	281,553	1,378,863
Balance at end of current period	373,484	363,902	190,190	927,578	17,470,862

(4) Consolidated statement of cash flow

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Cash flows from operating activities		
Profit before income taxes	1,710,781	2,309,044
Depreciation	692,881	784,634
Increase (decrease) in allowance for doubtful accounts	-8,718	-409
Increase (decrease) in provision for share-based compensation	-6,939	7,726
Increase (decrease) in provision for bonuses	-10,727	4,171
Increase (decrease) in provision for directors' bonuses	-5,983	7,535
Increase (decrease) in net defined benefit liability	-10,391	-18,290
Decrease (increase) in net defined benefit asset	-152,854	-118,569
Interest and dividend income	-30,030	-34,462
Interest expenses	2,807	1,594
Subsidy income	-8,804	—
Insurance income received	-31,827	—
Decrease (increase) in notes and accounts receivable - trade	158,783	-526,082
Decrease (increase) in inventories	147,609	33,476
Increase (decrease) in notes and accounts payable - trade	101,126	87,842
Loss (gain) on sales of investment securities	-	-2,018
Other	68,495	271,816
Subtotal	2,616,210	2,808,009
Interest and dividend income received	29,059	31,191
Interest expenses paid	-2,528	-1,320
Income taxes paid	-521,264	-408,165
Subsidy income	8,804	—
Insurance money received	31,827	—
Net cash provided by (used in) operating activities	2,162,110	2,429,714
Cash flows from investing activities		
Payments into time deposits	-1,509,229	-1,731,002
Proceeds from withdrawal of time deposits	1,281,400	1,644,749
Purchase of property, plant and equipment	-870,795	-975,874
Proceeds from sales of property, plant and equipment	5,570	1,588
Purchase of intangible assets	-30,587	-50,477
Purchase of investment securities	-9,417	-9,793

Translation

Proceeds from sales of investment securities	-	7,241
Other	-57,539	-35,655
Net cash provided by (used in) investing activities	-1,190,597	-1,149,224
Cash flows from financing activities		
Net increase (decrease) in short-term loans	400,000	—
Repayments of long-term loans payable	-500,000	-250,000
Purchase of treasury shares	-104	-48
Cash dividends paid	-498,477	-498,096
Payments for repayment of lease obligations	-34,362	-23,664
Net cash provided by (used in) financing activities	-632,944	-771,809
Effect of exchange rate change on cash and cash equivalents	13,748	10,238
Net increase (decrease) in cash and cash equivalents	352,316	518,919
Cash and cash equivalents at beginning of year	3,599,791	3,952,107
Cash and cash equivalents at end of year	3,952,107	4,471,026

(5) Notes to consolidated financial statements

(Notes on the premise of a going concern)

N/A

(Basis of presentation and summary of significant accounting policies for the preparation of consolidated financial statements)

1 Scope of Consolidation

Number of consolidated subsidiaries 6

Name of consolidated subsidiaries MEC TAIWAN COMPANY LTD.
MEC (HONG KONG) LTD.
MEC FINE CHEMICAL (ZHUHAI) LTD.
MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD.
MEC EUROPE NV.
MEC SPECIALTY CHEMICAL(THAILAND)CO., LTD.

2 Fiscal Year-End of Consolidated Subsidiaries

The closing date for accounts of all consolidated subsidiaries has become the same as the consolidated closing date from the current consolidated fiscal year.

3 Summary of Significant Accounting Policies

(1) Basis and Methods of Valuation of Significant Assets

i) Marketable securities

Other marketable securities

Securities with determinable market value:

Stated at the market value method based on the quoted market prices at the end of the fiscal year (unrealized holding gains and losses are reported in a component of shareholders' equity, with the cost of securities sold being calculated by the moving-average method.)

Securities without a determinable market value:

Stated at cost using the moving-average method

ii) Derivatives

Stated at the market value method

iii) Inventories

(i) Goods, products (chemicals), work in progress, raw materials, inventories of merchandise and supplies:

Stated at cost based on the periodic average method (book price devaluation based on the decrease in profitability of balance sheet values)

(ii) Products (Machinery):

Stated at cost based on the specific identification method (book price devaluation based on the decrease in profitability of balance sheet values)

(2) Depreciation and Amortization of Significant Depreciable Assets

i) Tangible fixed assets

Tangible fixed assets are amortized using the straight-line method.

The principal useful lives are as follows:

Buildings and structures: 7 – 50 years
Machinery and vehicles: 4 – 10 years
Tools, furniture and fixtures: 3 – 10 years

ii) Intangible fixed assets

Intangible fixed assets are amortized using the straight-line method.

(3) Method of Accounting for Significant Allowances

i) Allowance for Doubtful Accounts

The Company provides allowance for doubtful accounts in an amount sufficient to cover probable losses on collection. Provision for normal receivables is calculated by using the actual percentage of credit losses, while for certain identified doubtful receivables, recoverability is assessed separately to estimate the uncollectible amount.

ii) Reserve for Bonuses

The Company provides reserve for bonuses for employees and Executive Officers who are not Directors based on the estimated amount of payment in the current consolidated year.

iii) Provision for Directors' Bonuses

The Company provides allowance for bonuses for Directors based on the estimated amount of payment in the current consolidated year.

iv) Reserve for stock compensation

The Company provides for the delivery of the Company's shares etc. to the Company's directors and executive officers based on the estimated amount of payment in the end of the fiscal year.

(4) Method of accounting for retirement benefits

i) Method of periodical allocation of estimated retirement benefits

In calculating retirement benefit obligations, the Company adopts benefit formula criteria as a method for allocating estimated retirement benefits in the period up to the end of the current consolidated fiscal year.

ii) Actuarial differences and method of processing prior service costs

Prior service costs are amortized by the straight-line method over a certain period within the average estimated remaining service period of employees (10 years) at the time of occurrence.

Actuarial differences are amortized by the declining-balance method over a certain period within the average estimated remaining service period of employees (10 years) at the time of occurrence of each year, beginning from the following fiscal year.

(5) Basis of translation of significant assets and liabilities denominated in foreign currencies into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into yen using the prevailing spot exchange rate on the consolidated balance sheet date and any exchange differences are accounted for as profit or loss. Assets and liabilities of overseas consolidated subsidiaries are translated into yen at the prevailing spot rate at the balance sheet date of consolidated subsidiaries. The profit and loss of consolidated subsidiaries are translated into yen at the average spot rate during the period and any exchange differences are recorded as foreign currency translation adjustment under net assets.

(6) Cash and cash equivalent in the consolidated statement of cash flow

Cash and cash equivalent comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition.

(7) Other significant matters for the preparation of consolidated financial statements

Accounting for consumption taxes

The Company adopts the tax exclusion method.

(Unapplied accounting standards, etc.)

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 31, 2020)
- "Application Guideline on Accounting Standard for Revenue Recognition" (ASBJ Statement Guidance No. 30, issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Outline

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) collaboratively develop comprehensive accounting standards on revenue recognition and they released "Revenue from Contracts with Customers" (IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014. Based on the facts that IFRS 15 is to be applied from the fiscal years beginning on or after January 1, 2018 and Topic 606 from fiscal years beginning after December 15, 2017, the Accounting Standards Board of Japan developed a comprehensive accounting standard for revenue recognition and released it along with an application guideline.

As a basic policy in developing the Accounting Standards Board of Japan's Accounting Standard for Revenue Recognition, it was decided to incorporate the basic principles of IFRS 15 as a starting point to establish accounting standards from the viewpoint of ensuring comparability between financial statements, which is one of the benefits of consistency with IFRS 15. In addition, if there are items to be considered in practice, etc., which have been carried out so far in Japan, alternative handling is to be added to the extent that comparability is not impaired.

(2) Planned application date

It will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of application of the accounting standards, etc.

The Company is currently evaluating the impact on the consolidated financial statements from applying the "Accounting standard for revenue recognition" and such like.

- "Disclosure of Accounting Policies, Accounting Standard (Draft) for Accounting Changes and Correction of Errors" (Corporate Accounting Standard No. 24, March 31, 2020)

(1) Outline

The purpose is to outline the principles and procedures of accounting treatment to be adopted when the provisions of related accounting standards and such like are not clear.

(2) Planned application date

The plan is to apply the revised standards from the end of the fiscal year ending December 2021.

(Notes to consolidated balance sheet)

*1 Notes maturing at end of current fiscal year

In accounting for notes maturing at the end of the current fiscal year, we process payments using the date of the notes. Please note that because the last day of the fiscal year under review was a holiday for financial institutions, notes maturing on the last day of the next fiscal year are included in the balance of bills on the last day of the fiscal year.

(Thousands of yen)

	Previous fiscal year (As of December 31, 2019)	Current fiscal year (As of December 31, 2020)
Notes receivable	4,622	7,390
Electronically recorded receivable	3,509	2,141

*2 Pledged assets

(Thousands of yen)

	Previous fiscal year (As of December 31, 2019)	Current fiscal year (As of December 31, 2020)
Buildings and structures	89,230	86,384
Land	25,744	26,677
Total	114,975	113,062

There is no obligation corresponding to the above pledged assets.

(Notes to consolidated statements of income)

*1 The inventories at the fiscal year end are the amounts after write-down of book value as a result of a decrease in profitability, and the following loss on valuation of inventories is included in cost of sales.

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
	33,335	-9,244

*2 Breakdown of selling, general, and administrative expenses.

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
Provision of allowance for doubtful accounts	-8,845	1,052
Salaries and bonuses	1,213,395	1,264,204
Packing and transportation expenses	549,731	580,727
Provision for allowance for bonuses	179,913	158,452
Provision for directors' bonuses	30,470	38,005
Provision for share-based compensation	-	7,726
Retirement benefit expenses	111,355	60,575
Research and development expenses	1,200,605	1,359,359

*3 Research and development expenses included in general expenses were as follows.

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
	1,200,605	1,359,359

*4 Breakdown of profit on sale of fixed assets is as follows. (Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
Machinery, equipment and vehicles	1,749	450
Tools, furniture and fixtures	20	362
Total	1,770	812

*5 Breakdown of loss on sale of fixed assets is as follows. (Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
Machinery, equipment and vehicles	32	-
Tools, furniture and fixtures	-	10,694
Total	32	10,694

*6 Breakdown of loss on disposal of fixed assets is as follows. (Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
Buildings and structures	16,525	35,496
Machinery, equipment and vehicles	924	4,041
Tools, furniture and fixtures	1,734	1,902
Investments and other assets [other]	92	-
Fixed asset removal costs	2,835	30,126
Total	22,111	71,567

(Matters related to consolidated statement of comprehensive income)

* Amount of reclassification adjustment and tax effect amount pertaining to other comprehensive income

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
Valuation difference on available-for-sale securities:		
Amount arising in the current fiscal year under review	178,437	272,165
Amount of reclassification adjustment	-	-2,018
Before income tax effect	178,437	270,147
Income tax effect	-54,566	-82,611
Valuation difference on available-for-sale securities	123,871	187,536
Foreign currency translation adjustment:		
Amount arising in the current fiscal year under review	-23,299	59,100
Adjustments related to retirement benefits:		
Amount arising in the current fiscal year under review	134,803	96,374
Amount of reclassification adjustment	-23,056	-46,076
Before income tax effect	111,746	50,298
Income tax effect	-34,172	-15,381
Adjustments related to retirement benefits	77,574	34,916
Other comprehensive income	178,146	281,553

(Matters related to consolidated statement of changes in shareholders' equity)

Previous fiscal year (Fiscal year ended December 31, 2019)

1. Class and numbers of total shares issued and treasury stock held

	Number of shares at the beginning of the current fiscal year	Increase in number of shares during the fiscal year	Decrease in number of shares during the fiscal year	Number of shares at the end of the fiscal year
Shares issued				
Common stock	20,071,093	-	-	20,071,093
Total	20,071,093	-	-	20,071,093
Treasury stock				
Common stock	1,100,232	85	7,006	1,093,311
Total	1,100,232	85	7,006	1,093,311

- (Note) 1. A total of 197,669 shares were contributed to Custody Bank of Japan (trust account) as trust property in the stock-based compensation system for directors and stock-based compensation system for executive officers. They are treated as treasury stocks in consolidated financial statements and financial statements.
2. The increase in the number of treasury shares of common stock of 85 shares was due to the purchase of shares less than one unit.
3. The decrease of 7,006 shares of treasury stock in common stock is due to the withdrawal of shares contributed to Custody Bank of Japan (trust account) as trust property in the stock-based compensation system for executive officers.

2. Dividends

(1) Dividends paid

(Resolution)	Class of shares	Total amount of dividends (Thousands of yen)	Dividend per share (yen)	Date of record	Effective date
February 13 2019 Board of directors' meeting	Common stock	268,457	14	December 31, 2018	March 1, 2019
August 9, 2019 Board of directors' meeting	Common stock	230,105	12	June 30, 2019	September 3, 2019

- (Note) 1. The total amount of dividends based on a resolution made by the Board of Directors on February 13, 2019, includes a dividend of 2,865 thousand yen related to Company stock held by the Stock Delivery Trust for Directors and Stock Delivery Trust for Executive Officers.
2. The total amount of dividends based on a resolution made by the Board of Directors on August 9, 2019, includes a dividend of 2,372 thousand yen related to Company stock held by the Stock Delivery Trust for Directors and Stock Delivery Trust for Executive Officers.

(2) Dividends with a record date within the current fiscal year that become effective after the end of the fiscal year

(Resolution)	Class of shares	Total amount of dividends (Thousands of yen)	Source of dividends	Dividend per share (yen)	Date of record	Effective date
February 13, 2020 Board of directors' meeting	Common stock	268,456	Retained earnings	14	December 31, 2019	March 10, 2020

- (Note) The total amount of dividends based on a resolution made by the Board of Directors on February 13, 2019, includes a dividend of 2,767 thousand yen related to Company stock held by the Stock Delivery Trust for Directors and Stock Delivery Trust for Executive Officers.

Current fiscal year (Fiscal year ended December 31, 2020)

1. Class and numbers of total shares issued and treasury stock held

	Number of shares at the beginning of the current fiscal year	Increase in number of shares during the fiscal year	Decrease in number of shares during the fiscal year	Number of shares at the end of the fiscal year
Shares issued				
Common stock	20,071,093	-	-	20,071,093
Total	20,071,093	-	-	20,071,093
Treasury stock				
Common stock	1,093,311	30	-	1,093,341
Total	1,093,311	30	-	1,093,341

- (Note)1. A total of 197,669 shares were contributed to Custody Bank of Japan (trust account) as trust property in the stock-based compensation system for directors and stock-based compensation system for executive officers. They are treated as treasury stocks in consolidated financial statements and financial statements.
2. The increase in the number of treasury shares of common stock of 30 shares was due to the purchase of shares less than one unit.

2. Dividends

(1) Dividends paid

(Resolution)	Class of shares	Total amount of dividends (Thousands of yen)	Dividend per share (yen)	Date of record	Effective date
February 13 2020 Board of directors' meeting	Common stock	268,456	14	December 31, 2019	March 10, 2020
August 11, 2020 Board of directors' meeting	Common stock	230,105	12	June 30, 2020	September 1, 2020

- (Note)1. The total amount of dividends based on a resolution made by the Board of Directors on February 13, 2020, includes a dividend of 2,767 thousand yen related to Company stock held by the Stock Delivery Trust for Directors and Stock Delivery Trust for Executive Officers.
2. The total amount of dividends based on a resolution made by the Board of Directors on August 11, 2020, includes a dividend of 2,372 thousand yen related to Company stock held by the Stock Delivery Trust for Directors and Stock Delivery Trust for Executive Officers.

(2) Dividends with a record date within the current fiscal year that become effective after the end of the fiscal year

(Resolution)	Class of shares	Total amount of dividends (Thousands of yen)	Source of dividends	Dividend per share (yen)	Date of record	Effective date
February 12, 2021 Board of directors' meeting	Common stock	268,455	Retained earnings	14	December 31, 2020	March 3, 2021

- (Note) The total amount of dividends based on a resolution made by the Board of Directors on February 12, 2021, includes a dividend of 2,767 thousand yen related to Company stock held by the Stock Delivery Trust for Directors and Stock Delivery Trust for Executive Officers.

(Consolidated statement of cash flow)

* Reconciliation of cash and cash equivalents at the end of the fiscal year with the consolidated balance sheet accounts (Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
Cash and deposits	4,957,484	5,579,463
Time deposits with maturities extending over three months	-1,005,376	-1,108,436
Cash and cash equivalents	3,952,107	4,471,026

(Retirement benefit)

1. Outline of retirement benefit plan applied

The Company adopts a contract-type defined benefit pension plan operated by multi-employers (“cash balance plan”) based on the Defined Benefit Corporate Pension Law for its employees and with regard to executive officers not directors, a retirement benefit pension plan for executive directors is established.

Certain consolidated subsidiaries adopt a defined contribution pension plan or defined benefit plan. We calculate the retirement benefit expenses and liabilities related to retirement benefits by the simplified method for these defined benefit plans.

2. Defined benefit plans

(1) Reconciliation of the beginning and ending balances of retirement benefit obligations (excluding the scheme that applies the simplified method, which is listed in (3)) (Thousands of yen)

	Previous consolidated fiscal year (Fiscal year ended December 31, 2019)	Consolidated fiscal year (Fiscal year ended December 31, 2020)
Beginning balance of the retirement benefit obligation	923,474	982,951
Service costs	78,065	79,239
Interest expense	3,693	3,931
Accruals of actuarial gains and losses	-4,134	-30,253
Payment of retirement benefits	-18,147	-76,904
Balance of retirement benefit obligations at end of year	982,951	958,964

(2) Reconciliation of the beginning and ending balances of pension assets (excluding the scheme that applies the simplified method, which is listed in (3)) (Thousands of yen)

	Previous consolidated fiscal year (Fiscal year ended December 31, 2019)	Consolidated fiscal year (Fiscal year ended December 31, 2020)
Beginning balance of pension assets	1,461,533	1,673,865
Expected return on assets	1,461	-
Accruals of actuarial gains and losses	130,668	66,121
Contributions from the employer	98,348	99,797
Payment of retirement benefits	-18,147	-76,904
Balance of the pension assets at end of year	1,673,865	1,762,879

(3) Reconciliations of beginning and ending balances of the liability for the retirement benefits of the system that uses the simplified method (Thousands of yen)

	Previous consolidated fiscal year (Fiscal year ended December 31, 2019)	Consolidated fiscal year (Fiscal year ended December 31, 2020)
Beginning balance of the liability for retirement benefits	53,751	43,271
Payment of retirement benefits	-1,341	-2,225
Payment of retirement benefits	-9,050	-23,090
Other	-88	1,377
Ending balance of the liability for retirement benefits	43,271	19,333

(4) Reconciliation of the ending balance of the retirement benefit obligations and pension assets, and liabilities and assets relating to retirement benefits that have been recorded in the consolidated balance sheet

(Thousands of yen)

	Previous consolidated fiscal year (Fiscal year ended December 31, 2019)	Consolidated fiscal year (Fiscal year ended December 31, 2020)
Retirement benefit obligation of funded plans	1,017,565	987,483
Pension assets	-1,706,717	-1,797,062
	-689,152	-809,578
Retirement benefit obligation of unfunded plans	41,510	24,997
Net amount of liabilities and assets that have been recorded in the consolidated balance sheet	-647,642	-784,581
Liabilities related to retirement benefits	43,271	24,997
Net defined benefit asset	-690,913	-809,578
Net amount of liabilities and assets that have been recorded in the consolidated balance sheet	-647,642	-784,581

(5) Amount of retirement benefit costs and their breakdown

(Thousands of yen)

	Previous consolidated fiscal year (As of December 31, 2019)	Consolidated fiscal year (As of December 31, 2020)
Service cost	78,065	79,239
Interest expense	3,693	3,931
Expected return on assets	-1,461	-
Expensed amount of actuarial gains and losses	-23,056	-46,076
Retirement benefit costs which are calculated using the simplified method	-1,341	-2,225
Retirement benefit cost of defined benefit plans	55,899	34,868

(6) Adjustments related to retirement benefits

A breakdown of the items that were recorded in the adjustments for retirement benefits (before making deductions for the tax effect) is as follows.

(Thousands of yen)

	Previous consolidated fiscal year (As of December 31, 2019)	Consolidated fiscal year (As of December 31, 2020)
Accruals of actuarial gains and losses	-111,746	-50,298
Total	-111,746	-50,298

(7) Cumulative adjustment to retirement benefits

A breakdown of the items that were recorded in the cumulative adjustments for retirement benefits (before making deductions for the tax effect) is as follows.

(Thousands of yen)

	Previous consolidated fiscal year (As of December 31, 2019)	Consolidated fiscal year (As of December 31, 2020)
Difference with unrecognized actuarial gain and loss	-223,672	-273,971
Total	-223,672	-273,971

(8) Matters relating to pension assets

i) Main components of the pension assets

The ratios of the major classifications for the total pension assets are as follows.

	Previous consolidated fiscal year (As of December 31, 2019)	Consolidated fiscal year under review (As of December 31, 2020)
Bonds	32%	38%
Stocks	38%	37%
General accounts	20%	21%
Other	10%	4%
Total	100%	100%

ii) Method of setting the expected long-term rate of return on pension assets

To determine the expected long-term rate of return on pension assets, we consider the current and expected allocation of pension assets, and the current and expected long-term rate of return from the variety of assets that make up the pension assets.

(9) Matters relating to actuarial assumptions

Major actuarial assumptions (representing a weighted average)

	Previous consolidated fiscal year (As of December 31, 2019)	Consolidated fiscal year under review (As of December 31, 2020)
Discount rate	0.4%	0.7%
Expected long-term rate of return on pension assets	0.1%	0.0%

3. Defined contribution plans

The required contributions to defined contribution plans of consolidated subsidiaries that use defined contribution plans came to 91,560 thousand yen for the previous consolidated fiscal year (Fiscal year ended December 31, 2019) and 70,139 thousand yen for the consolidated fiscal year under review (Fiscal year ended December 31, 2020).

Translation

(Tax effect accounting)

1 Breakdown of deferred tax assets and deferred tax liabilities by major causes of occurrence

(Thousands of yen)

	Previous fiscal year (As of December 31, 2019)	Current fiscal year (As of December 31, 2020)
Deferred tax assets		
Allowance for bonuses	95,273	96,549
Accrued enterprise tax	7,327	21,593
Social insurance premiums	14,573	14,864
Loss on valuation of inventory assets	28,492	18,015
Unrealized income on inventory assets	111,171	134,011
Unpaid officer retirement benefits	4,379	4,379
Liability for retirement benefits	13,046	13,788
Loss carryforwards	71,647	108,076
Reserve for stock compensation	19,431	21,794
Impairment loss	176,238	176,238
Other	62,766	47,765
Deferred tax assets subtotal	604,348	657,078
Valuation allowance for tax loss carryforwards	-34,145	-108,076
Valuation allowance for total future deductible temporary differences	-178,253	-178,253
Valuation allowance subtotal	-212,399	-286,330
Total deferred tax assets	391,949	370,748
Deferred tax liabilities		
Valuation difference on other securities	-81,911	-164,522
Retained earnings of overseas subsidiaries	-288,297	-325,915
Retirement benefits assets	-211,281	-246,969
Total deferred tax liabilities	-581,490	-737,408
Net deferred tax assets	-189,541	-366,659

The amount of “net deferred tax liabilities” (previous fiscal year: -189,541 thousand yen; current fiscal year: -366,659 thousand yen) is included in the following items in the consolidated balance sheet.

(Thousands of yen)

	Previous fiscal year (As of December 31, 2019)	Current fiscal year (As of December 31, 2020)
Fixed assets - deferred tax assets	47,426	3,256
Fixed liabilities - deferred tax liabilities	-236,967	-369,916

(Note) 1. Valuation allowance has increased by 2,735 thousand yen. This increase was due to foreign currency translation.

2. Tax loss carryforwards and their deferred tax assets by rollover date

Previous fiscal year (As of December 31, 2019) (Thousands of yen)

	Within 1 year	Within 1 to 2 years	Within 2 to 3 years	Within 3 to 4 years	Within 4 to 5 years	Over 5 years	Total
Tax loss carryforwards(a)	-	-	4,236	5,146	28,117	34,145	71,647
Valuation allowance	-	-	-	-	-	-34,145	-34,145
Deferred tax asset	-	-	4,236	5,146	28,117	-	(b)37,501

(a) Tax losses carried forward are multiplied by the statutory tax rate.

(b) Deferred tax assets of 37,501 thousand have been recorded for tax loss carryforwards of 71,647 thousand (multiplied by the statutory tax rate). The deferred tax assets of 37,501 thousand yen are recognized for the balance of tax loss carryforwards at consolidated subsidiary MEC SPECIALTYCHEMICAL (THAILAND) CO., LTD of 37,501 thousand yen (multiplied by the statutory tax rate). The tax loss carryforward for which this deferred tax asset has been recorded is determined to be recoverable based on the expected future taxable income, and no valuation allowance has been recognized.

1. The valuation allowance has increased by 73,930 thousand yen. This increase is due to the recognition of a

Translation

valuation allowance of 73,434 thousand yen as a carry forward deficit for tax at the consolidated subsidiary MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD.

2. Amount of carry forward deficit for tax and deferred tax assets by deadline

Current fiscal year (As of December 31, 2019)

(Thousands of yen)

	Within 1 year	Within 1 to 2 years	Within 2 to 3 years	Within 3 to 4 years	Within 4 to 5 years	Over 5 years	Total
Tax loss carryforwards(a)	-	4,015	4,878	26,649	37,890	34,642	108,076
Valuation allowance	-	-4,015	-4,878	-26,649	-37,890	-34,642	-108,076
Deferred tax asset	-	-	-	-	-	-	-

(a) Tax losses carried forward are multiplied by the statutory tax rate.

2 Breakdown by major items that caused the difference between the statutory effective tax rate and the burden rate of corporation tax etc. after applying tax effect accounting

	Previous fiscal year (As of December 31, 2019)	Current fiscal year (As of December 31, 2020)
Statutory effective tax rate	30.6%	30.6%
(Adjustment)		
Permanent differences such as entertainment expenses	1.9	1.2
Inhabitant tax equivalent	0.3	0.2
Examination research expenses etc. Tax deduction	-6.1	-6.1
Foreign withholding tax	0.9	1.1
Overseas Subsidiary Income Retention Taxation	-	0.1
Increase (decrease) in valuation allowance	-	3.2
Retained earnings of foreign subsidiaries	1.3	1.6
Overseas tax rate discrepancy	-1.7	-2.1
Other	0.5	1.1
Burden of corporate tax etc. after applying tax effect accounting	27.7	30.9

(Segment information)

[Information by operating segment]

1. Overview of reportable segments

The Company's reportable segments are those for which financial information on the Company's separate units is available and such information is used by the Board of Directors to decide how to allocate management resources and to evaluate achievements. Thus, they are subject to regular reviews.

The Company's Group mainly manufactures and sells chemicals involved in manufacturing PCBs. The Company is located in Japan. Overseas, it has bases in Taiwan, Hong Kong, China, Thailand, and Europe (mainly Germany, Italy, and France). These are respectively overseen by MEC TAIWAN COMPANY LTD.; MEC (HONG KONG) LTD.; MEC FINE CHEMICAL (ZHUHAI) LTD.; MEC CHINA SPECIALTY PRODUCTS (SUZHOU) CO., LTD.; MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD COMPANY LTD.; and MEC EUROPE NV. Each local corporation is an independent business unit. They formulate comprehensive strategies for each region with regards to the products they handle, and expand their business activities.

Therefore, the Company's Group consists of segments that are separated on the basis of their regional production and marketing systems. There are six reportable segments: Japan, Taiwan, Hong Kong (Hong Kong, Zhuhai), China (Suzhou), Thailand and Europe.

2. Method of calculating net sales, profit or loss, assets, liabilities and other items by reportable segment

The method of accounting treatment used for reportable business segments is approximately the same as that stated in "Basis of presentation and summary of significant accounting policies for the preparation of consolidated financial statements."

Figures for the profits at reportable segments are based on operating income.

Inter-segment revenue and transfers are based on current market prices.

3. Information on net sales, profit or loss, assets, liabilities and other items by reportable segment

Previous fiscal year (January 1, 2019 to December 31, 2019)

(Thousands of yen)

	Reportable segment						Total
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Net sales							
Sales to external customers	5,043,656	2,180,768	1,025,925	1,990,968	-	624,660	10,865,978
Inter-segment sales and transfers	2,213,076	1,411	1,255	768	-	53,521	2,270,033
Total	7,256,732	2,182,179	1,027,180	1,991,737	-	678,181	13,136,012
Segment profit	1,061,400	273,163	178,206	165,145	-136,275	63,296	1,604,936
Segment assets	14,502,431	2,686,303	1,375,500	1,757,693	1,023,841	618,773	21,964,543
Other items							
Depreciation and amortization	520,595	30,293	26,127	71,887	21,813	22,164	692,881
Increase in property, plant and equipment and intangible assets	781,171	9,741	22,700	14,450	500,598	34,106	1,362,769

Current fiscal year (January 1, 2020 to December 31, 2020)

(Thousands of yen)

	Reportable segment						Total
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Net sales							
Sales to external customers	5,785,254	2,432,110	1,139,694	2,012,807	40,305	546,452	11,956,625
Inter-segment sales and transfers	2,612,321	3,255	6,560	11,696	-	121,082	2,754,916
Total	8,397,576	2,435,365	1,146,255	2,024,503	40,305	667,535	14,711,542
Segment profit	1,660,736	316,989	247,077	335,472	-176,811	61,904	2,445,369
Segment assets	16,147,050	2,921,145	1,554,561	2,020,773	821,002	637,581	24,102,115
Other items							
Depreciation and amortization	587,198	26,919	26,751	56,100	62,051	25,612	784,634
Increase in property, plant and equipment and intangible assets	719,032	13,955	19,601	42,621	24,918	27,017	847,145

4. Differences between the total amount at reportable segments and the amount stated in the consolidated financial statements, and main details of such differences (matters concerning reconciliation)

(Thousands of yen)

Net sales	Previous fiscal year	Current fiscal year
Reportable segment total	13,136,012	14,711,542
Intersegment eliminations	-2,270,033	-2,754,914
Sales stated in the Consolidated Financial Statements	10,865,978	11,956,625

(Thousands of yen)

Profit	Previous fiscal year	Current fiscal year
Reportable segment total	1,604,936	2,445,369
Intersegment eliminations	32,163	-75,097
Operating income in the Consolidated Financial Statements	1,637,100	2,370,271

(Thousands of yen)

Assets	Previous fiscal year	Current fiscal year
Reportable segment total	22,375,479	24,102,115
Intersegment eliminations	-2,383,639	-2,591,362
Total assets in the Consolidated Financial Statements	19,991,839	21,510,752

(Thousands of yen)

Other items	Reportable segment total		Adjustment		Amount stated in the Consolidated Financial Statements	
	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year
Depreciation and amortization	692,881	784,634	-	-	692,881	784,634
Increase in property, plant and equipment and intangible assets	1,362,769	847,145	-	-	1,362,769	847,145

[Related Information]

Previous fiscal year (Fiscal year ended December 31, 2019)

1. Information by product and by service

Because there is a single category of products and services, information by product or by service is omitted.

2. Information by geographical segment

(1) Net sales

(Thousands of yen)

Japan	Taiwan	China	Other	Total
4,866,743	2,162,649	3,016,893	819,692	10,865,978

Note: Net sales to customers are based on location, and are classified by country or region.

(2) Tangible fixed assets

(Thousands of yen)

Japan	Taiwan	China	Thailand	Europe	Total
6,973,942	722,569	414,569	725,718	160,605	8,997,342

3. Information on each major customer

Of sales to external customers, because there is no destination for 10% or more of net sales in the consolidated statements of income, the statement of such has been omitted in this material.

Current fiscal year (Fiscal year ended December 31, 2020)

1. Information by product and by service

Because there is a single category of products and services, information by product or by service is omitted.

2. Information by geographical segment

(1) Net sales

(Thousands of yen)

Japan	Taiwan	China	Other	Total
5,580,432	2,422,601	3,144,885	808,706	11,956,625

Note: Net sales to customers are based on location, and are classified by country or region.

(2) Tangible fixed assets

(Thousands of yen)

Japan	Taiwan	China	Thailand	Europe	Total
7,065,849	718,765	388,932	646,880	178,166	8,998,594

3. Information on each major customer

Of sales to external customers, because there is no destination for 10% or more of net sales in the consolidated statements of income, the statement of such has been omitted in this material.

[Information on impairment of fixed assets by reportable segment]

N/A

[Information on amortized and unamortized goodwill by reportable segment]

N/A

[Information on gain on negative goodwill by reportable segment]

N/A

(Per share information)

(Yen)

Item	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
Net assets per share	847.94	920.60
Net income per share	65.16	84.09

- Notes: 1. Information of diluted net income per share is omitted because of no issue of potential stocks.
2. In calculating net assets per share, we treat the trust account for stock issuance for Directors and stock issuance trust account for Executive Officers as own shares owned by the Company (treasury stock). Therefore, the number of shares at the end of the fiscal year is calculated by including the shares of treasury stock subject to deduction. Also in calculating net income per share, the average number of shares during the fiscal year is determined by including the shares of treasury stock subject to deduction. Further, the number of shares of treasury stock deducted at the end of the period in calculating “net assets per share” was 197,669 shares in the previous consolidated fiscal year and 197,669 shares in the consolidated fiscal year under review. In addition, the average number of shares of treasury stock deducted during the period in calculating “net income per share” was 200,225 shares in the previous consolidated fiscal year and 197,669 shares in the consolidated fiscal year under review.
3. The basis for calculating net income per share is as follows.

Item	Previous fiscal year (Fiscal year ended December 31, 2019)	Current fiscal year (Fiscal year ended December 31, 2020)
Net income (Thousands of yen)	1,236,410	1,595,919
Amount not available for common shareholders (Thousands of yen)	—	—
Net profit available for common stocks (Thousands of yen)	1,236,410	1,595,919
Weighted-average number of common shares outstanding during the year (shares)	18,975,272	18,977,757

(Important subsequent events)

N/A

4. Non-consolidated financial statements and major notes
 (1) Balance sheet

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	2,227,625	2,735,049
Notes receivable - trade	67,533	92,418
Electronically recorded receivables	262,127	329,006
Accounts receivable - trade	1,810,869	2,027,294
Merchandise and finished goods	217,385	179,681
Raw materials and supplies	251,217	187,904
Prepaid expenses	16,584	11,022
Accounts receivable - other	73,567	48,518
Other	23,125	13,339
Total current assets	4,950,035	5,624,234
Non-current assets		
Property, plant and equipment		
Buildings	3,299,504	3,312,188
Structures	123,943	145,269
Machinery and equipment	648,793	649,984
Vehicles	23,567	16,754
Tools, furniture and fixtures	254,942	206,181
Land	2,274,036	2,274,036
Construction in progress	349,155	461,435
Total property, plant and equipment	6,973,942	7,065,849
Intangible assets		
Leasehold right	29,380	29,380
Software	74,876	99,238
Software in progress	18,700	—
Other	2,038	2,023
Total intangible assets	124,995	130,641
Investments and other assets		
Investment securities	580,704	859,665
Affiliated company shares	1,401,891	1,057,492
Capital	54,775	77,630
Long-term loans receivable from subsidiaries and affiliates	327,600	414,000
Long-term prepaid expenses	112	28
Prepaid pension expense	467,240	529,943
Deferred tax assets	3,086	—
Other	14,495	14,625
Total investments and other assets	2,849,906	2,953,385
Total non-current assets	9,948,844	10,149,876
Total assets	14,898,879	15,774,111

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Liabilities		
Current liabilities		
Notes payable	563,455	628,533
Accounts payable -trade-	328,147	278,268
Short-term loans payable	400,000	400,000
Current portion of long-term loans payable	250,000	—
Accounts payable -other-	233,424	358,546
Accrued expenses	116,939	123,523
Income taxes payable	41,540	261,623
Deposits received	58,371	66,375
Provision for bonuses	311,555	315,726
Provision for directors' bonuses	30,470	38,005
Notes payable - facilities	495,381	120,589
Accrued expenses - facilities	61,778	245,179
Other	10,142	2,528
Total current liabilities	2,901,206	2,838,899
Non-current liabilities		
Long-term loans payable	—	96,992
Asset retirement obligations	587	587
Provision for retirement benefits	41,510	22,000
Provision for Share-based compensation	71,972	79,699
Other	23,833	23,855
Total non-current liabilities	137,903	223,134
Total liabilities	3,039,110	3,062,034
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus		
Legal capital surplus	446,358	446,358
Other capital surplus	94,914	94,914
Total capital surpluses	541,273	541,273
Retained earnings		
Legal retained earnings	63,557	63,557
Other retained earnings		
General reserve	9,900,000	10,600,000
Retained earnings brought forward	1,750,644	1,715,463
Total retained earnings	11,714,201	12,379,021
Treasury shares	-1,175,796	-1,175,844
Total shareholders' equity	11,673,820	12,338,592
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	185,948	373,484
Total valuation and translation adjustments	185,948	373,484
Total net assets	11,859,769	12,712,077
Total liabilities and net assets	14,898,879	15,774,111

(2) Statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net sales	7,256,732	8,397,576
Cost of sales	2,769,380	3,224,223
Gross profit	4,487,352	5,173,352
Selling, general and administrative expenses	3,425,951	3,512,616
Operating profit	1,061,400	1,660,736
Non-operating income		
Interest and dividend income	208,308	339,716
Proceeds from sales of prototypes	32,465	10,028
Foreign exchange gains	31,827	—
Other	13,642	11,850
Total non-operating income	286,244	361,595
Non-operating expenses		
Interest expenses	1,111	500
Foreign exchange losses	15,540	39,965
Other	417	324
Total non-operating expenses	17,069	40,790
Ordinary profit	1,330,575	1,981,541
Extraordinary income		
Gain on sales of non-current assets	486	149
Gain on sales of investment securities	—	2,018
Subsidy income	8,804	—
Total extraordinary income	9,290	2,168
Extraordinary losses		
Loss on sale of non-current assets	32	—
Loss on retirement of non-current assets	21,315	64,490
		344,398
Total extraordinary losses	21,348	408,889
Profit before income taxes	1,318,517	1,574,820
Income taxes - current	245,277	393,971
Income taxes - deferred	40,538	17,467
Total income taxes	285,816	411,439
Profit	1,032,701	1,163,380

[Details of cost of sales]

Category	Note no.	Previous fiscal year	Current fiscal year
		(Fiscal year ended December 31, 2019)	(Fiscal year ended December 31, 2020)
		Amount (Thousands of yen)	Amount (Thousands of yen)
Product cost		2,620,112	3,058,500
Cost of goods		42,904	44,280
Repair cost		14,012	7,005
Cost of sales of raw materials		92,350	114,437
Total cost of sales		2,769,380	3,224,223

(3) Statement of changes in shareholders' equity

Previous fiscal year (Fiscal year ended December 31, 2019)

(Thousands of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	594,142	446,358	94,914	541,273	63,557	8,900,000	2,216,506	11,180,064
Changes of items during period								
Provision of general reserve						1,000,000	-1,000,000	-
Dividends of surplus							-498,563	-498,563
Net income							1,032,701	1,032,701
Purchase of treasury shares								
Disposal of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	-	-	-	1,000,000	-465,862	534,137
Balance at end of current period	594,142	446,358	94,914	541,273	63,557	9,900,000	1,750,644	11,714,201

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	-1,185,432	11,130,046	62,077	62,077	11,192,124
Changes of items during period					
Provision of general reserve		-			-
Dividends of surplus		-498,563			-498,563
Net income		1,032,701			1,032,701
Purchase of treasury shares	-104	-104			-104
Disposal of treasury shares	9,740	9,740			9,740
Net changes of items other than shareholders' equity			123,871	123,871	123,871
Total changes of items during period	9,636	543,773	123,871	123,871	667,645
Balance at end of current period	-1,175,796	11,673,820	185,948	185,948	11,859,769

Current fiscal year (Fiscal year ended December 31, 2020)

(Thousands of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus		Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	594,142	446,358	94,914	541,273	63,557	9,900,000	1,750,644	11,714,201
Changes of items during period								
Provision of general reserve						700,000	-700,000	—
Dividends of surplus							-498,561	-498,561
Net income							1,163,380	1,163,380
Purchase of treasury shares								
Disposal of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	—	—	—	700,000	-35,180	664,819
Balance at end of current period	594,142	446,358	94,914	541,273	63,557	10,600,000	1,715,463	12,379,021

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	-1,175,796	11,673,820	185,948	185,948	11,859,769
Changes of items during period					
Provision of general reserve		—			—
Dividends of surplus		-498,561			-498,561
Net income		1,163,380			1,163,380
Purchase of treasury shares	-48	-48			-48
Disposal of treasury shares		—			—
Net changes of items other than shareholders' equity			187,536	187,536	187,536
Total changes of items during period	-48	664,771	187,536	187,536	852,307
Balance at end of current period	-1,175,844	12,338,592	373,484	373,484	12,712,077

Translation

5. Other
Transfer of Officers

Refer to "Personnel Transfer of Directors and Executive Officers" announced on December 22, 2020.