

Note : This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Consolidated Financial Results for the Financial Year Ended December 31, 2021 [JA-GAAP]

February 14, 2022
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 23, 2022

Commencement Date of Dividend Payment (Scheduled): March 2, 2022

Date of Filing the Financial Report (Scheduled): March 24, 2022

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, 2021 (January 1, 2021 to December 31, 2021)

(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, 2021	15,038	25.8	3,939	66.2	4,104	71.8	2,949	84.8
Fiscal year ended December 31, 2020	11,956	10.0	2,370	44.8	2,388	38.7	1,595	29.1

Note: Comprehensive income for fiscal year ended December 31, 2021: 3,960 million yen (110.9%); fiscal year ended December 31, 2020: 1,877 million yen (32.7%)

	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, 2021	155.28	-	15.4	17.5	26.2
Fiscal year ended December 31, 2020	84.09	-	9.5	11.5	19.8

(Reference) Investment profit or loss according to the equity method: Year ended December 31, 2021: - million yen Year ended December 31, 2020: - 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, 2021	25,305	20,929	82.7	1,101.30
As of December 31, 2020	21,510	17,470	81.2	920.60

(Reference) Shareholder's equity: Year ended December 31, 2021: 20,926 million yen Year ended December 31, 2020: 17,470 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, 2021	3,013	-1,117	-916	5,620
Fiscal year ended December 31, 2020	2,429	-1,149	-771	4,471

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, 2020	-	12.00	-	14.00	26.00	498	30.9	3.0
Fiscal year ended December 31, 2021	-	14.00	-	21.00	35.00	671	22.5	3.5
Fiscal year ending December 31, 2022 (Forecast)	-	20.00	-	20.00	40.00		25.3	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(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	7,800	11.0	1,800	-7.7	1,850	-8.6	1,300	-11.4	68.41
Full year	16,500	9.7	4,000	1.5	4,150	1.1	3,000	1.7	157.86

* 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, 2021	20,071,093 shares	As of December 31, 2020	20,071,093 shares
2) Number of shares of treasury stock:	As of December 31, 2021	1,067,143 shares	As of December 31, 2020	1,093,341 shares
3) Average number of shares during the period:	Year ended of December 31, 2021	18,994,396 shares	Year ended of December 31, 2020	18,977,757 shares

(Reference) Non-consolidated Results

1 Non-consolidated Results for the Year Ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(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, 2021	10,556	25.7	3,087	85.9	3,653	84.4	2,798	140.5
Fiscal year ended December 31, 2020	8,397	15.7	1,660	56.5	1,981	48.9	1,163	12.7

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended December 31, 2021	147.31	-
Fiscal year ended December 31, 2020	61.30	-

(2) Non-consolidated Results of Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2021	18,362	15,218	82.9	800.83
As of December 31, 2020	15,774	12,712	80.6	669.84

(Reference) Shareholder's equity: Year ended December 31, 2021: 15,218 million yen Year ended December 31, 2020: 12,712 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 Monday, February 14, 2022. 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
(Significant accounting estimates)	17
(Unapplied accounting standards, etc.).....	17
(Changes in the presentation of the financial statements)	18
(Notes to consolidated balance sheet).....	19
(Notes to consolidated statements of income)	19
(Matters related to consolidated statement of comprehensive income)	20
(Matters related to consolidated statement of changes in shareholders' equity).....	21
(Consolidated statement of cash flows).....	22
(Retirement benefit).....	23
(Tax effect accounting).....	26
(Segment information).....	28
(Per share information).....	31
(Important subsequent events).....	31
4. Non-consolidated financial statements and major notes.....	32
(1) Balance sheet.....	32
(2) Statement of income	34
(3) Statement of changes in shareholders' equity	35

1. Overview of business results, etc.

(1) Analysis relating to the operating results

[Outline of the current period]

Although the global and Japanese economies during the fiscal year under review (January 1, 2021–December 31, 2021) had been under the influence of the new coronavirus (hereinafter referred to as “COVID-19”) pandemic, economic and social activities primarily in developed countries were on a track of recovery, albeit with differences in the extent of such activities among countries and regions.

As of January 2022, the International Monetary Fund (IMF) forecasted that the growth rate of the global economy would slow down to +4.4% in 2022 from +5.9% in 2021. For Japan, the growth rate was forecasted as +1.6% in 2021 and +3.3% in 2022, both showing signs of recovery from negative growth in 2020. However, what lies ahead for countries around the world are uncertainty and ambiguity such as COVID-19, supply chain disruptions, rising inflation rates in the United States, and geopolitical risks.

In the electronics industry, the production of personal computers and displays remained strong mainly due to accelerated adoption of working-from-home and distance learning, investments in digital transformation (DX), and responses to new lifestyles in countries around the world. Demand for servers also remained steady against the backdrop of increased data volume and switching to the fifth generation (5G) of cellular network. At the same time, the demand for tablet devices appeared to be reaching a plateau, and the production of automobiles has decreased at some manufacturers primarily due to a supply shortage of semiconductors and the spread of COVID-19 mainly in Southeast Asia. While the global supply shortage of semiconductors continued amid the growing demand for semiconductors driven by the spread of the IoT, semiconductor manufacturers were making significant capital investments despite disruptions in their supply chain networks and rising raw material prices. Furthermore, the electronics industry as a whole including the automobile industry has begun to work toward decarbonization as the future direction.

Due to the influence of the electronics industry, the electronic circuit board/component industry, a market in which the Group is associated, saw the demand for servers, PCs, and monitors remaining strong. In particular, demand continues to grow for chip-mounted package substrates, a segment closely related to the Company. 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, even more active efforts are being made to switch to and popularize the high-speed, large-capacity 5G. Furthermore, manufacturers are making aggressive 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 year-on-year sales trends of our major products, sales of the CZ Series, our super-roughening adhesion improvers, which have a high market share for package substrates on which semiconductors are mounted, increased significantly against the backdrop of the strong demand for semiconductors. Sales of the EXE Series, driven by the strong demand for displays, and sales of the V-Bond Series of adhesion improvers for multilayer electronic boards, driven by the effect of the recovery trend in the automobile market, have remained steady. Sales of the SF Series for displays slightly decreased due to the demand for related electronic devices approaching a peak and the semiconductor shortage.

As a result, total consolidated sales for the fiscal year under review amounted to 15,038 million yen (up 3,081 million yen or 25.8% year-on-year). Selling, general and administrative expenses were 5,383 million yen (up 357 million yen or 7.1% year-on-year), and operating income was 3,939 million yen (up 1,569 million yen or 66.2% year-on-year). Operating income margin was 26.2%, an improvement of 6.4 points from the 19.8% marked in the previous fiscal year. Ordinary income was 4,104 million yen (up 1,716 million yen or 71.8% year-on-year). Net income before income taxes amounted to 4,092 million yen (up 1,783 million yen or 77.2% year-on-year), and net income attributable to owners of parent was 2,949 million yen (up 1,353 million yen or 84.8% year-on-year). Looking at a breakdown of sales, sales of chemicals were 14,756 million yen (up 3,157 million yen or 27.2% year-on-year), machinery sales were 167 million yen (down 114 million yen or 40.5% year-on-year), sales of materials were 91 million yen (up 23 million yen or 33.9% year-on-year), and other sales were 22 million yen (up 15 million yen or 204.4% year-on-year).

The overseas sales ratio was 57.5%, up 4.2 points compared with the 53.3% marked in the previous fiscal year. If

sales to overseas customers, which were made through domestic agencies in Japan, are included, the overseas sales ratio is 76.6% (up 2.1 points year-on-year).

The results by segment are as follows:

In Japan, sales of products related to PCs, servers, and displays remained strong. Consolidated net sales for the fiscal year under review were 6,662 million yen (up 877 million yen or 15.2% year-on-year), and segment income came to 3,087 million yen (up 1,426 million yen or 85.9% year-on-year).

In Taiwan, sales of products related to servers remained strong while there were signs of some adjustments in products related to displays, resulting in net sales of 3,081 million yen (up 649 million yen or 26.7% year-on-year), and segment income of 401 million yen (up 84 million yen or 26.6% year-on-year) for the fiscal year under review.

In Hong Kong (Hong Kong and Zhuhai), sales of products related to automobiles continued to be strong, and the demand for smartphone-related products increased. Furthermore, the production of tablet-related products was transferred from China (Suzhou), resulting in net sales of 1,891 million yen (up 751 million yen or 65.9% year-on-year), and segment income of 437 million yen (up 190 million yen or 76.9% year-on-year) for the fiscal year under review.

In China (Suzhou), despite the transfer of production of tablet-related products to Japan and the Zhuhai region, net sales for the fiscal year under review totaled 2,445 million yen (up 432 million yen or 21.5% year-on-year), and segment income came to 389 million yen (up 54 million yen or 16.2% year-on-year).

In Europe, while the impact of COVID-19 continued, there were signs of a recovery in customers' production activities, and net sales for the fiscal year under review totaled 644 million yen (up 98 million yen or 17.9% year-on-year), and segment income came to 45 million yen (down 16 million yen or 26.6% year-on-year).

In Thailand, to further develop the Southeast Asian market, which will expand in the future, the Company established its sixth subsidiary on May 29, 2017 and launched operations in September 2019. Although some regions were affected by lockdowns due to the COVID-19 pandemic, local sales activities and the change of production site of the Company's finished goods from Japan to Thailand progressed. As a result, net sales for the fiscal year under review were 312 million yen (up 272 million yen or 676.2% year-on-year), and segment loss was 43 million yen (176 million yen loss in the previous fiscal year).

(2) Analysis relating to the financial situation

Assets were 25,305 million yen, up 3,794 million yen compared with the previous fiscal year.

This was mainly 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 higher market values.

Liabilities were 4,376 million yen, up 336 million yen compared with the previous fiscal year.

This was mainly due to an increase in notes and accounts payable-trade and income taxes payable associated with higher sales.

Net assets were 20,929 million yen, up 3,458 million yen compared with the previous fiscal year.

This was mainly because of an increase in the valuation difference due to retained earnings and the yen's depreciation.

As a result of the above, the equity ratio reached 82.7%, and ROE was 15.4%.

The consolidated dividend payout ratio was 22.5%

(3) Analysis relating to the cash flow

Looking at the financial position in the fiscal year under review, cash and cash equivalents (hereinafter referred to as "cash") rose 1,149 million yen compared with the previous fiscal year to record 5,620 million yen.

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

(Cash flow from operating activities)

Cash from operating activities amounted to 3,013 million yen (up 583 million yen compared with the end of the previous fiscal year).

This was mainly because there was an increase in notes and accounts receivable-trade of 914 million yen and income taxes paid of 808 million yen, although income before income taxes came to 4,092 million yen and

depreciation expenses were 742 million yen.

(Cash flow from investment activities)

As a result of investment activities, cash used amounted to 1,117 million yen (down 31 million yen compared with the end of the previous fiscal year).

This was primarily due to time deposits that amounted to a total of 259 million yen and due to a payment of 666 million yen to acquire tangible fixed assets.

(Cash flow from financial activities)

As a result of financing activities, cash used amounted to 916 million yen (up 144 million yen compared with the end of the previous fiscal year).

This was mainly because of a decrease in short-term borrowings in the amount of 400 million yen and a payment of dividends in the amount of 536 million yen.

Changes in cash flow indicators

	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019	As of December 31, 2020	As of December 31, 2021
Equity ratio (%)	76.8	81.5	80.5	81.2	82.7
Equity ratio based on market value (%)	237.6	109.2	143.6	200.3	300.8
Debt repayment period (years)	0.8	0.4	0.3	0.2	0.0
Interest coverage ratio	700.2	1,425.5	855.2	1,839.8	3,698.6

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

- 1 All indicators are calculated based on consolidated financial figures.
- 2 Market capitalization is calculated by multiplying the closing share price by the number of shares outstanding issued at the end of the period.
- 3 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.
- 4 "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 the new coronavirus infection (COVID-19) and the degree of its impact on the economy, geopolitical risks, and foreign currency exchange trends. The Japanese economy, with the support of public spending, is expected to follow an improving trend amid expectations that self-sustaining growth will be led by private-sector demand, which will be driven by a recovery in consumption and strong capital investment. However, it is considered that careful attention should continue to be paid to the effects of COVID-19 on both domestic and overseas economies and downward risks which may be caused by supply restrictions and raw material price trends, while also being vigilant regarding the financial and capital market trends.

In the electronics industry, we believe that the market will expand against the backdrop of digitalization as a COVID-19 measure, development of infrastructure and new information technologies such as 5G, increasing the need for digital transformation (DX), and decarbonization movements.

Given this assumed external environment, the Group believes that demand in markets in the electronics industry related to our products will grow. In particular, the demand for the CZ Series is expected to grow, backed by

rising demand for package substrates due to increasing demand for semiconductors and increases in substrate size for improved performance. At the same time, we will also keep an eye on future trends such as supply chain disruptions and soaring raw material and transportation costs.

Based on the above, for the consolidated results of the Group for the next fiscal year, we forecast sales of 16,500 million yen (up 1,461 million yen or 9.7% year-on-year), operating income of 4,000 million yen (up 60 million yen or 1.5% year-on-year), an operating income to net sales ratio of 24.2% (down 2.0 percentage points year-on-year), ordinary income of 4,150 million yen (up 45 million yen or 1.1% year-on-year), and net income attributable to the parent company of 3,000 million yen (up 50 million yen or 1.7% year-on-year). ROE is forecast to be 13.6%.

(Reference)

	FY 2021 (Million yen)	FY 2022 (Forecast) (Million yen)	Increase or decrease (%)
Net sales	15,038	16,500	9.7
Operating income	3,939	4,000	1.5
Ordinary income	4,104	4,150	1.1
Profit attributable to owners of parent	2,949	3,000	1.7
Net income per share (yen)	155.28	157.86	-
ROE (%)	15.4	13.6	-2.0 points

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

	FY 2021 (Yen)	FY 2022 (Forecast) (Yen)
US \$	109.86	115.01
NT \$	3.94	4.16
RMB ¥	17.04	18.07
HK \$	14.14	14.75
€	130.11	130.51
THB	3.44	3.44

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.

3. Consolidated financial statements and major notes

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	5,579,463	7,152,812
Notes and accounts receivable - trade	* 1 3,620,577	* 1 4,858,183
Merchandise and finished goods	* 1 329,006	* 1 288,325
Work in process	415,861	589,951
Raw materials and supplies	159,982	223,120
Deferred tax assets	350,560	580,226
Other	123,606	150,840
Allowance for doubtful accounts	-3,558	-3,969
Total current assets	10,575,499	13,839,489
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,037,708	7,714,181
Accumulated depreciation	-2,805,486	-3,143,829
Buildings and structures, net	* 2 4,232,222	* 2 4,570,352
Machinery, equipment and vehicles	3,074,090	3,181,056
Accumulated depreciation	-2,137,588	-2,381,671
Machinery, equipment and vehicles, net	936,501	799,384
Tools, furniture and fixtures	1,277,402	1,450,055
Accumulated depreciation	-954,464	-1,050,503
Tools, furniture and fixtures, net	322,938	399,551
Land	* 2 2,935,817	* 2 3,008,363
Right-of-use asset	60,811	62,753
Accumulated depreciation	-20,657	-20,637
Right-of-use asset, net	40,153	42,115
Construction in progress	530,961	71,838
Total property, plant and equipment	8,998,594	8,891,606
Intangible assets	140,370	147,248
Investments and other assets		
Investment securities	859,665	1,303,230
Retirement benefits assets	809,578	956,448
Deferred tax assets	3,256	9,354
Other	123,788	157,984
Total investments and other assets	1,796,289	2,427,017
Total non-current assets	10,935,253	11,465,872
Total assets	21,510,752	25,305,362

(Thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	* 1 1,263,258	* 1 987,823
Electronically recorded monetary claims-operating	—	748,762
Short-term loans	400,000	—
Accounts payable - other	477,481	404,291
Accrued expenses	143,020	157,453
Income taxes payable	362,044	748,939
Provision for bonuses	317,936	332,347
Provision for directors' bonuses	38,005	41,760
Accounts payable - facilities	247,948	93,926
Other	278,982	276,061
Total current liabilities	3,528,677	3,791,366
Non-current liabilities		
Deferred tax liabilities	369,916	477,768
Retirement benefit liability	24,997	2,038
Provision for Share-based compensation	79,699	64,487
Other	36,599	40,594
Total non-current liabilities	511,213	584,888
Total liabilities	4,039,890	4,376,254
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	16,583,712	18,996,261
Treasury shares	-1,175,844	△1,141,081
Total shareholders' equity	16,543,283	18,990,595
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	373,484	584,363
Foreign currency translation adjustment	363,902	1,119,580
Remeasurements of defined benefit plans	190,190	234,568
Total accumulated other comprehensive income	927,578	1,938,512
Total net assets	17,470,862	20,929,107
Total liabilities and net assets	21,510,752	25,305,362

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

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales	11,956,625	15,038,440
Cost of sales	* 1 4,560,825	* 1 5,715,049
Gross profit	7,395,800	9,323,391
Selling, general and administrative expenses	* 2, * 3 5,025,528	* 2, * 3 5,383,499
Operating profit	2,370,271	3,939,891
Non-operating income		
Interest income	23,579	28,665
Dividends income	10,882	11,871
Proceeds from sales of prototypes	10,028	5,897
Gain on investments in partnership	—	23,467
Foreign exchange gains		80,556
Other	27,079	19,735
Total non-operating income	71,569	170,193
Non-operating expenses		
Interest expenses	1,594	842
Sales discounts	3,305	3,858
Foreign exchange losses	42,536	—
Other	5,928	894
Total non-operating expenses	53,365	5,595
Ordinary profit	2,388,475	4,104,489
Extraordinary income		
Gain on sales of non-current assets	* 4 812	* 4 1,694
Gain on sales of investment securities	2,018	—
Total extraordinary income	2,830	1,694
Extraordinary losses		
Loss on sales of noncurrent assets	* 5 10,694	* 5 312
Loss on retirement of non-current assets	* 6 71,567	* 6 13,518
Total extraordinary losses	82,261	13,830
Profit before income taxes	2,309,044	4,092,353
Income taxes - current	636,348	1,153,253
Income taxes - deferred	76,777	-10,360
Total income taxes	713,125	1,142,893
Net income	1,595,919	2,949,459
Profit attributable to owners of parent	1,595,919	2,949,459

(Consolidated statement of comprehensive income)

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit	1,595,919	2,949,459
Other comprehensive income		
Valuation difference on available-for-sale securities	187,536	210,878
Foreign currency translation adjustment	59,100	755,678
Remeasurements of defined benefit plans	34,916	44,377
Total other comprehensive income	* 281,553	* 1,010,934
Comprehensive income	1,877,472	3,960,393
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,877,472	3,960,393
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statement of changes in shareholders' equity

Previous 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 during the 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 during the 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

Current fiscal year (January 1, 2021 to December 31, 2021)

(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	16,583,712	-1,175,844	16,543,283
Changes of items during period					
Dividends of surplus			-536,911		-536,911
Net income			2,949,459		2,949,459
Purchase of treasury shares				-286	-286
Disposal of treasury shares				35,049	35,049
Net changes of items other than shareholders' equity(net)					
Total changes of items during period	-	-	2,412,548	34,763	2,447,311
Balance at end of current period	594,142	541,273	18,996,261	-1,141,081	18,990,595

(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	373,484	363,902	190,190	927,578	17,470,862
Changes of items during period					
Dividends of surplus					-536,911
Net income					2,949,459
Purchase of treasury shares					△286
Disposal of treasury shares					35,049
Net changes of items other than shareholders' equity(net)	210,878	755,678	44,377	1,010,934	1,010,934
Total changes of items during period	210,878	755,678	44,377	1,010,934	3,458,245
Balance at end of current period	584,363	1,119,580	234,568	1,938,512	20,929,107

(4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from operating activities		
Profit before income taxes	2,309,044	4,092,353
Depreciation	784,634	742,050
Increase (decrease) in allowance for doubtful accounts	-409	311
Increase (decrease) in provision for share-based compensation	7,726	-15,212
Increase (decrease) in provision for bonuses	4,171	14,123
Increase (decrease) in provision for directors' bonuses	7,535	3,755
Increase (decrease) in net defined benefit liability	-18,290	-22,949
Decrease (increase) in net defined benefit asset	-118,569	-145,735
Interest and dividend income	-34,462	-40,536
Interest expenses	1,594	842
Decrease (increase) in notes and accounts receivable - trade	-526,082	-914,460
Decrease (increase) in inventories	33,476	-321,354
Increase (decrease) in notes and accounts payable - trade	87,842	373,500
Loss (gain) on sales of investment securities	-2,018	—
Loss (gain) on investments in partnership	—	-23,467
Other	271,816	41,562
Subtotal	2,808,009	3,784,781
Interest and dividend income received	31,191	38,400
Interest expenses paid	-1,320	-814
Income taxes paid	-408,165	-808,847
Net cash provided by (used in) operating activities	2,429,714	3,013,519
Cash flows from investing activities		
Payments into time deposits	-1,731,002	-2,391,987
Proceeds from withdrawal of time deposits	1,644,749	2,132,877
Purchase of property, plant and equipment	-975,874	-666,930
Proceeds from sales of property, plant and equipment	1,588	3,302
Purchase of intangible assets	-50,477	-36,371
Purchase of investment securities	-9,793	-37,328
Proceeds from sales of investment securities	7,241	—
Other	-35,655	-121,400
Net cash provided by (used in) investing activities	-1,149,224	-1,117,838

MEC COMPANY LIMITED Consolidated Financial Results for the Fiscal Year Ended December 31, 2021

Cash flows from financing activities		
Net increase (decrease) in short-term loans	—	-400,000
Repayments of long-term loans payable	-250,000	—
Proceeds from sales of treasury shares	—	35,049
Purchase of treasury shares	-48	-286
Cash dividends paid	-498,096	-536,723
Payments for repayment of lease obligations	-23,664	-14,144
Net cash provided by (used in) financing activities	-771,809	-916,105
Effect of exchange rate change on cash and cash equivalents	10,238	169,490
Net increase (decrease) in cash and cash equivalents	518,919	1,149,065
Cash and cash equivalents at beginning of year	3,952,107	4,471,026
Cash and cash equivalents at end of year	* 4,471,026	* 5,620,092

(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.

(Significant accounting estimates)

N/A

(Unapplied accounting standards etc.)

- 1 • “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021)

(1) Outline

It is a comprehensive accounting standard concerning revenue recognition.

Revenue is recognized by applying the following five steps.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies performance obligations.

(2) Scheduled date of application

The Company is scheduled to apply the said method from the beginning of the fiscal year that begins on or after January 1, 2022.

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

The Company is currently assessing the effects of applying the “Accounting Standard for Revenue Recognition” and relevant rules on the consolidated financial statements.

- 2 • "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have set detailed guidance on measuring fair value—IFRS No. 13 in IASB and Topic 820 in FASB—and their contents are almost equivalent. In a bid to improve comparability with rules of the said international accounting standards, the Accounting Standard Board of Japan (ASBJ) has developed the Accounting Standard for Fair Value Measurement and issued it together with the implementation guidance. As its basic policy for developing the Accounting Standard for Fair Value Measurement, the ASBJ incorporated basically all of the rules stipulated in IFRS No. 13 in light of

improving comparability of financial statements of different companies in and outside Japan by employing consistent calculation methods for fair value measurement. However, giving consideration to the conventional practices in Japan, the ASBJ prescribed other treatments for individual items as far as such treatments would not significantly impair the comparability of financial statements.

(2) Scheduled date of application

The Company is scheduled to apply the said method from the beginning of the fiscal year that begins on or after January 1, 2022.

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

The Company is currently assessing the effects of applying the “Accounting Standard for Fair Value Measurement” and relevant rules on the consolidated financial statements.

(Changes in the presentation of the financial statements)

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company has applied “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) to the financial statements for and as of the end of the fiscal year under review. However, the notes do not include information related to the previous fiscal year in accordance with the transitional treatment set forth in the proviso to Paragraph 11 of the said Accounting Standard.

(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, 2020)	Current fiscal year (As of December 31, 2021)
Notes receivable	7,390	11,643
Electronically recorded receivable	2,141	3,465
Notes payable-trade	-	33,893

*2 Pledged assets

(Thousands of yen)

	Previous fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Buildings and structures	86,384	83,535
Land	26,677	27,421
Total	113,062	110,956

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, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
	-9,244	2,757

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

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
Provision of allowance for doubtful accounts	1,052	-676
Salaries and bonuses	1,264,204	1,399,765
Packing and transportation expenses	580,727	780,389
Provision for allowance for bonuses	158,452	171,116
Provision for directors' bonuses	38,005	41,760
Provision for share-based compensation	7,726	11,823
Retirement benefit expenses	60,575	71,338
Research and development expenses	1,359,359	1,323,746

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

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
	1,359,359	1,323,746

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

	Previous fiscal year (Fiscal year ended December 31, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
Machinery, equipment and vehicles	450	1,581
Tools, furniture and fixtures	362	112
812	1,770	1,694

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

	Previous fiscal year (Fiscal year ended December 31, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
Machinery, equipment and vehicles	-	64
Tools, furniture and fixtures	10,694	248
Total	10,694	312

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

	Previous fiscal year (Fiscal year ended December 31, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
Buildings and structures	35,496	0
Machinery, equipment and vehicles	4,041	5,940
Tools, furniture and fixtures	1,902	4,796
Right-of-use assets	-	924
Intangible fixed assets	-	1,857
Fixed asset removal costs	30,126	-
Total	71,567	13,518

(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, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
Valuation difference on available-for-sale securities:		
Amount arising in the current fiscal year under review	272,165	303,772
Amount of reclassification adjustment	-2,018	-
Before income tax effect	270,147	303,772
Income tax effect	-82,611	-92,893
Valuation difference on available-for-sale securities	187,536	210,878
Foreign currency translation adjustment:		
Amount arising in the current fiscal year under review	59,100	755,678
Adjustments related to retirement benefits:		
Amount arising in the current fiscal year under review	96,374	120,364
Amount of reclassification adjustment	-46,076	-56,438
Before income tax effect	50,298	63,926
Income tax effect	-15,381	-19,548
Adjustments related to retirement benefits	34,916	44,377
Other comprehensive income	281,553	1,010,934

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

Previous 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 9, 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 13, 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.

Current fiscal year (Fiscal year ended December 31, 2021)

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	101	26,299	1,067,143
Total	1,093,311	101	26,299	1,067,143

- (Note)1. A total of 171,370 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 101 shares was due to the purchase of shares less than one unit.
3. The decrease of 26,299 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 directors and 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 12 2021 Board of directors' meeting	Common stock	268,455	14	December 31, 2020	March 3, 2021
August 10, 2021 Board of directors' meeting	Common stock	268,455	14	June 30, 2021	September 7, 2021

- (Note)1. 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.
2. The total amount of dividends based on a resolution made by the Board of Directors on August 10, 2021, includes a dividend of 2,399 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 14, 2021 Board of directors' meeting	Common stock	402,681	Retained earnings	21	December 31, 2021	March 2, 2022

- (Note) The total amount of dividends based on a resolution made by the Board of Directors on February 14, 2022, includes a dividend of 3,598 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 flows)

* 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, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
Cash and deposits	5,579,463	7,152,812
Time deposits with maturities extending over three months	-1,108,436	-1,532,719
Cash and cash equivalents	4,471,026	5,620,092

(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, 2020)	Consolidated fiscal year (Fiscal year ended December 31, 2021)
Beginning balance of the retirement benefit obligation	982,951	958,964
Service costs	79,239	74,707
Interest expense	3,931	6,712
Accruals of actuarial gains and losses	-30,253	36,174
Payment of retirement benefits	-76,904	-79,622
Balance of retirement benefit obligations at end of year	958,964	996,937

(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, 2020)	Consolidated fiscal year (Fiscal year ended December 31, 2021)
Beginning balance of pension assets	1,673,865	1,762,879
Accruals of actuarial gains and losses	66,121	156,539
Contributions from the employer	99,797	99,862
Payment of retirement benefits	-76,904	-79,622
Balance of the pension assets at end of year	1,762,879	1,939,658

(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, 2020)	Consolidated fiscal year (Fiscal year ended December 31, 2021)
Beginning balance of the liability for retirement benefits	43,271	19,333
Payment of retirement benefits	-2,225	-5,533
Payment of retirement benefits	-23,090	-24,344
Other	1,377	-1,143
Ending balance of the liability for retirement benefits	19,333	-11,688

(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, 2020)	Consolidated fiscal year (Fiscal year ended December 31, 2021)
Retirement benefit obligation of funded plans	987,483	1,029,655
Pension assets	-1,797,062	-1,986,103
	-809,578	-956,448
Retirement benefit obligation of unfunded plans	24,997	2,038
Net amount of liabilities and assets that have been recorded in the consolidated balance sheet	-784,581	-954,410
Liabilities related to retirement benefits	24,997	2,038
Net defined benefit asset	-809,578	-956,448
Net amount of liabilities and assets that have been recorded in the consolidated balance sheet	-784,581	-954,410

(5) Amount of retirement benefit costs and their breakdown

(Thousands of yen)

	Previous consolidated fiscal year (As of December 31, 2020)	Consolidated fiscal year (As of December 31, 2021)
Service cost	79,239	74,707
Interest expense	3,931	6,712
Expensed amount of actuarial gains and losses	-46,076	-56,438
Retirement benefit costs which are calculated using the simplified method	-2,225	-5,533
Retirement benefit cost of defined benefit plans	34,868	19,448

(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, 2020)	Consolidated fiscal year (As of December 31, 2021)
Accruals of actuarial gains and losses	-50,298	-63,926
Total	-50,298	-63,926

(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, 2020)	Consolidated fiscal year (As of December 31, 2021)
Difference with unrecognized actuarial gain and loss	-273,971	-337,897
Total	-273,971	-337,897

(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, 2020)	Consolidated fiscal year under review (As of December 31, 2021)
Bonds	38%	35%
Stocks	37%	41%
General accounts	21%	20%
Other	4%	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, 2020)	Consolidated fiscal year under review (As of December 31, 2021)
Discount rate	0.7%	0.5%
Expected long-term rate of return on pension assets	0.0%	0.0%

3. Defined contribution plans

The required contributions to defined contribution plans of consolidated subsidiaries that use defined contribution plans came to 70,139 thousand yen for the previous consolidated fiscal year (Fiscal year ended December 31, 2020) and 102,171 thousand yen for the consolidated fiscal year under review (Fiscal year ended December 31, 2021).

(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, 2020)	Current fiscal year (As of December 31, 2021)
Deferred tax assets		
Allowance for bonuses	96,549	100,867
Accrued enterprise tax	21,593	39,986
Social insurance premiums	14,864	15,366
Loss on valuation of inventory assets	18,015	27,931
Unrealized income on inventory assets	134,011	249,201
Unpaid officer retirement benefits	4,379	4,379
Liability for retirement benefits	13,788	-
Loss carryforwards	108,076	125,060
Reserve for stock compensation	21,794	17,919
Impairment loss	176,238	176,238
Other	47,765	47,852
Deferred tax assets subtotal	657,078	804,805
Valuation allowance for tax loss carryforwards	-108,076	-125,060
Valuation allowance for total future deductible temporary differences	-178,253	-178,821
Valuation allowance subtotal	-286,330	-303,881
Total deferred tax assets	370,748	500,923
Deferred tax liabilities		
Valuation difference on other securities	-164,522	-257,416
Retained earnings of overseas subsidiaries	-325,915	-413,232
Retirement benefits assets	-246,969	-289,749
Other	-	-8,939
Total deferred tax liabilities	-737,408	-969,337
Net deferred tax assets	-366,659	-468,414

The amount of “net deferred tax liabilities” (previous fiscal year: -366,659 thousand yen; current fiscal year: -468,414 thousand yen) is included in the following items in the consolidated balance sheet.

(Thousands of yen)

	Previous fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Fixed assets - deferred tax assets	3,256	9,354
Fixed liabilities - deferred tax liabilities	-369,916	-477,768

(Note) 1. The valuation allowance increased by 17,551 thousand yen. This increase was mainly due to the additional recognition of 11,335 thousand yen of valuation allowance for tax loss carryforwards at the consolidated subsidiary MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD., and 5,648 thousand yen of valuation allowance for tax loss carryforwards at the consolidated subsidiary MEC (HONG KONG) LTD.

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

Previous fiscal year (As of December 31, 2020)

(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.

Current fiscal year (As of December 31, 2021)

(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)	4,004	4,864	26,572	37,780	11,548	40,290	125,060
Valuation allowance	-4,004	-4,864	-26,572	-37,780	-11,548	-40,290	-125,060
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, 2020)	Current fiscal year (As of December 31, 2021)
Statutory effective tax rate	30.6%	30.6%
(Adjustment)		
Permanent differences such as entertainment expenses	1.2	0.2
Inhabitant tax equivalent	0.2	0.1
Examination research expenses etc. Tax deduction	-6.1	-4.6
Foreign withholding tax	1.1	0.9
Overseas Subsidiary Income Retention Taxation	- 0.1	0.0
Increase (decrease) in valuation allowance	- 3.2	0.4
Retained earnings of foreign subsidiaries	1.6	2.1
Overseas tax rate discrepancy	-2.1	-2.1
Other	1.1	0.3
Burden of corporate tax etc. after applying tax effect accounting	30.9	27.9

(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, 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

Current fiscal year (January 1, 2021 to December 31, 2021)

(Thousands of yen)

	Reportable segment						Total
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Net sales							
Sales to external customers	6,662,838	3,081,581	1,891,272	2,445,428	312,865	644,454	15,038,440
Inter-segment sales and transfers	3,893,900	—	30,259	20,260	816	128,978	4,074,217
Total	10,556,738	3,081,581	1,921,532	2,465,689	313,682	773,433	19,112,657
Segment profit	3,087,678	401,444	437,122	389,832	△43,358	45,446	4,318,166
Segment assets	18,362,964	3,423,646	2,134,316	2,515,701	908,873	689,872	28,035,373
Other items							
Depreciation and amortization	557,740	27,197	28,703	47,862	48,824	31,722	742,050
Increase in property, plant and equipment and intangible assets	338,832	40,364	46,038	91,606	363	12,587	529,792

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	14,711,542	19,112,657
Intersegment eliminations	-2,754,914	-4,074,217
Sales stated in the Consolidated Financial Statements	11,956,625	15,038,440

(Thousands of yen)

Profit	Previous fiscal year	Current fiscal year
Reportable segment total	2,445,369	4,318,166
Intersegment eliminations	-75,097	-378,274
Operating income in the Consolidated Financial Statements	2,370,271	3,939,891

(Thousands of yen)

Assets	Previous fiscal year	Current fiscal year
Reportable segment total	24,102,115	28,035,373
Intersegment eliminations	-2,591,362	-2,730,011
Total assets in the Consolidated Financial Statements	21,510,752	25,305,362

(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	784,634	742,050	-	-	784,634	742,050
Increase in property, plant and equipment and intangible assets	847,145	529,792	-	-	847,145	529,792

[Related Information]

Previous 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.

Current fiscal year (Fiscal year ended December 31, 2021)

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
6,398,831	3,081,581	4,323,466	1,234,562	15,038,440

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
6,802,482	830,270	511,276	585,309	162,267	8,891,606

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, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
Net assets per share	920.60	1,101.30
Net income per share	84.09	155.28

- 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 171,370 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 197,669 shares in the previous consolidated fiscal year and 180,977 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, 2020)	Current fiscal year (Fiscal year ended December 31, 2021)
Net income (Thousands of yen)	1,595,919	2,949,459
Amount not available for common shareholders (Thousands of yen)	—	—
Net profit available for common stocks (Thousands of yen)	1,595,919	2,949,459
Weighted-average number of common shares outstanding during the year (shares)	18,977,757	18,994,396

(Important subsequent events)

N/A

4. Non-consolidated financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	2,735,049	4,179,503
Notes receivable - trade	92,418	91,856
Electronically recorded receivables	329,006	288,325
Accounts receivable - trade	2,027,294	2,616,844
Merchandise and finished goods	179,681	213,400
Raw materials and supplies	187,904	338,583
Prepaid expenses	11,022	11,040
Accounts receivable - other	48,518	58,173
Other	13,339	25,991
Total current assets	5,624,234	7,823,718
Non-current assets		
Property, plant and equipment		
Buildings	3,312,188	3,569,165
Structures	145,269	146,834
Machinery and equipment	649,984	486,548
Vehicles	16,754	16,399
Tools, furniture and fixtures	206,181	246,918
Land	2,274,036	2,274,036
Construction in progress	461,435	62,579
Total property, plant and equipment	7,065,849	6,802,482
Intangible assets		
Leasehold right	29,380	29,380
Software	99,238	100,921
Other	2,023	151
Total intangible assets	130,641	130,452
Investments and other assets		
Investment securities	859,665	1,303,230
Affiliated company shares	1,057,492	1,057,492
Capital	77,630	5
Long-term loans receivable from subsidiaries and affiliates	414,000	516,000
Long-term prepaid expenses	28	108,300
Prepaid pension expense	529,943	604,824
Other	14,625	16,048
Total investments and other assets	2,953,385	3,605,901
Total non-current assets	10,149,876	10,538,836
Total assets	15,774,111	18,362,554

(Thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Notes payable	628,533	58,933
Electronically recorded obligations-operating	—	748,762
Accounts payable -trade-	278,268	365,519
Short-term loans payable	400,000	—
Accounts payable -other-	358,546	253,749
Accrued expenses	123,523	138,829
Income taxes payable	261,623	640,290
Deposits received	66,375	90,778
Provision for bonuses	315,726	329,849
Provision for directors' bonuses	38,005	41,760
Notes payable - facilities	120,589	25,500
Electronically recorded obligations-operating-facilities	—	65,077
Accrued expenses - facilities	245,179	79,077
Other	2,528	5,276
Total current liabilities	2,838,899	2,843,402
Non-current liabilities		
Long-term loans payable	96,992	211,238
Asset retirement obligations	587	587
Provision for retirement benefits	22,000	—
Provision for Share-based compensation	79,699	64,487
Other	23,855	23,877
Total non-current liabilities	223,134	300,189
Total liabilities	3,062,034	3,143,592
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	10,600,000	11,300,000
Retained earnings brought forward	1,715,463	3,276,707
Total retained earnings	12,379,021	14,640,264
Treasury shares	-1,175,844	-1,141,081
Total shareholders' equity	12,338,592	14,634,599
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	373,484	584,363
Total valuation and translation adjustments	373,484	584,363
Total net assets	12,712,077	15,218,962
Total liabilities and net assets	15,774,111	18,362,554

(2) Statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales	8,397,576	10,556,738
Cost of sales	3,224,223	3,821,988
Gross profit	5,173,352	6,734,750
Selling, general and administrative expenses	3,512,616	3,647,071
Operating profit	1,660,736	3,087,678
Non-operating income		
Interest and dividend income	339,716	438,811
Proceeds from sales of prototypes	10,028	5,897
Foreign exchange gains	—	88,842
Other	11,850	32,966
Total non-operating income	361,595	566,517
Non-operating expenses		
Interest expenses	500	199
Foreign exchange losses	39,965	—
Other	324	292
Total non-operating expenses	40,790	491
Ordinary profit	1,981,541	3,653,704
Extraordinary income		
Gain on sales of non-current assets	149	8
Gain on sales of investment securities	2,018	—
Total extraordinary income	2,168	8
Extraordinary losses		
Loss on retirement of non-current assets	64,490	2,449
	344,398	—
Total extraordinary losses	408,889	2,449
Profit before income taxes	1,574,820	3,651,262
Income taxes - current	393,971	831,755
Income taxes - deferred	17,467	21,352
Total income taxes	411,439	853,107
Profit	1,163,380	2,798,154

(3) Statement of changes in shareholders' equity

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

(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	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

Current fiscal year (Fiscal year ended December 31, 2021)

(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	10,600,000	1,715,463	12,379,021
Changes of items during period								
Provision of general reserve						700,000	-700,000	—
Dividends of surplus							-536,911	-536,911
Net income							2,798,154	2,798,154
Purchase of treasury shares								
Disposal of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	—	—	—	700,000	1,561,243	2,261,243
Balance at end of current period	594,142	446,358	94,914	541,273	63,557	11,300,000	3,276,707	14,640,264

	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	-1,175,844	12,338,592	373,484	373,484	12,712,077
Changes of items during period					
Provision of general reserve		—			—
Dividends of surplus		-536,911			-536,911
Net income		2,798,154			2,798,154
Purchase of treasury shares	-286	-286			-286
Disposal of treasury shares	35,049	35,049			35,049
Net changes of items other than shareholders' equity			210,878	210,878	210,878
Total changes of items during period	34,763	2,296,006	210,878	210,878	2,506,885
Balance at end of current period	-1,141,081	14,634,599	584,363	584,363	15,218,962