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February 14, 2023

Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 (Under Japanese GAAP)

Company name: MEC COMPANY LTD.
 Listing: Tokyo Stock Exchange (Securities code: 4971)
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 Scheduled date of annual general meeting of shareholders: March 23, 2023
 Scheduled date to commence dividend payments: March 2, 2023
 Scheduled date to file annual securities report: March 24, 2023
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors, securities analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(1) Operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended								
December 31, 2022	16,329	8.6	4,004	1.6	4,246	3.5	3,064	3.9
December 31, 2021	15,038	25.8	3,939	66.2	4,104	71.8	2,949	84.8

Note: Comprehensive income For the fiscal year ended December 31, 2022: ¥3,173 million [-19.9%]
 For the fiscal year ended December 31, 2021: ¥3,960 million [110.9%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2022	161.22	-	13.8	16.1	24.5
December 31, 2021	155.28	-	15.4	17.5	26.2

Reference: Share of profit (loss) of entities accounted for using equity method
 For the fiscal year ended December 31, 2022: ¥- million
 For the fiscal year ended December 31, 2021: ¥- million

(2) Financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2022	27,499	23,325	84.8	1,226.98
December 31, 2021	25,305	20,929	82.7	1,101.30

Reference: Equity
 As of December 31, 2022: ¥23,325 million
 As of December 31, 2021: ¥20,929 million

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2022	3,810	-939	-800	7,776
December 31, 2021	3,013	-1,117	-916	5,620

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1Q-end	2Q-end	3Q-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2021	-	14.00	-	21.00	35.00	671	22.5	3.5
FY2022	-	20.00	-	25.00	45.00	862	27.9	3.9
FY2023 (Forecast)	-	20.00	-	25.00	45.00		38.9	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2023 (January 1, 2023 to December 31, 2023)
(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	%	Millions of yen
1st half	6,500	-20.0	800	-61.6	850	-64.2	600	-63.9	31.56
Full year	15,000	-8.1	3,000	-25.1	3,100	-27.0	2,200	-28.2	115.72

* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Changes in accounting policies, changes in accounting estimates, and restatement
 - (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None
- (3) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2022	20,071,093 shares
As of December 31, 2021	20,071,093 shares

- (ii) Number of treasury shares at the end of the period

As of December 31, 2022	1,060,144 shares
As of December 31, 2021	1,067,143 shares

- (iii) Average number of shares outstanding during the period

Fiscal year ended December 31, 2022	19,008,402 shares
Fiscal year ended December 31, 2021	18,994,396 shares

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(1) Operating results

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2022	10,551	-0.0	2,693	-12.8	3,362	-8.0	2,578	-7.8
December 31, 2021	10,556	25.7	3,087	85.9	3,653	84.4	2,798	140.5

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2022	135.66	-
December 31, 2021	147.31	-

(2) Financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2022	19,798	16,773	84.7	882.28
December 31, 2021	18,362	15,218	82.9	800.83

Reference: Equity

As of December 31, 2022: ¥16,773 million
As of December 31, 2021: ¥15,218 million

- * Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.
- * Proper use of earnings forecasts, and other special matters
 - 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 Tuesday, February 14, 2023 and Wednesday, February 15, 2023. Materials of financial results briefings are posted on our website.

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

During the consolidated fiscal year under review (January 1, 2022 to December 31, 2022), both the global and Japanese economies faced a variety of challenges, including rising global prices, monetary tightening, Russia's protracted invasion of Ukraine, energy issues, and soaring raw material and crude oil prices. While there are ongoing efforts to both control the spread of COVID-19 and promote economic activities, which has resulted in the easing of restrictions on business activities, the unpredictable situation continued to carry the risk of an economic slump.

In the electronics industry, demand for consumer electronic devices such as personal computers, smartphones, displays, and tablet PCs remained weak due to stagnant personal consumption, and data centers, which had been a strong field as a result of investments in digital transformation (DX) and a response to new lifestyles, also entered an adjustment phase. Affected by the developments of the electronics industry, the electronic substrate and component industries, with which the Group has strong ties, saw an increased demand for package substrates equipped with semiconductors, which has a strong influence on the Company, and entered an inventory cycle adjustment phase.

In this environment, the Group has focused on developing and selling products for high-density electronic substrates. On the sales trends front for major products based on a comparison with the previous period, despite the impact of the semiconductor market conditions, the CZ Series of ultra-roughening adhesion improvers, which has a high share in the market for package substrates equipped with semiconductors, performed well thanks to the increase in size and multilayer structure of package substrates, contributing to an increase in sales. Sales of the V-Bond Series of adhesion improvers for multilayer electronic substrates remained almost flat due to a decrease in production of automobiles and smartphones. Sales of the SF Series and EXE Series for displays declined significantly due to sluggish demand for related electronic equipment, affected by cooling consumer sentiment and inventory adjustments.

As a result, net sales for the consolidated fiscal year under review amounted to 16,329 million yen (up 1,290 million yen, or 8.6%, compared to the previous period). Selling, general and administrative expenses were 5,799 million yen (up 415 million yen, or 7.7%, compared to the previous period), operating income was 4,004 million yen (up 64 million yen, or 1.6%, compared to the previous period), and operating income to net sales was 24.5%, down 1.7 percentage points compared to the 26.2% of the previous period. Ordinary income was 4,246 million yen (up 142 million yen, or 3.5%, compared to the previous period). Net income before income taxes amounted to 4,224 million yen (up 132 million yen, or 3.2%, compared to the previous period), and net income attributable to owners of parent was 3,064 million yen (up 115 million yen, or 3.9%, compared to the previous period).

Looking at a breakdown of sales, sales of chemicals were 16,042 million yen (up 1,285 million yen, or 8.7%, compared to the previous period), machinery sales were 170 million yen (up 2 million yen, or 1.7%, compared to the previous period), sales of materials were 108 million yen (up 16 million yen, or 18.4%, compared to the previous period), and other sales were 8 million yen (down 14 million yen, or 65.0%, compared to the previous period).

The overseas sales ratio was 60.7%, up 3.2 percentage points compared to the 57.5% of the previous period.

The overseas sales ratio, including sales to overseas customers through agents in Japan, was 78.8%, up 2.2 percentage points compared to the 76.6% of the previous period.

Results by segment are as follows.

In Japan, although server-related products performed strongly, inventory cycle adjustments occurred in the second half of the year, and display-related products also had a negative effect due to inventory adjustments of displays. Sales in the South Korean market, covered by Japanese agents, were affected by the demand trend for displays. Net sales for the consolidated fiscal year under review were 6,647 million yen (down 15 million yen, or 0.2%, compared to the previous period) and segment profit was 2,693 million yen (down 394 million yen, or 12.8%, compared to the previous period).

In Taiwan, despite the impact of a temporary slowdown in customer operations due to the effects of

COVID-19, sales of server-related products remained strong, though inventory cycle adjustments occurred in the second half of the year, and with the demand trend for displays, net sales for the consolidated fiscal year under review were 3,492 million yen (up 410 million yen, or 13.3%, compared to the previous period), and segment profit was 471 million yen (up 70 million yen, or 17.5%, compared to the previous period).

In Hong Kong (Hong Kong, Zhuhai), there was a slowdown in the production of automobiles and smartphones, and demand for our related products declined. As a result, net sales for the consolidated fiscal year under review were 1,973 million yen (up 81 million yen, or 4.3%, compared to the previous period), and segment profit was 330 million yen (down 106 million yen, or 24.4%, compared to the previous period).

In China (Suzhou), although production of servers and smartphones remained relatively firm, demand slowed in the second half. Net sales for the consolidated fiscal year under review were 2,812 million yen (up 367 million yen, or 15.0%, compared to the previous period) and segment profit was 322 million yen (down 67 million yen, or 17.4%, compared to the previous period).

Europe started to signal a recovery in customer activities for production amid the high inflation. Net sales for the consolidated fiscal year under review were 806 million yen (up 162 million yen, or 25.2%, compared to the previous period) and segment profit was 79 million yen (up 34 million yen, or 75.1%, compared to the previous period).

We launched operations in Thailand in September 2019 in order to cultivate the growing Southeast Asian markets going forward. There was progress in shifting our production sites from Japan to Thailand, and substrate manufacturers have increased their capital investments in Southeast Asia. As a result, operations for new customers have taken off. Net sales for the consolidated fiscal year under review were 597 million yen (up 284 million yen, or 90.9%, compared to the previous period), and segment profit was 82 million yen (compared to a loss of 43 million yen last period).

(2) Analysis relating to the financial situation

Assets came to 27,499 million yen, up 2,193 million yen compared to the previous period, due to an increase in deposits and inventories and cash as a result of increased revenue.

Liabilities came to 4,173 million yen, down 203 million yen compared to the previous period, mainly due to a decrease in income taxes payable.

Total net assets came to 23,325 million yen, up 2,396 million yen compared to the previous period, due to an increase in retained earnings and foreign currency translation adjustments caused by the weaker yen.

As a result of the above, the equity ratio reached 84.8%, and ROE was 13.8%.

(3) Analysis relating to the cash flows

Looking at the financial position for the end of the current consolidated fiscal year, cash and cash equivalents (hereinafter referred to as “cash”) were 7,776 million yen, an increase of 2,156 million yen compared to the end of the previous consolidated fiscal year.

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

(Cash flow from operating activities)

Cash from operating activities amounted to 3,810 million yen (up 797 million yen compared to the previous period). Though this was mainly because net income before income taxes came to 4,224 million yen and depreciation and amortization was 759 million yen; however, income taxes paid were 1,351 million yen.

(Cash flow from investment activities)

As a result of investment activities, cash used amounted to 939 million yen (down 178 million yen compared to the previous period). This was mainly because the purchase of tangible fixed assets came to 572 million yen, and the proceeds from sales of investment securities came to 273 million yen.

(Cash flow from financial activities)

As a result of investment activities, cash used amounted to 800 million yen (down 115 million yen compared to the previous period). This was mainly because dividends paid came to 785 million

Changes in cash flow indicators

	Year ended December 2018	Year ended December 2019	Year ended December 2020	Year ended December 2021	Year ended December 2022
Equity ratio (%)	81.5	80.5	81.2	82.7	84.8
Equity ratio based on market value (%)	109.2	143.6	200.3	300.8	143.7
Debt repayment period (years)	0.4	0.3	0.2	0.0	0.0
Interest coverage ratio	1,425.5	855.2	1,839.8	3,698.6	3,836.1

- (Note)
- Equity ratio : Shareholders' equity / total assets
- Equity ratio based on market value : Stock market capitalization / total assets
- Debt repayment period : Interest-bearing debt / cash flow from operating activities
- Interest coverage ratio : Cash flow from operating activities / interest payment

- 1 Each of these indicators was calculated on a consolidated basis.
- 2 Stock market capitalization is calculated by multiplying the closing share price by the number of shares outstanding at the end of the period.
- 3 The figures for operating cash flow come from the "cash flow from operating activities" in the consolidated statements of cash flows. Interest-bearing debt consists of all liabilities on which interest is paid that are recorded in the consolidated balance sheet. Further, the figures for interest payment come from the amount of interest paid as stated in the consolidated statements of cash flows.

(4) Statement of forward looking

The outlook for the future is expected to continue to require close attention due to the prolonged situation between Russia and Ukraine, energy issues, soaring prices, and fluctuations in foreign exchange rates.

In the electronics industry, our Group's main market, technological innovation is progressing against the backdrop of the spread of technologies such as IoT, AI, 5G, electrification of vehicles, and progress in DX and GX (Green Transformation), and our related markets are expected to expand in the medium to long term. In particular, demand for the CZ Series is expected to grow thanks to an increase in the number of package substrates due to growing demand for semiconductors and the need for larger, multilayered products due to higher performance. In the next period, however, taking into account the semiconductor market, which is in an adjustment phase, stagnation of personal consumption, etc., for the Group's consolidated financial forecast, we expect net sales of 15,000 million yen (down 1,329 million yen, or 8.1%, compared to the current period), operating income of 3,000 million yen (down 1,004 million yen, or 25.1%, compared to the current period), operating income to net sales of 20.0% (down 4.5 percentage points compared to the current period), ordinary income of 3,100 million yen (down 1,146 million yen, or 27.0%, compared to the current period), and net income attributable to owners of parent of 2,200 million yen (down 864 million yen, or 28.2%, compared to the current period). ROE is forecast to be 9.2%

(Reference)

	FY 2022 (Million yen)	FY 2023 (Forecast) (Million yen)	Increase or decrease (%)
Net sales	16,329	15,000	-8.1
Operating income	4,004	3,000	-25.1
Ordinary income	4,246	3,100	-27.0
Profit attributable to owners of parent	3,064	2,200	-28.2
Net income per share (yen)	161.22	115.72	-
Operating margin	24.5	20.0	-4.5 points
ROE (%)	13.8	9.2	-4.6 points

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

	FY 2022 (Yen)	FY 2023 (Forecast) (Yen)
US \$	130.78	128.03
NT \$	4.40	4.37
RMB ¥	19.39	19.33
HK \$	16.70	16.34
€	137.93	136.04
THB	3.73	3.69

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, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	7,152,812	9,443,157
Notes and accounts receivable - trade	*1 4,858,183	*1 4,357,179
Merchandise and finished goods	*1 288,325	*1 346,137
Work in process	589,951	662,232
Raw materials and supplies	223,120	170,245
Deferred tax assets	580,226	835,868
Other	150,840	177,391
Allowance for doubtful accounts	-3,969	-5,052
Total current assets	13,839,489	15,987,160
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,714,181	8,043,776
Accumulated depreciation	-3,143,829	-3,482,196
Buildings and structures, net	*2 4,570,352	*2 4,561,580
Machinery, equipment and vehicles	3,181,056	3,350,569
Accumulated depreciation	-2,381,671	-2,566,484
Machinery, equipment and vehicles, net	799,384	784,084
Tools, furniture and fixtures	1,450,055	1,558,675
Accumulated depreciation	-1,050,503	-1,163,597
Tools, furniture and fixtures, net	399,551	395,077
Land	*2 3,008,363	*2 3,043,312
Right-of-use asset	62,753	72,624
Accumulated depreciation	-20,637	-29,098
Right-of-use asset, net	42,115	43,526
Construction in progress	71,838	132,264
Total property, plant and equipment	8,891,606	8,959,846
Intangible assets	147,248	146,952
Investments and other assets		
Investment securities	1,303,230	1,258,288
Retirement benefits assets	956,448	1,006,614
Deferred tax assets	9,354	4,546
Other	157,984	135,758
Total investments and other assets	2,427,017	2,405,208
Total non-current assets	11,465,872	11,512,007
Total assets	25,305,362	27,499,168

(Thousands of yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*1 987,823	*1 816,644
Electronically recorded monetary claims-operating	748,762	851,092
Accounts payable - other	404,291	443,340
Accrued expenses	157,453	159,207
Income taxes payable	748,939	398,874
Provision for bonuses	332,347	330,439
Provision for directors' bonuses	41,760	48,156
Accounts payable - facilities	93,926	216,996
Other	276,061	297,262
Total current liabilities	3,791,366	3,562,013
Non-current liabilities		
Deferred tax liabilities	477,768	481,519
Retirement benefit liability	2,038	2,036
Provision for Share-based compensation	64,487	89,465
Other	40,594	38,154
Total non-current liabilities	584,888	611,175
Total liabilities	4,376,254	4,173,189
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	18,996,261	21,274,593
Treasury shares	-1,141,081	-1,131,394
Total shareholders' equity	18,990,595	21,278,614
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	584,363	336,141
Foreign currency translation adjustment	1,119,580	1,514,627
Remeasurements of defined benefit plans	234,568	196,595
Total accumulated other comprehensive income	1,938,512	2,047,364
Total net assets	20,929,107	23,325,978
Total liabilities and net assets	25,305,362	27,499,168

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

(Thousands of yen)

	Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
Net sales		15,038,440		16,329,105
Cost of sales	*1	5,715,049	*1	6,525,232
Gross profit		9,323,391		9,803,872
Selling, general and administrative expenses	*2,*3	5,383,499	*2,*3	5,799,416
Operating profit		3,939,891		4,004,456
Non-operating income				
Interest income		28,665		28,944
Dividends income		11,871		13,942
Proceeds from sales of prototypes		5,897		6,525
Gain on investments in partnership		23,467		17,323
Foreign exchange gains		80,556		116,105
Other		19,735		70,085
Total non-operating income		170,193		252,926
Non-operating expenses				
Interest expenses		842		699
Sales discounts		3,858		4,447
Foreign exchange losses		894		5,654
Other		5,595		10,801
Total non-operating expenses		4,104,489		4,246,581
Ordinary profit				
Extraordinary income	*4	1,694	*4	1,343
Gain on sales of non-current assets		—		19
Gain on sales of investment securities		1,694		1,363
Total extraordinary income				
Extraordinary losses	*5	312		2
Loss on sales of noncurrent assets	*6	13,518	*6	23,088
Loss on retirement of non-current assets		—		333
Total extraordinary losses		13,830		23,424
Profit before income taxes		4,092,353		4,224,520
Income taxes - current		1,153,253		1,025,000
Income taxes - deferred		-10,360		135,000
Total income taxes		1,142,893		1,160,000
Net income		2,949,459		3,064,520
Profit attributable to owners of parent		2,949,459		3,064,520

(Consolidated statement of comprehensive income)

(Thousands of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit	2,949,459	3,064,520
Other comprehensive income		
Valuation difference on available-for-sale securities	210,878	-248,221
Foreign currency translation adjustment	755,678	395,046
Remeasurements of defined benefit plans	44,377	-37,973
Total other comprehensive income	* 1,010,934	* 108,851
Comprehensive income	3,960,393	3,173,372
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,960,393	3,173,372
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statement of changes in shareholders' equity

Previous 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 during the 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 during the 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

Current fiscal year (January 1, 2022 to December 31, 2022)

(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	18,996,261	-1,141,081	18,990,595
Changes of items during period					
Dividends of surplus			-786,188		-786,188
Net income			3,064,520		3,064,520
Purchase of treasury shares				-102	-102
Disposal of treasury shares				9,789	9,789
Net changes of items other than shareholders' equity(net)					
Total changes of items during period	—	—	2,278,332	9,686	2,288,018
Balance at end of current period	594,142	541,273	21,274,593	-1,131,394	21,278,614

(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	584,363	1,119,580	234,568	1,938,512	20,929,107
Changes of items during period					
Dividends of surplus					-786,188
Net income					3,064,520
Purchase of treasury shares					-102
Disposal of treasury shares					9,789
Net changes of items other than shareholders' equity(net)	-248,221	395,046	-37,973	108,851	108,851
Total changes of items during period	-248,221	395,046	-37,973	108,851	2,396,870
Balance at end of current period	336,141	1,514,627	196,595	2,047,364	23,325,978

(4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	4,092,353	4,224,520
Depreciation	742,050	759,586
Increase (decrease) in allowance for doubtful accounts	311	731
Increase (decrease) in provision for share-based compensation	-15,212	24,978
Increase (decrease) in provision for bonuses	14,123	-2,004
Increase (decrease) in provision for directors' bonuses	3,755	6,396
Increase (decrease) in net defined benefit liability	-22,949	-211
Decrease (increase) in net defined benefit asset	-145,735	-49,817
Interest and dividend income	-40,536	-42,886
Interest expenses	842	699
Decrease (increase) in notes and accounts receivable - trade	-914,460	592,012
Decrease (increase) in inventories	-321,354	-185,146
Increase (decrease) in notes and accounts payable - trade	373,500	-122,964
Loss (gain) on sales of investment securities	—	313
Loss (gain) on investments in partnership	-23,467	-17,323
Other	41,562	-72,088
Subtotal	3,784,781	5,116,796
Interest and dividend income received	38,400	47,084
Interest expenses paid	-814	-993
Income taxes paid	-808,847	-1,351,907
Net cash provided by (used in) operating activities	3,013,519	3,810,979
Cash flows from investing activities		
Payments into time deposits	-2,391,987	-2,593,336
Proceeds from withdrawal of time deposits	2,132,877	2,531,636
Purchase of property, plant and equipment	-666,930	-572,747
Proceeds from sales of property, plant and equipment	3,302	1,869
Purchase of intangible assets	-36,371	-30,357
Purchase of investment securities	-37,328	-273,846
Proceeds from sales of investment securities	—	26
Other	-121,400	-2,605
Net cash provided by (used in) investing activities	-1,117,838	-939,362

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Cash flows from financing activities		
Net increase (decrease) in short-term loans	-400,000	—
Proceeds from sales of treasury shares	35,049	—
Purchase of treasury shares	-286	-102
Cash dividends paid	-536,723	-785,380
Payments for repayment of lease obligations	-14,144	-14,988
Net cash provided by (used in) financing activities	-916,105	-800,471
Effect of exchange rate change on cash and cash equivalents	169,490	85,720
Net increase (decrease) in cash and cash equivalents	1,149,065	2,156,866
Cash and cash equivalents at beginning of year	4,471,026	5,620,092
Cash and cash equivalents at end of year	* 5,620,092	* 7,776,959

(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 for recognition of significant revenues and expenses

The Group's main business is the sale of chemicals for electronic substrates and electronic components, machinery for electronic substrates, and merchandise and finished goods regarding materials for electronic substrates.

Revenue from the sale of products (chemicals) and products (materials) is recognized at the time the product is delivered to the customer based on the provisions of the contract, or at the time the risk burden is transferred to the customer under the terms of trade stipulated in the Incoterms, etc., and the customer gains control of the product, as that is when it is determined that performance obligations have been fulfilled. However, for domestic transactions of products, etc., revenue is recognized at the time of shipment if the period from the time of shipment to the time when control of the product, etc.,

is transferred to the customer is an ordinary period, by applying the alternative treatment set forth in Paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition."

Revenue from the sales of products (machinery) is recognized at the time of acceptance by the customer.

Revenue from the sales of products (materials) for which the Company's Group is deemed to be an agent is recognized as the net amount of the total amount of consideration received from the customer minus the amount paid to the suppliers.

Furthermore, since business partner considerations are mainly received within one year after the fulfillment of the performance obligation, no significant elements are included.

(6) 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.

(7) 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.

(Significant accounting estimates)

N/A

(Changes in accounting policies)

(Accounting Standard for Revenue Recognition)

The Company has decided to apply Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter under review and recognize revenue from goods or services that the Company promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services has been transferred to a customer.

For this reason, revenue associated with some of the direct shipment transactions, which was previously recognized as the gross amount of consideration received from customers, is now recognized as the gross amount net of payments to suppliers, etc. after the function of the Company (itself or its agents) in providing goods or services to customers is assessed.

The application of Accounting Standard for Revenue Recognition follows the provisional treatment stipulated in the proviso of Paragraph 84 of Accounting Standard for Revenue Recognition, and retained earnings at the beginning of the first quarter under review are adjusted before the new accounting policy is applied to this initial balance.

This change has no impact on the initial balance of the quarter under review.

As a result, net sales for the consolidated fiscal year under review decreased by 34,328,000 yen, and the cost of sales decreased by 34,328,000 yen.

In accordance with transitional treatment set forth in Page 89-3 of the Accounting Standard for Revenue Recognition, notes on revenue recognition for the previous consolidated fiscal year are not included.

(Accounting Standard for Fair Value Measurement)

The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019), etc., has been applied from the beginning of the consolidated fiscal year under review, and in accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Market Value and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the new accounting policies set forth in the Accounting Standard for Fair Value Measurement, etc., shall be applied in the future. This will have no impact on the consolidated financial statements.

In addition, notes on matters related to the breakdown, etc., of the fair value of financial instruments by level, etc., will be provided in the notes on financial instruments. However, in accordance with the transitional treatment set forth in Paragraph 7-4 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), the notes relating to the previous consolidated fiscal year will not be included.

(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, 2021)	Current fiscal year (As of December 31, 2022)
Notes receivable	11,643	5,531
Electronically recorded receivable	3,465	7,326
Notes payable-trade	33,893	51,007

*2 Pledged assets

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Buildings and structures	83,535	83,535
Land	27,421	29,715
Total	110,956	116,732

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, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
	2,757	-40,982

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

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
Provision of allowance for doubtful accounts	-676	731
Salaries and bonuses	1,399,765	1,564,067
Packing and transportation expenses	780,389	886,798
Provision for allowance for bonuses	171,116	177,308
Provision for directors' bonuses	41,760	48,156
Provision for share-based compensation	11,823	32,426
Retirement benefit expenses	71,338	75,440
Research and development expenses	1,323,746	1,330,207

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

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
	1,323,746	1,330,207

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

	Previous fiscal year (Fiscal year ended December 31, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
Machinery, equipment and vehicles	1,581	1,343
Tools, furniture and fixtures	112	-
Total	1,694	1,343

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

	Previous fiscal year (Fiscal year ended December 31, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
Machinery, equipment and vehicles	64	-
Tools, furniture and fixtures	248	2
Total	312	2

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

	Previous fiscal year (Fiscal year ended December 31, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
Buildings and structures	0	646
Machinery, equipment and vehicles	5,940	3,270
Tools, furniture and fixtures	4,796	853
Right-of-use assets	924	-
Construction in progress	-	10,269
Intangible fixed assets	1,857	-
Fixed asset removal costs	-	8,048
Total	13,518	23,088

(Matters related to consolidated statement of comprehensive income)

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

	Previous fiscal year (Fiscal year ended December 31, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
Valuation difference on available-for-sale securities:		
Amount arising in the current fiscal year under review	303,772	-357,564
Amount of reclassification adjustment	-	-
Before income tax effect	303,772	-357,564
Income tax effect	-92,893	109,343
Valuation difference on available-for-sale securities	210,878	-248,221
Foreign currency translation adjustment:		
Amount arising in the current fiscal year under review	755,678	395,046
Adjustments related to retirement benefits:		
Amount arising in the current fiscal year under review	120,364	14,906
Amount of reclassification adjustment	-56,438	-69,606
Before income tax effect	63,926	-54,700
Income tax effect	-19,548	16,727
Adjustments related to retirement benefits	44,377	-37,973
Other comprehensive income	1,010,934	108,851

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

Previous 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	1,093,341	101	26,299	1,067,143
Total	1,093,341	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 11, 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 12, 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.

Current fiscal year (Fiscal year ended December 31, 2022)

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	1,067,143	42	7,041	1,060,144
Total	1,067,143	42	7,041	1,060,144

- (Note)1. A total of 164,329 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 42 shares was due to the purchase of shares less than one unit.
3. The decrease of 7,041 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 14 2022 Board of directors' meeting	Common stock	402,681	21	December 31, 2021	March 2, 2022
August 10, 2022 Board of directors' meeting	Common stock	383,506	20	June 30, 2022	September 6, 2021

- (Note)1. 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.
2. The total amount of dividends based on a resolution made by the Board of Directors on August 10, 2021, includes a dividend of 3,286 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, 2023 Board of directors' meeting	Common stock	479,381	Retained earnings	25	December 31, 2022	March 2, 2023

- (Note) The total amount of dividends based on a resolution made by the Board of Directors on February 14, 2023, includes a dividend of 4,108 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, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
Cash and deposits	7,152,812	9,443,157
Time deposits with maturities extending over three months	-1,532,719	-1,666,198
Cash and cash equivalents	5,620,092	7,776,959

(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.

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, 2021)	Consolidated fiscal year (Fiscal year ended December 31, 2022)
Beginning balance of the retirement benefit obligation	958,964	996,937
Service costs	74,707	79,264
Interest expense	6,712	4,984
Accruals of actuarial gains and losses	36,174	-99,487
Payment of retirement benefits	-79,622	-57,807
Balance of retirement benefit obligations at end of year	996,937	923,891

(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, 2021)	Consolidated fiscal year (Fiscal year ended December 31, 2022)
Beginning balance of pension assets	1,762,879	1,939,658
Accruals of actuarial gains and losses	-	1,939
Contributions from the employer	156,539	-84,581
Payment of retirement benefits	99,862	106,699
Balance of the pension assets at end of year	-79,622	-57,807

(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, 2021)	Consolidated fiscal year (Fiscal year ended December 31, 2022)
Beginning balance of the liability for retirement benefits	19,333	-11,688
Payment of retirement benefits	-5,533	-8,865
Payment of retirement benefits	-24,344	-1,867
Other	-1,143	-139
Ending balance of the liability for retirement benefits	-11,688	-22,560

(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, 2021)	Consolidated fiscal year (Fiscal year ended December 31, 2022)
Retirement benefit obligation of funded plans	1,029,655	954,941
Pension assets	-1,986,103	-1,961,556
	-956,448	-1,006,614
Retirement benefit obligation of unfunded plans	2,038	2,038
Net amount of liabilities and assets that have been recorded in the consolidated balance sheet	-954,410	-1,006,614
Liabilities related to retirement benefits	2,038	2,036
Net defined benefit asset	-956,448	-1,006,614
Net amount of liabilities and assets that have been recorded in the consolidated balance sheet	-954,410	-1,004,578

(5) Amount of retirement benefit costs and their breakdown

(Thousands of yen)

	Previous consolidated fiscal year (As of December 31, 2021)	Consolidated fiscal year (As of December 31, 2022)
Service cost	74,707	79,264
Interest expense	6,712	4,984
Expensed amount of actuarial gains and losses	-	-1,939
Retirement benefit costs which are calculated using the simplified method	-56,438	-69,606
Retirement benefit cost of defined benefit plans	19,448	3,837

(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, 2021)	Consolidated fiscal year (As of December 31, 2022)
Accruals of actuarial gains and losses	-63,926	54,700
Total	-63,926	54,700

(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, 2021)	Consolidated fiscal year (As of December 31, 2022)
Difference with unrecognized actuarial gain and loss	-337,897	-283,196
Total	-337,897	-283,196

(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, 2021)	Consolidated fiscal year under review (As of December 31, 2022)
Bonds	35%	33%
Stocks	41%	37%
General accounts	20%	22%
Other	4%	8%
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, 2021)	Consolidated fiscal year under review (As of December 31, 2022)
Discount rate	0.5%	1.7%
Expected long-term rate of return on pension assets	0.0%	0.1%

3. Defined contribution plans

The required contributions to defined contribution plans of consolidated subsidiaries that use defined contribution plans came to 102,171 thousand yen for the previous consolidated fiscal year (Fiscal year ended December 31, 2021) and 125,224 thousand yen for the consolidated fiscal year under review (Fiscal year ended December 31, 2022).

(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, 2021)	Current fiscal year (As of December 31, 2022)
Deferred tax assets		
Allowance for bonuses	100,867	100,255
Accrued enterprise tax	39,986	21,463
Social insurance premiums	15,366	15,275
Loss on valuation of inventory assets	27,931	22,150
Unrealized income on inventory assets	249,201	241,227
Unpaid officer retirement benefits	4,379	4,379
Loss carryforwards	125,060	138,348
Reserve for stock compensation	17,919	21,105
Impairment loss	176,238	176,806
Other	47,852	35,886
Deferred tax assets subtotal	804,805	776,898
Valuation allowance for tax loss carryforwards	-125,060	-138,348
Valuation allowance for total future deductible temporary differences	-178,821	-176,986
Valuation allowance subtotal	-303,881	-315,334
Total deferred tax assets	500,923	461,563
Deferred tax liabilities		
Valuation difference on other securities	-257,416	-148,072
Retained earnings of overseas subsidiaries	-413,232	-465,684
Retirement benefits assets	-289,749	-305,220
Other	-8,939	-19,557
Total deferred tax liabilities	-969,337	-938,535
Net deferred tax assets	-468,414	-476,972

The amount of “net deferred tax liabilities” (previous fiscal year: -468,414 thousand yen; current fiscal year: -476,972 thousand yen) is included in the following items in the consolidated balance sheet.

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Fixed assets - deferred tax assets	9,354	4,546
Fixed liabilities - deferred tax liabilities	-477,768	-481,519

(Note) 1. The valuation allowance increased by 13,287 thousand yen. This increase was mainly due to the additional recognition of 4,448 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, 2021)						Total
	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	
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.

Current fiscal year (As of December 31, 2022)

(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)	5,373	29,353	41,734	12,756	-	49,130	138,348
Valuation allowance	-5,373	-29,353	-41,734	-12,756	-	-49,130	-138,348
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, 2021)	Current fiscal year (As of December 31, 2022)
Statutory effective tax rate	30.6%	30.6%
(Adjustment)		
Permanent differences such as entertainment expenses	0.2	0.7
Inhabitant tax equivalent	0.1	0.1
Examination research expenses etc. Tax deduction	-4.6	-4.3
Foreign withholding tax	0.9	1.0
Overseas Subsidiary Income Retention Taxation	0.0	0.0
Increase (decrease) in valuation allowance	0.4	0.3
Retained earnings of foreign subsidiaries	2.1	1.2
Overseas tax rate discrepancy	-2.1	-2.3
Other	0.3	0.2
Burden of corporate tax etc. after applying tax effect accounting	27.9	27.5

(Revenue recognition)

1. Information breaking down the revenue generated from customer contracts
Current consolidated fiscal year (January 1, 2022 to December 31, 2022)

(Thousands of yen)

	Reportable segment						Annual
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Chemicals	6,457,520	3,492,110	1,973,164	2,812,729	597,121	709,420	16,042,065
Machinery	156,651	234	-	-	-	13,911	170,798
Materials	25,326	-	13	-	-	82,865	108,204
Other	7,648	-	-	-	-	388	8,036
Revenue from customer contracts	6,647,146	3,492,345	1,973,177	2,812,729	597,121	806,585	16,329,105
Sales to external customers	6,647,146	3,492,345	1,973,177	2,812,729	597,121	806,585	16,329,105

2. Information forming the basis for understanding the revenue generated from customer contracts

The information that forms the basis for understanding the revenue generated from customer contracts is described in “(Basis of presentation and summary of significant accounting policies for the preparation of consolidated financial statements) 3. Matters concerning accounting policies (5) Basis for recognition of significant revenues and expenses.”

3. Information on the relationship between fulfillment of performance obligations under contracts with customers

and cash flows arising from such contracts, and information on the amount and timing of revenue expected to be recognized from contracts with customers existing at the end of the consolidated fiscal year in review to the following consolidated fiscal year and beyond

Contractual liabilities are mainly consideration received from customers prior to delivery of products and are included in other current liabilities in the consolidated balance sheet.

The breakdown of contractual liabilities for the consolidated fiscal year under review is as follows.

Contractual liabilities (opening balance) 5,249 thousand yen

Contractual liabilities (ending balance) 15,649 thousand yen

There are no contractual assets for the consolidated fiscal year under review.

(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, 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

Current fiscal year (January 1, 2022 to December 31, 2022)

(Thousands of yen)

	Reportable segment						Total
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Net sales							
Sales to external customers	6,647,146	3,492,345	1,973,177	2,812,729	597,121	806,585	16,329,105
Inter-segment sales and transfers	3,904,677	—	99,356	11,864	12,042	98,355	4,126,296
Total	10,551,823	3,492,345	2,072,534	2,824,594	609,163	904,941	20,455,402
Segment profit	2,693,594	471,586	330,489	330,489	82,240	79,571	3,979,572
Segment assets	19,816,036	3,693,981	2,236,038	2,631,869	1,043,936	844,155	30,266,019
Other items							
Depreciation and amortization	556,684	34,929	37,169	56,197	44,078	31,722	759,586
Increase in property, plant and equipment and intangible assets	527,301	23,631	48,999	51,348	35,606	12,587	698,474

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	19,112,657	20,455,402
Intersegment eliminations	-4,074,217	-4,126,296
Sales stated in the Consolidated Financial Statements	15,038,440	16,329,105

(Thousands of yen)

Profit	Previous fiscal year	Current fiscal year
Reportable segment total	4,318,166	3,979,572
Intersegment eliminations	-378,274	24,884
Operating income in the Consolidated Financial Statements	3,939,891	4,004,456

(Thousands of yen)

Assets	Previous fiscal year	Current fiscal year
Reportable segment total	28,035,373	30,266,019
Intersegment eliminations	-2,730,011	-2,766,850
Total assets in the Consolidated Financial Statements	25,305,362	27,499,168

(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	742,050	759,586	-	-	742,050	759,586
Increase in property, plant and equipment and intangible assets	529,792	698,474	-	-	529,792	698,474

[Related Information]

Previous 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.

Current fiscal year (Fiscal year ended December 31, 2022)

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
6,420,870	3,492,345	4,773,773	1,642,116	16,329,105

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
6,776,819	856,316	546,084	624,201	156,423	8,959,846

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, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
Net assets per share	1,101.30	1,227.98
Net income per share	155.28	161.22

- 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 171,370 shares in the previous consolidated fiscal year and 164,329 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 180,977 shares in the previous consolidated fiscal year and 166,899 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, 2021)	Current fiscal year (Fiscal year ended December 31, 2022)
Net income (Thousands of yen)	2,949,459	3,064,520
Amount not available for common shareholders (Thousands of yen)	—	—
Net profit available for common stocks (Thousands of yen)	2,949,459	3,064,520
Weighted-average number of common shares outstanding during the year (shares)	18,994,396	19,008,402

(Important subsequent events)

N/A

4. Non-consolidated financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	4,179,503	5,630,217
Notes receivable - trade	91,856	42,171
Electronically recorded receivables	288,325	346,137
Accounts receivable - trade	2,616,844	2,284,477
Merchandise and finished goods	213,400	222,449
Raw materials and supplies	338,583	580,073
Prepaid expenses	11,040	12,232
Accounts receivable - other	58,173	54,432
Other	25,991	39,349
Total current assets	7,823,718	9,211,541
Non-current assets		
Property, plant and equipment		
Buildings	3,569,165	3,540,772
Structures	146,834	161,450
Machinery and equipment	486,548	470,574
Vehicles	16,399	16,270
Tools, furniture and fixtures	246,918	243,838
Land	2,274,036	2,274,036
Construction in progress	62,579	69,877
Total property, plant and equipment	6,802,482	6,776,819
Intangible assets		
Leasehold right	29,380	29,380
Software	100,921	82,656
Software in progress	—	12,000
Other	151	136
Total intangible assets	130,452	124,172
Investments and other assets		
Investment securities	1,303,230	1,258,288
Affiliated company shares	1,057,492	1,057,492
Capital	5	5
Long-term loans receivable from subsidiaries and affiliates	516,000	570,000
Long-term prepaid expenses	108,300	85,500
Prepaid pension expense	604,824	698,820
Other	16,048	16,163
Total investments and other assets	3,605,901	3,686,270
Total non-current assets	10,538,836	10,587,262
Total assets	18,362,554	19,798,804

(Thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Notes payable	58,933	32,451
Electronically recorded obligations-operating	748,762	851,092
Accounts payable -trade-	365,519	387,117
Accounts payable -other-	253,749	308,069
Accrued expenses	138,829	138,646
Income taxes payable	640,290	273,731
Deposits received	90,778	81,750
Provision for bonuses	329,849	327,845
Provision for directors' bonuses	41,760	48,156
Notes payable - facilities	25,500	—
Electronically recorded obligations-operating-facilities	65,077	66,329
Accrued expenses - facilities	79,077	215,478
Other	5,276	18,590
Total current liabilities	2,843,402	2,749,257
Non-current liabilities		
Long-term loans payable	211,238	162,583
Asset retirement obligations	587	587
Provision for Share-based compensation	64,487	89,465
Other	23,877	23,898
Total non-current liabilities	300,189	276,534
Total liabilities	3,143,592	3,025,792
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	11,300,000	12,800,000
Retained earnings brought forward	3,276,707	3,569,291
Total retained earnings	14,640,264	16,432,848
Treasury shares	-1,141,081	-1,131,394
Total shareholders' equity	14,634,599	16,436,870
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	584,363	336,141
Total valuation and translation adjustments	584,363	336,141
Total net assets	15,218,962	16,773,011
Total liabilities and net assets	18,362,554	19,798,804

(2) Statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net sales	10,556,738	10,551,823
Cost of sales	3,821,988	3,939,749
Gross profit	6,734,750	6,612,074
Selling, general and administrative expenses	3,647,071	3,918,479
Operating profit	3,087,678	2,693,594
Non-operating income		
Interest and dividend income	438,811	523,166
Proceeds from sales of prototypes	5,897	6,525
Foreign exchange gains	88,842	115,018
Other	32,966	29,454
Total non-operating income	566,517	674,165
Non-operating expenses		
Interest expenses	199	—
Other	292	4,866
Total non-operating expenses	491	4,866
Ordinary profit	3,653,704	3,362,894
Extraordinary income		
Gain on sales of non-current assets	8	206
Gain on sales of investment securities	—	19
Total extraordinary income	8	226
Extraordinary losses		
Loss on retirement of non-current assets	2,449	10,507
Loss on sale of investment securities	—	333
Total extraordinary losses	2,449	10,840
Profit before income taxes	3,651,262	3,352,280
Income taxes - current	831,755	712,819
Income taxes - deferred	21,352	60,688
Total income taxes	853,107	773,508
Profit	2,798,154	2,578,772

(3) Statement of changes in shareholders' equity

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

(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	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

Current fiscal year (Fiscal year ended December 31, 2022)

(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	11,300,000	3,276,707	14,640,264
Changes of items during period								
Provision of general reserve						1,500,000	-1,500,000	—
Dividends of surplus							-786,188	-786,188
Net income							2,578,772	2,578,772
Purchase of treasury shares								
Disposal of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	—	—	—	1,500,000	292,584	1,792,584
Balance at end of current period	594,142	446,358	94,914	541,273	63,557	11,300,000	3,276,707	16,432,848

	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	-1,141,081	14,634,599	584,363	584,363	15,218,962
Changes of items during period					
Provision of general reserve		—			—
Dividends of surplus		-786,188			-786,188
Net income		2,578,772			2,578,772
Purchase of treasury shares	-102	-102			-102
Disposal of treasury shares	9,789	9,789			9,789
Net changes of items other than shareholders' equity			-248,221	-248,221	-248,221
Total changes of items during period	9,686	1,802,270	-248,221	-248,221	1,554,049
Balance at end of current period	-1,131,394	16,436,870	336,141	336,141	16,773,011