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February 14, 2024

Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 (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 19, 2024
 Scheduled date to commence dividend payments: February 28, 2024
 Scheduled date to file annual securities report: March 21, 2024
 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, 2023 (from January 1, 2023 to December 31, 2023)

(1) Operating results

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2023	14,020	-14.1	2,492	-37.7	2,683	-36.8	2,304	-24.8
December 31, 2022	16,329	8.6	4,004	1.6	4,246	3.5	3,064	3.9

Note: Comprehensive income For the fiscal year ended December 31, 2023: ¥3,208 million [1.1%]
 For the fiscal year ended December 31, 2022: ¥3,173 million [-19.9%]

Fiscal year ended	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
	Yen	Yen	%	%	%
December 31, 2023	122.29	-	9.6	9.6	17.8
December 31, 2022	161.22	-	13.8	16.1	24.5

Reference: Share of profit (loss) of entities accounted for using equity method
 For the fiscal year ended December 31, 2023: ¥- million
 For the fiscal year ended December 31, 2022: ¥- million

(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, 2023	28,665	24,777	86.4	1,323.24
December 31, 2022	27,499	23,325	84.8	1,226.98

Reference: Equity
 As of December 31, 2023: ¥24,777 million
 As of December 31, 2022: ¥23,325 million

(3) Cash flows

Fiscal year ended	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2023	1,941	-1,397	-1,773	6,690
December 31, 2022	3,810	-939	-800	7,776

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	%	%
FY2022	-	20.00	-	25.00	45.00	862	27.9	3.9
FY2023	-	20.00	-	25.00	45.00	850	36.8	3.5
FY2024 (Forecast)	-	20.00	-	25.00	45.00		39.2	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2024 (January 1, 2024 to December 31, 2024)
(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	7,850	26.6	1,300	55.0	1,350	34.6	950	-11.7	50.73
Full year	16,300	16.3	3,000	20.3	3,100	15.5	2,150	-6.7	114.82

* 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, 2023	20,071,093 shares
As of December 31, 2022	20,071,093 shares

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

As of December 31, 2023	1,346,241 shares
As of December 31, 2022	1,060,144 shares

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

Fiscal year ended December 31, 2023	18,847,535 shares
Fiscal year ended December 31, 2022	19,008,402 shares

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

(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, 2023	8,410	-20.3	1,216	-54.8	1,923	-42.8	1,935	-24.9
December 31, 2022	10,551	-0.0	2,693	-12.8	3,362	-8.0	2,578	-7.8

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2023	102.71	-
December 31, 2022	135.66	-

(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, 2023	19,826	17,273	87.1	922.48
December 31, 2022	19,798	16,773	84.7	882.28

Reference: Equity

As of December 31, 2023: ¥17,273 million
As of December 31, 2022: ¥16,773 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 Wednesday, February 14, 2024. 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, 2023, to December 31, 2023), global inflation and monetary tightening continued, and geopolitical risks remained high, giving a sense of tension.

In the electronics industry, inventory adjustment of electronic devices such as personal computers and smartphones appears to have progressed and bottomed out. However, the recovery speed was slow, and demand remained sluggish against a backdrop of weak consumer spending. In addition, in data centers responding to advances in cloud computing, the IoT, and AI, investments in cutting-edge fields have been prioritized over traditional fields.

The electronic substrate and component industries, with which the Group has strong ties, is generally affected by the electronics industry. And related orders for the Company's products remained low. Although inventory adjustments in the industry have progressed and appear to have entered a recovery phase, the recovery has been slow.

In this environment, the Group implemented its business activities under the guideline of "Create and Transform" to achieve the Phase 1 Medium-term Management Plan (2022–2024), which is the first phase of the realization of the 2030 Vision "Create new value with visionary technology and tackle the challenges of achieving a sustainable society in collaboration with customers." The Group has focused on developing and selling products for high-density electronic substrates, in particular, at a time when society is undergoing changes and transformation toward digitalization and greening.

Results for the consolidated fiscal year under review showed a moderate recovery trend after bottoming out in the first quarter. As for sales trends of major products compared with the previous fiscal year, the EXE Series for displays showed a slight increase due to the progress of inventory adjustments of related electronic equipment. Sales of the V-Bond Series of adhesion improvers for multilayer electronic substrates decreased, although there was a trend toward recovery in related automobile production. Sales of the CZ Series of ultra-roughening adhesion improvers, which has a high share in the market for package substrates equipped with semiconductors, were affected by the electronics industry and declined, but are on a gradual but steady recovery trend. Sales of the SF Series for displays declined significantly due to weak demand for related electronic components.

As a result, net sales for the consolidated fiscal year under review amounted to 14,020 million yen (down 2,309 million yen, or 14.1%, compared with the previous period). Selling, general and administrative expenses were 5,824 million yen (up 24 million yen, or 0.4%, compared with the previous period), operating income was 2,492 million yen (down 1,511 million yen, or 37.7%, compared with the previous period), and operating income to net sales was 17.8%, down 6.7 percentage points compared with the 24.5% of the previous period. Ordinary income was 2,683 million yen (down 1,563 million yen, or 36.8%, compared with the previous period). Net income before income taxes amounted to 3,219 million yen (down 1,005 million yen, or 23.8%, compared with the previous period), and net income attributable to owners of parent was 2,304 million yen (down 759 million yen, or 24.8%, compared with the previous period).

Looking at a breakdown of sales, sales of chemicals were 13,764 million yen (down 2,277 million yen, or 14.2%, compared with the previous period), machinery sales were 112 million yen (down 58 million yen, or 34.1%, compared with the previous period), sales of materials were 139 million yen (up 30 million yen, or 28.6%, compared with the previous period), and other sales were 3 million yen (down 4 million yen, or 56.0%, compared with the previous period).

The overseas sales ratio was 62.0%, up 1.3 percentage points compared with the 60.7% of the previous period. The overseas sales ratio, including sales to overseas customers through agents in Japan, was 77.4%, down 1.4 percentage points compared with the 78.8% of the previous period.

Results by segment are as follows.

In Japan, related orders for the Company's products were weak, affected by the electronics industry. However, it showed a moderate recovery trend after bottoming out in the first quarter. In the South Korean market, covered by Japanese agents, inventory adjustments at the customer and distributor are almost complete, and orders for the Company's products are on the way to recovery. As a result, net sales for the consolidated fiscal year under review were 5,544 million yen (down 1,102 million yen, or 16.6%, compared with the previous period) and segment profit was 1,216 million yen (down 1,477 million yen, or 54.8%, compared with the previous period).

In Taiwan, the external environment was similar to that in Japan, but recovery stalled. As a result, net sales for the consolidated fiscal year under review were 2,620 million yen (down 872 million yen, or 25.0%, compared with the previous period) and segment profit was 308 million yen (down 162 million yen, or 34.5%, compared with the previous period).

In Hong Kong (Hong Kong, Zhuhai), orders for the Company's products are on a gradual recovery trend. However, demand for electronic substrates and components related to smartphones and automobiles is still weak. Net sales for the consolidated fiscal year under review were 1,717 million yen (down 255 million yen, or 13.0%, compared with the previous period) and segment profit was 240 million yen (down 90 million yen, or 27.3%, compared with the previous period).

In China (Suzhou), while some customers showed signs of recovery, demand for electronic substrates and components related to personal computers and smartphones still lacked strength. As a result, net sales for the consolidated fiscal year under review were 2,671 million yen (down 141 million yen, or 5.0%, compared with the previous period) and segment profit was 358 million yen (up 36 million yen, or 11.3%, compared with the previous period).

In Europe, customers' production activities have varied amid high inflation. As a result, net sales for the consolidated fiscal year under review were 896 million yen (up 90 million yen, or 11.2%, compared with the previous period) and segment profit was 59 million yen (down 20 million yen, or 25.2%, compared with the previous period).

In Thailand, electronic substrate manufacturers increased their capital investment in Southeast Asia. Under such circumstances, delays in the start-up of production at new customers, declining production and inventory adjustments by customers continued. Net sales for the consolidated fiscal year under review were 570 million yen (down 26 million yen, or 4.5%, compared with the previous period) and segment profit was 6 million yen (down 75 million yen, or 92.2%, compared with the previous period).

(2) Analysis relating to the financial situation

Assets came to 28,665 million yen, up 1,166 million yen compared with the previous period, due to an increase in notes and accounts receivable - trade and land.

Liabilities came to 3,887 million yen, down 285 million yen compared with the previous period, due to a decrease in electronically recorded obligations - operating.

Net assets came to 24,777 million yen, up 1,451 million yen compared with the previous period, due to an increase in retained earnings.

As a result of the above, the equity ratio reached 86.4%, and ROE was 9.6%.

(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 6,690 million yen, a decrease of 1,086 million yen compared with 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 flows from operating activities)

Cash from operating activities amounted to 1,941 million yen (down 1,869 million yen compared with the previous period).

This was mainly because the Company recorded net income before income taxes of 3,219 million yen, depreciation of 773 million yen, a decrease in notes and accounts payable - trade of 393 million yen, and income taxes paid of 936 million yen.

(Cash flows from investing activities)

As a result of investment activities, cash used amounted to 1,397 million yen (up 458 million yen compared with the previous period).

This was mainly because purchase of property, plant and equipment came to 1,857 million yen, proceeds from sale of property, plant and equipment came to 943 million yen, and payments into time deposits came to a net amount of 303 million yen.

(Cash flows from financing activities)

As a result of financing activities, cash used amounted to 1,773 million yen (up 973 million yen compared with the previous period).

This was mainly because dividends paid came to 856 million yen, and purchase of treasury shares came to 900 million yen.

Changes in cash flow indicators

	Year ended December 2019	Year ended December 2020	Year ended December 2021	Year ended December 2022	Year ended December 2023
Equity ratio (%)	80.5	81.2	82.7	84.8	86.4
Equity ratio based on market value (%)	143.6	200.3	300.8	143.7	287.1
Debt repayment period (years)	0.3	0.2	0.0	0.0	0.0
Interest coverage ratio	855.2	1,839.8	3,698.6	3,836.1	2,463.9

(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 Group is an R&D-oriented company that provides high-value-added products to customers globally, with its greatest strength in technological development centered on electronics-related interface treatment. Based on the management philosophy of "Visionary Technology," "Reliable Quality" and "Meticulous Service," the Company sets forth its 2030 vision of "Create new value with visionary technology and tackle the challenges of achieving a sustainable society in collaboration with customers" and aims to achieve sustainable growth and maximize corporate value under the guideline of "Create and Transform."

Looking at the medium- to long-term outlook for the electronics industry, the Group's main market, technological innovation is progressing, with the spread of technologies such as the IoT, AI, 5G, the electrification, automation, and connectedness of automobiles, and progress in DX (Digital Transformation) and GX (Green Transformation). The Company believes that its related markets will expand. In particular, demand for the CZ Series is expected to grow due to an increase in the number of package substrates resulting from

rising demand for semiconductors, as well as due to larger sizes and more multilayers resulting from higher performance.

In the next fiscal year, inventory adjustment for related electronic components will progress and enter a recovery phase, but at a slower pace. The Company expects a full recovery to take place in the second half of the next fiscal year. Based on these circumstances, for the Group's consolidated financial forecast, we expect net sales of 16,300 million yen (up 2,279 million yen, or 16.3%, compared with the current period), operating income of 3,000 million yen (up 507 million yen, or 20.3%, compared with the current period), operating income to net sales of 18.4% (up 0.6 percentage points compared with the current period), ordinary income of 3,100 million yen (up 416 million yen, or 15.5%, compared with the current period), and profit attributable to owners of parent of 2,150 million yen (down 154 million yen, or 6.7%, compared with the current period). ROE is forecast to be 8.5% (down 1.1 percentage points compared with the current period).

(Reference)

	FY 2023 (Million yen)	FY 2024 (Forecast) (Million yen)	Increase or decrease (%)
Net sales	14,020	16,300	16.3
Operating income	2,492	3,000	20.3
Ordinary income	2,683	3,100	15.5
Profit attributable to owners of parent	2,304	2,150	-6.7
Basic earnings per share (yen)	122.29	114.82	—
Operating margin	17.8	18.4	0.6 points
ROE (%)	9.6	8.5	-1.1 points

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

	FY 2023 (Yen)	FY 2024 (Forecast) (Yen)
US \$	140.55	138.87
NT \$	4.52	4.48
RMB ¥	19.81	19.66
HK \$	17.96	17.73
€	152.27	150.22
THB	4.04	4.01

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, 2022	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	9,443,157	8,755,863
Notes and accounts receivable - trade	4,357,179	4,766,168
Electronically recorded monetary claims	346,137	278,458
Merchandise and finished goods.	662,232	620,262
Work-in-process	170,245	127,880
Raw materials and supplies	835,868	772,256
Other	177,391	177,695
Allowance for doubtful accounts	-5,052	-5,714
Total current assets	15,987,160	15,492,870
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,043,776	7,940,205
Accumulated depreciation	-3,482,196	-3,425,889
Buildings and structures, net	4,561,580	4,514,315
Machinery, equipment and vehicles	3,350,569	3,493,027
Accumulated depreciation	-2,566,484	-2,572,272
Machinery, equipment and vehicles, net	784,084	920,755
Tools, furniture and fixtures	1,558,675	1,666,134
Accumulated depreciation	-1,163,597	-1,257,463
Tools, furniture and fixtures, net	395,077	408,671
Land	3,043,312	3,646,812
Right-of-use asset	72,624	90,302
Accumulated depreciation	-29,098	-28,712
Right-of-use asset, net	43,526	61,590
Construction in progress	132,264	268,124
Total property, plant and equipment	8,959,846	9,820,269
Intangible assets	146,952	160,182
Investments and other assets		
Investment securities	1,258,288	1,866,609
Retirement benefits assets	1,006,614	1,193,849
Deferred tax assets	4,546	11,345
Other	135,758	120,079
Total investments and other assets	2,405,208	3,191,884
Total non-current assets	11,512,007	13,172,336
Total assets	27,499,168	28,665,207

(Thousands of yen)

	As of December 31, 2022	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	816,644	722,187
Electronically recorded monetary claims- operating	851,092	597,301
Accounts payable - other	443,340	466,996
Accrued expenses	159,207	143,590
Income taxes payable	398,874	181,148
Provision for bonuses	330,439	289,944
Provision for directors' bonuses	48,156	37,822
Accounts payable - facilities	216,996	202,342
Other	297,262	230,863
Total current liabilities	3,562,013	2,872,195
Non-current liabilities		
Deferred tax liabilities	481,519	853,602
Retirement benefit liability	2,036	4,813
Provision for Share-based compensation	89,465	102,167
Other	38,154	55,019
Total non-current liabilities	611,175	1,015,603
Total liabilities	4,173,189	3,887,799
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	21,274,593	22,722,374
Treasury shares	-1,131,394	-2,031,602
Total shareholders' equity	21,278,614	21,826,187
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	336,141	658,010
Foreign currency translation adjustment	1,514,627	2,033,161
Remeasurements of defined benefit plans	196,595	260,048
Total accumulated other comprehensive income	2,047,364	2,951,220
Total net assets	23,325,978	24,777,408
Total liabilities and net assets	27,499,168	28,665,207

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

(Thousands of yen)

	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
Net sales		16,329,105		14,020,085
Cost of sales	*1	6,525,232	*1	5,703,298
Gross profit		9,803,872		8,316,786
Selling, general and administrative expenses	*2, *3	5,799,416	*2, *3	5,824,007
Operating profit		4,004,456		2,492,779
Non-operating income				
Interest income		28,944		53,388
Dividends income		13,942		13,338
Proceeds from sales of prototypes		6,525		6,377
Gain on investments in partnership		17,323		—
Foreign exchange gains		116,105		110,018
Other		70,085		23,825
Total non-operating income		252,926		206,948
Non-operating expenses				
Interest expenses		699		510
Sales discounts		4,447		—
Loss on investments in partnership		—		12,977
Other		5,654		3,023
Total non-operating expenses		10,801		16,511
Ordinary profit		4,246,581		2,683,216
Extraordinary income				
Gain on sales of non-current assets	*4	1,343	*4	557,058
Gain on sales of investment securities		19		344
Total extraordinary income		1,363		557,403
Extraordinary losses				
Loss on sales of non-current assets	*5	2	*5	—
Loss on retirement of non-current assets	*6	23,088	*6	21,543
Loss on sale of investment securities		333		—
Total extraordinary losses		23,424		21,543
Profit before income taxes		4,224,520		3,219,076
Income taxes - current		1,025,000		719,150
Income taxes - deferred		135,000		194,978
Total income taxes		1,160,000		914,128
Net income		3,064,520		2,304,947
Profit attributable to owners of parent		3,064,520		2,304,947

(Consolidated statement of comprehensive income)

(Thousands of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit	3,064,520	2,304,947
Other comprehensive income		
Valuation difference on available-for-sale securities	-248,221	321,868
Foreign currency translation adjustment	395,046	518,534
Remeasurements of defined benefit plans	-37,973	63,453
Total other comprehensive income	* 108,851	* 903,856
Comprehensive income	3,173,372	3,208,804
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,173,372	3,208,804
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statement of changes in shareholders' equity

Previous fiscal year (From 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 during the period					
Dividends of surplus			-786,188		-786,188
Profit attributable to owners of parent			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 during the period					
Dividends of surplus					-786,188
Profit attributable to owners of parent					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

Current fiscal year (From January 1, 2023 to December 31, 2023)

(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	21,274,593	-1,131,394	21,278,614
Changes of items during period					
Dividends of surplus			-857,166		-857,166
Profit attributable to owners of parent			2,304,947		2,304,947
Purchase of treasury shares				-900,207	-900,207
Net changes of items other than shareholders' equity(net)					
Total changes of items during period	—	—	1,447,780	-900,207	547,573
Balance at end of current period	594,142	541,273	22,722,374	-2,031,602	21,826,187

(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	336,141	1,514,627	196,595	2,047,364	23,325,978
Changes of items during period					
Dividends of surplus					-857,166
Profit attributable to owners of parent					2,304,947
Purchase of treasury shares					-900,207
Net changes of items other than shareholders' equity(net)	321,868	518,534	63,453	903,856	903,856
Total changes of items during period	321,868	518,534	63,453	903,856	1,451,429
Balance at end of current period	658,010	2,033,161	260,048	2,951,220	24,777,408

(4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Cash flows from operating activities		
Profit before income taxes	4,224,520	3,219,076
Depreciation	759,586	773,430
Increase (decrease) in allowance for doubtful accounts	731	100
Increase (decrease) in provision for share-based compensation	24,978	12,701
Increase (decrease) in provision for bonuses	-2,004	-40,672
Increase (decrease) in provision for directors' bonuses	6,396	-10,334
Increase (decrease) in net defined benefit liability	-211	2,532
Decrease (increase) in net defined benefit asset	-49,817	-185,384
Interest and dividend income	-42,886	-66,727
Interest expenses	699	510
Decrease (increase) in notes and accounts receivable - trade	592,012	-185,329
Decrease (increase) in inventories	-185,146	242,639
Increase (decrease) in notes and accounts payable - trade	-122,964	-393,448
Loss (gain) on sales of investment securities	313	-344
Loss (gain) on investments in partnership	-17,323	12,977
Other	-72,088	-567,132
Subtotal	5,116,796	2,814,596
Interest and dividend income received	47,084	64,466
Interest expenses paid	-993	-787
Income taxes paid	-1,351,907	-936,957
Net cash provided by (used in) operating activities	3,810,979	1,941,318
Cash flows from investing activities		
Payments into time deposits	-2,593,336	-3,376,846
Proceeds from withdrawal of time deposits	2,531,636	3,073,431
Purchase of property, plant and equipment	-572,747	-1,857,837
Proceeds from sales of property, plant and equipment	1,869	943,829
Purchase of intangible assets	-30,357	-24,568
Purchase of investment securities	-273,846	-143,743
Proceeds from sales of investment securities	26	1,395
Other	-2,605	-13,559
Net cash provided by (used in) investing activities	-939,362	-1,397,899

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Cash flows from financing activities		
Purchase of treasury shares	-102	-900,207
Cash dividends paid	-785,380	-856,665
Payments for repayment of lease obligations	-14,988	-16,709
Net cash provided by (used in) financing activities	-800,471	-1,773,583
Effect of exchange rate change on cash and cash equivalents	85,720	143,379
Net increase (decrease) in cash and cash equivalents	2,156,866	-1,086,785
Cash and cash equivalents at beginning of year	5,620,092	7,776,959
Cash and cash equivalents at end of year	* 7,776,959	* 6,690,174

(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 7

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.
MEC INDIA SPECIALTY CHEMICALS PRIVATE LTD.

MEC INDIA SPECIALTY CHEMICALS PRIVATE LTD. was included in the scope of consolidation due to the completion of investment from the Company and its consolidated subsidiary MEC EUROPE NV.

2 Fiscal Year-End of Consolidated Subsidiaries

Of the consolidated subsidiaries, the closing date of MEC INDIA SPECIALTY CHEMICALS PRIVATE LTD. is March 31. The consolidated financial statements are prepared based on the financial statements with a provisional closing as of the consolidated fiscal year-end.

The last day of the business year of other consolidated subsidiaries is the same as the consolidated fiscal year-end.

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:

Market value method (evaluation differences 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) 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 important financial factors are included.

(5) 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.

(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.

(Changes in accounting policies)

“Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) has been applied to the Company since the beginning of the consolidated fiscal year under review. Furthermore, in accordance with the transitional treatment prescribed in paragraph 27-2 of the Guidance on Accounting Standard for Fair Value Measurement, the Company has prospectively applied the new accounting policy provided in the Guidance on Accounting Standard for Fair Value Measurement. There is no impact on the consolidated financial statements.

(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, 2022)	Current fiscal year (As of December 31, 2023)
Notes receivable	5,531	6,099
Electronically recorded receivable	7,326	8,580
Notes payable-trade	51,007	36,489

*2 Pledged assets

(Thousands of yen)

	Previous fiscal year (As of December 31, 2022)	Current fiscal year (As of December 31, 2023)
Buildings and structures	87,017	103,524
Land	29,715	33,003
Total	116,732	136,527

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, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
	-40,982	-3,536

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

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
Provision of allowance for doubtful accounts	731	100
Salaries and bonuses	1,564,067	1,665,113
Packing and transportation expenses	886,798	681,181
Provision for allowance for bonuses	177,308	163,465
Provision for directors' bonuses	48,156	37,822
Provision for share-based compensation	32,426	12,701
Retirement benefit expenses	75,440	94,313
Research and development expenses	1,330,207	1,219,335

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

(Thousands of yen)

	Previous fiscal year (Fiscal year ended December 31, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
	1,330,207	1,219,335

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

	Previous fiscal year (Fiscal year ended December 31, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
Machinery, equipment and vehicles	1,343	7,707
Tools, furniture and fixtures	—	203
Land	—	549,147
Total	1,343	557,058

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

	Previous fiscal year (Fiscal year ended December 31, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
Tools, furniture and fixtures	2	—

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

	Previous fiscal year (Fiscal year ended December 31, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
Buildings and structures	646	3,603
Machinery, equipment and vehicles	3,270	12,295
Tools, furniture and fixtures	853	1,890
Construction in progress	10,269	—
Fixed asset removal costs	8,048	3,753
Total	23,088	21,543

(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, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
Valuation difference on available-for-sale securities:		
Amount arising in the current fiscal year under review	-357,564	463,653
Before income tax effect	-357,564	463,653
Income tax effect	109,343	-141,785
Valuation difference on available-for-sale securities	-248,221	321,868
Foreign currency translation adjustment:		
Amount arising in the current fiscal year under review	395,046	518,534
Adjustments related to retirement benefits:		
Amount arising in the current fiscal year under review	14,906	149,743
Amount of reclassification adjustment	-69,606	-58,338
Before income tax effect	-54,700	91,405
Income tax effect	16,727	-27,951
Adjustments related to retirement benefits	-37,973	63,453
Other comprehensive income	108,851	903,856

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

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

- (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, 2022

- (Note)1. The total amount of dividends based on a resolution made by the Board of Directors on February 14, 2021, 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, 2022, 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.

Current fiscal year (Fiscal year ended December 31, 2023)

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	1,060,144	286,097	—	1,346,241
Total	1,060,144	286,097	—	1,346,241

- (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 of 286,097 shares of treasury stock in common stock is an increase of 286,000 shares due to the purchase of treasury stock as resolved by the Board of Directors and an increase of 97 shares due to the purchase of shares of 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 14 2023 Board of directors' meeting	Common stock	479,381	25	December 31, 2022	March 2, 2023
August 9, 2023 Board of directors' meeting	Common stock	377,785	20	June 30, 2023	September 5, 2023

- (Note)1. 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.
2. The total amount of dividends based on a resolution made by the Board of Directors on August 9, 2023, 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, 2024 Board of directors' meeting	Common stock	472,229	Retained earnings	25	December 31, 2023	February 28, 2024

- (Note) The total amount of dividends based on a resolution made by the Board of Directors on February 14, 2024, 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, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
Cash and deposits	9,443,157	8,755,863
Time deposits with maturities extending over three months	-1,666,198	-2,065,688
Cash and cash equivalents	7,776,959	6,690,174

(Retirement benefit)

1. Outline of retirement benefit plan applied

The Company adopts a contract-type defined benefit corporate pension plan (“cash balance plan”) based on the Defined Benefit Corporate Pension Law and a defined contribution pension plan.

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, 2022)	Consolidated fiscal year (Fiscal year ended December 31, 2023)
Beginning balance of the retirement benefit obligation	996,937	923,891
Service costs	79,264	73,730
Interest expense	4,984	15,706
Accruals of actuarial gains and losses	-99,487	56,197
Payment of retirement benefits	-57,807	-75,563
Balance of retirement benefit obligations at end of year	923,891	993,961

(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, 2022)	Consolidated fiscal year (Fiscal year ended December 31, 2023)
Beginning balance of pension assets	1,939,658	1,905,909
Expected return	1,939	5,717
Accruals of actuarial gains and losses	-84,581	205,941
Contributions from the employer	106,699	111,289
Amount of retirement benefits paid	-57,807	-75,563
Balance of the pension assets at end of year	19,05,909	2,153,293

(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, 2022)	Consolidated fiscal year (Fiscal year ended December 31, 2023)
Beginning balance of the liability for retirement benefits	-11,688	-22,560
Retirement benefit expense	-8,865	-2,200
Payment of retirement benefits	-1,867	-3,336
Other	-139	-1,605
Ending balance of the liability for retirement benefits	-22,560	-29,703

(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, 2022)	Consolidated fiscal year (Fiscal year ended December 31, 2023)
Retirement benefit obligation of funded plans	954,941	1,027,556
Pension assets	-1,961,556	-2,221,405
	-1,006,614	-1,193,849
Retirement benefit obligation of unfunded plans	2,036	4,813
Net amount of liabilities and assets that have been recorded in the consolidated balance sheet	-1,004,578	-1,189,035
Liabilities related to retirement benefits	2,036	4,813
Net defined benefit asset	-1,006,614	-1,193,849
Net amount of liabilities and assets that have been recorded in the consolidated balance sheet	-1,004,578	-1,189,035

(5) Amount of retirement benefit costs and their breakdown

(Thousands of yen)

	Previous consolidated fiscal year (As of December 31, 2022)	Consolidated fiscal year (As of December 31, 2023)
Service cost	79,264	73,730
Interest expense	4,984	15,706
Expected return on plan assets	-1,939	-5,717
Expensed amount of actuarial gains and losses	-69,606	-58,338
Retirement benefit costs which are calculated using the simplified method	-8,865	-2,200
Retirement benefit cost of defined benefit plans	3,837	23,179

(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, 2022)	Consolidated fiscal year (As of December 31, 2023)
Accruals of actuarial gains and losses	54,700	-91,405
Total	54,700	-91,405

(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, 2022)	Consolidated fiscal year (As of December 31, 2023)
Difference with unrecognized actuarial gain and loss	-283,196	-374,602
Total	-283,196	-374,602

(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, 2022)	Consolidated fiscal year under review (As of December 31, 2023)
Bonds	33%	31%
Stocks	37%	40%
General accounts	22%	21%
Other	8%	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, 2022)	Consolidated fiscal year under review (As of December 31, 2023)
Discount rate	1.7%	1.6%
Expected long-term rate of return on pension assets	0.1%	0.3%

3. Defined contribution plans

The required contributions to defined contribution plans of consolidated subsidiaries that use defined contribution plans came to 125,224 thousand yen for the previous consolidated fiscal year (Fiscal year ended December 31, 2022) and 134,004 thousand yen for the consolidated fiscal year under review (Fiscal year ended December 31, 2023).

(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, 2022)	Current fiscal year (As of December 31, 2023)
Deferred tax assets		
Allowance for bonuses	100,255	87,817
Accrued enterprise tax	21,463	10,736
Social insurance premiums	15,275	13,559
Loss on valuation of inventory assets	22,150	19,900
Unrealized income on inventory assets	241,227	149,140
Unpaid officer retirement benefits	4,379	4,379
Loss carryforwards (Note.2)	138,348	149,645
Reserve for stock compensation	21,105	24,989
Impairment loss	176,806	176,806
Other	35,886	29,635
Deferred tax assets subtotal	776,898	666,609
Valuation allowance for tax loss carryforwards	-138,348	-149,645
Valuation allowance for total future deductible temporary differences	-176,986	-176,986
Valuation allowance subtotal (Note.1)	-315,334	-326,631
Total deferred tax assets	461,563	339,978
Deferred tax liabilities		
Valuation difference on other securities	-148,072	-289,858
Retained earnings of overseas subsidiaries	-465,684	-497,400
Retirement benefits assets	-305,220	-361,435
Other	-19,557	-33,540
Total deferred tax liabilities	-938,535	-1,182,235
Net deferred tax assets	-476,972	-842,256

The amount of “net deferred tax liabilities” (previous fiscal year: -476,972 thousand yen; current fiscal year: -842,256 thousand yen) is included in the following items in the consolidated balance sheet.

	(Thousands of yen)	
	Previous fiscal year (As of December 31, 2022)	Current fiscal year (As of December 31, 2023)
Fixed assets - deferred tax assets	4,546	11,345
Fixed liabilities - deferred tax liabilities	-481,519	-853,602

(Note) 1. The valuation allowance increased by 11,296 thousand yen. This increase was mainly due to the additional recognition of 4,549 thousand yen of valuation allowance for tax loss carryforwards at the consolidated subsidiary MEC SPECIALTY CHEMICAL (THAILAND) CO., LTD., and 6,746 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, 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.

Current fiscal year (As of December 31, 2023)

(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)	31,979	45,468	13,898	—	2,421	55,877	149,645
Valuation allowance	-31,979	-45,468	-13,898	—	-2,421	-55,877	-149,645
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, 2022)	Current fiscal year (As of December 31, 2023)
Statutory effective tax rate	30.6%	30.6%
(Adjustment)		
Permanent differences such as entertainment expenses	0.7	0.9
Inhabitant tax equivalent	0.1	0.2
Examination research expenses etc. Tax deduction	-4.3	-4.1
Foreign withholding tax	1.0	1.4
Overseas Subsidiary Income Retention Taxation	0.0	-0.2
Increase (decrease) in valuation allowance	0.3	0.4
Retained earnings of foreign subsidiaries	1.2	1.0
Overseas tax rate discrepancy	-2.3	-2.2
Other	0.2	0.4
Burden of corporate tax etc. after applying tax effect accounting	27.5	28.4

(Revenue recognition)

1. Information breaking down the revenue generated from customer contracts

Previous consolidated fiscal year (From 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

Current consolidated fiscal year (From January 1, 2023 to December 31, 2023)

(Thousands of yen)

	Reportable segment						Annual
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Chemicals	5,410,142	2,620,699	1,717,431	2,670,959	570,286	776,327	13,764,847
Machinery	108,551	327	—	257	32	3,350	112,520
Materials	22,133	—	—	—	—	117,050	139,183
Other	3,357	158	—	—	—	18	3,534
Revenue from customer contracts	5,544,184	2,620,186	1,717,431	2,671,217	570,319	896,746	14,020,085
Sales to external customers	5,544,184	2,620,186	1,717,431	2,671,217	570,319	896,746	14,020,085

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 (4) 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

i) Balance of contract assets and contract liabilities, etc.

(Thousands of yen)

	Previous fiscal year		Current fiscal year	
	Balance at beginning of the period	Balance at end of the period	Balance at beginning of the period	Balance at end of the period
Contractual liabilities	5,249	15,649	15,649	9,080

Contract liabilities primarily represent consideration received from customers prior to the delivery of products and are included in other current liabilities on the consolidated balance sheets.

There were no contract assets in the previous fiscal year or the current fiscal year.

ii) Transaction price allocated to remaining performance obligations

The description is omitted because there is no material contract with an initial expected contract period of more than one year.

(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.

For India, MEC EUROPE NV. is in charge of sales and MEC INDIA SPECIALTY CHEMICALS PRIVATE LTD. provides technical support.

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 (From 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	322,089	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	30,526	759,586
Increase in property, plant and equipment and intangible assets	527,301	23,631	48,999	51,348	35,606	11,586	698,474

Current fiscal year (From January 1, 2023 to December 31, 2023)

(Thousands of yen)

	Reportable segment						Total
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Net sales							
Sales to external customers	5,544,184	2,620,186	1,717,431	2,671,217	570,319	896,746	14,020,085
Inter-segment sales and transfers	2,865,985	2,979	96,109	15,225	—	57,659	3,037,959
Total	8,410,169	2,623,165	1,813,541	2,686,442	570,319	954,406	17,058,044
Segment profit	1,216,349	308,781	240,163	358,472	6,451	59,529	2,189,788
Segment assets	19,846,556	3,783,087	2,513,628	2,735,172	1,136,703	1,038,498	31,053,653
Other items							
Depreciation and amortization	556,509	35,358	38,986	56,365	55,621	30,607	773,430
Increase in property, plant and equipment and intangible assets	1,486,276	5,324	37,336	244,115	22,658	74,369	1,870,081

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	20,455,402	17,058,044
Intersegment eliminations	-4,126,296	-3,037,959
Sales stated in the Consolidated Financial Statements	16,329,105	14,020,085

(Thousands of yen)

Profit	Previous fiscal year	Current fiscal year
Reportable segment total	3,979,572	2,189,788
Intersegment eliminations	24,884	303,031
Operating income in the Consolidated Financial Statements	4,004,456	2,492,779

(Thousands of yen)

Assets	Previous fiscal year	Current fiscal year
Reportable segment total	30,266,019	31,053,653
Intersegment eliminations	-2,766,850	-2,388,445
Total assets in the Consolidated Financial Statements	27,499,168	28,665,207

(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	759,586	773,430	—	—	759,586	773,430
Increase in property, plant and equipment and intangible assets	698,474	1,870,081	—	—	698,474	1,870,081

[Related Information]

Previous 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.

Current fiscal year (Fiscal year ended December 31, 2023)

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
5,325,225	2,620,186	4,377,141	1,697,532	14,020,085

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
7,326,116	889,523	737,759	648,484	218,384	9,820,269

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, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
Net assets per share	1,226.98	1,323.24
Net income per share	161.22	122.29

- 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 164,329 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 166,899 shares in the previous consolidated fiscal year and 164,329 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, 2022)	Current fiscal year (Fiscal year ended December 31, 2023)
Net income (Thousands of yen)	3,064,520	2,304,947
Amount not available for common shareholders (Thousands of yen)	—	—
Net profit available for common stocks (Thousands of yen)	3,064,520	2,304,947
Weighted-average number of common shares outstanding during the year (shares)	19,008,402	18,847,535

(Important subsequent events)

N/A

4. Non-consolidated financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2022	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	5,630,217	4,388,877
Notes receivable - trade	42,171	34,943
Electronically recorded receivables	346,137	278,458
Accounts receivable - trade	2,284,477	2,345,027
Merchandise and finished goods	222,449	255,822
Raw materials and supplies	580,073	555,167
Prepaid expenses	12,232	13,567
Accounts receivable - other	54,432	42,658
Other	39,349	38,378
Total current assets	9,211,541	7,952,902
Non-current assets		
Property, plant and equipment		
Buildings	3,540,772	3,461,119
Structures	161,450	177,751
Machinery and equipment	470,574	552,354
Vehicles	16,270	18,946
Tools, furniture and fixtures	243,838	249,572
Land	2,274,036	2,821,838
Construction in progress	69,877	44,533
Total property, plant and equipment	6,776,819	7,326,116
Intangible assets		
Leasehold right	29,380	29,380
Software	82,656	110,467
Software in progress	12,000	—
Other	136	121
Total intangible assets	124,172	139,968
Investments and other assets		
Investment securities	1,258,288	1,866,609
Affiliated company shares	1,057,492	1,057,563
Capital	5	5
Long-term loans receivable from subsidiaries and affiliates	570,000	621,000
Long-term prepaid expenses	85,500	62,947
Prepaid pension expense	698,820	784,730
Other	16,163	15,031
Total investments and other assets	3,686,270	4,407,886
Total non-current assets	10,587,262	11,873,971
Total assets	19,798,804	19,826,874

(Thousands of yen)

	As of December 31, 2022	As of December 31, 2023
Liabilities		
Current liabilities		
Notes payable	32,451	43,818
Electronically recorded obligations-operating	851,092	597,301
Accounts payable -trade-	387,117	266,976
Accounts payable -other-	308,069	286,913
Accrued expenses	138,646	123,182
Income taxes payable	273,731	88,274
Deposits received	81,750	59,883
Provision for bonuses	327,845	287,173
Provision for directors' bonuses	48,156	37,822
Notes payable - facilities	—	4,477
Electronically recorded obligations-operating-facilities	66,329	47,819
Accrued expenses - facilities	215,478	201,225
Other	18,590	8,355
Total current liabilities	2,749,257	2,053,224
Non-current liabilities		
Long-term loans payable	162,583	373,707
Asset retirement obligations	587	587
Provision for Share-based compensation	89,465	102,167
Other	23,898	23,920
Total non-current liabilities	276,534	500,382
Total liabilities	3,025,792	2,553,606
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	12,800,000	14,300,000
Retained earnings brought forward	3,569,291	3,147,885
Total retained earnings	16,432,848	17,511,443
Treasury shares	-1,131,394	-2,031,602
Total shareholders' equity	16,436,870	16,615,257
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	336,141	658,010
Total valuation and translation adjustments	336,141	658,010
Total net assets	16,773,011	17,273,267
Total liabilities and net assets	19,798,804	19,826,874

(2) Statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Net sales	10,551,823	8,410,169
Cost of sales	3,939,749	3,302,825
Gross profit	6,612,074	5,107,344
Selling, general and administrative expenses	3,918,479	3,890,995
Operating profit	2,693,594	1,216,349
Non-operating income		
Interest and dividend income	523,166	589,057
Proceeds from sales of prototypes	6,525	6,377
Foreign exchange gains	115,018	117,964
Other	29,454	8,692
Total non-operating income	674,165	722,091
Non-operating expenses		
Loss on investments in partnership	—	12,977
Other	4,866	1,815
Total non-operating expenses	4,866	14,793
Ordinary profit	3,362,894	1,923,646
Extraordinary income		
Gain on sales of non-current assets	206	549,243
Gain on sales of investment securities	19	344
Total extraordinary income	226	549,588
Extraordinary losses		
Loss on retirement of non-current assets	10,507	7,786
Loss on sale of investment securities	333	—
Total extraordinary losses	10,840	7,786
Profit before income taxes	3,352,280	2,465,448
Income taxes - current	712,819	460,347
Income taxes - deferred	60,688	69,338
Total income taxes	773,508	529,686
Profit	2,578,772	1,935,761

(3) Statement of changes in shareholders' equity

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

(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	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	12,800,000	3,569,291	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

Current fiscal year (Fiscal year ended December 31, 2023)

(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	12,800,000	3,569,291	16,432,848
Changes of items during period								
Provision of general reserve						1,500,000	-1,500,000	—
Dividends of surplus							-857,166	-857,166
Net income							1,935,761	1,935,761
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	-421,405	1,078,594
Balance at end of current period	594,142	446,358	94,914	541,273	63,557	14,300,000	3,147,885	17,511,443

	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	-1,131,394	16,436,870	336,141	336,141	16,773,011
Changes of items during period					
Provision of general reserve		—			—
Dividends of surplus		-857,166			-857,166
Net income		1,935,761			1,935,761
Purchase of treasury shares	-900,207	-900,207			-900,207
Disposal of treasury shares		—			—
Net changes of items other than shareholders' equity			321,868	321,868	321,868
Total changes of items during period	-900,207	178,387	321,868	321,868	500,255
Balance at end of current period	-2,031,602	16,615,257	658,010	658,010	17,273,267