

ESPEC

ESPEC CORP. **ANNUAL REPORT 2003**

Profile

ESPEC CORP. (the "Company") was established in 1954 and became the first company in Japan to enter the environmental test chamber sector in 1961. The Company has since become the largest and most advanced environmental test chamber specialized manufacturer in Japan through its continual research and development related to new types of environmental test chambers and its peripheral technologies in the said sector. The Company is also engaged in the Electronic Device Business and the Environmental Engineering Service Business both of which are built on its unique technologies acquired over the decades in the Environment Test Business, such as temperature and humidity controlling technologies, measurement and analysis technologies, design and manufacturing technologies, and chamber technologies. In addition, the Company has been actively pursuing new types of businesses.

At present, the Company has nine subsidiaries and affiliates

in Japan and ten overseas as part of the ESPEC Group, offering advanced products and services to customers throughout the world, especially in Asia.

In April 2002 the Company achieved a milestone when it celebrated its 55th anniversary and changed its name from TABAI ESPEC CORP. to ESPEC CORP. At the same time, the Company rebuilt its management philosophy, entitled "The ESPEC Mind," in order to strengthen the value of its corporate brand ESPEC as part of a brand management enhancement plan. The new ESPEC will strive to further develop "The ESPEC Mind" and enhance the value of the ESPEC brand. With the "profit structure reform" and "business development" in mind, the Company will work to achieve new growth towards a company promoting the exchange of higher value with its shareholders and other stakeholders.

The Strengths of ESPEC

Advanced technologies

- High-efficiency, and high-speed heat transfer technology
- Continuous-measurement and analysis technology for environmental tests
- High-temperature, particle-free & clean, and mechatronic technology
- Energy-saving technology

Global network

- Sales network
 - 13 offices, and 190 agents and distributors in Japan
 - 8 offices, and 18 agents and distributors overseas
- Service network
 - Total of 242 offices in Japan and overseas

Intensive environmental management

- Ranked 14th in 2001 and 32nd in 2002 in the environmental management survey conducted by the Nihon Keizai Shimbun, a leading Japanese business newspaper
- Group-wide single-step acquisition of ISO 14001 certification

Offering
test solutions

Creating
stakeholder value

ESPEC
– the best choice of
environmental-conscious
customers

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Cautionary Statement Regarding Forward-Looking Statement

Statements made in this annual report regarding ESPEC CORP. (the "Company")'s current plans, estimates, strategies, beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of the Company based on management's assumptions and beliefs in light of information available at the time of publication, and involve risks, factors, and uncertainties that could cause the Company's actual results to differ materially from those presented in this report. The Company cautions you not to place undue reliance on such forward-looking statements.

You should also not rely on any obligation of the Company to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The Company disclaims any such obligation.

Environmental Test Business

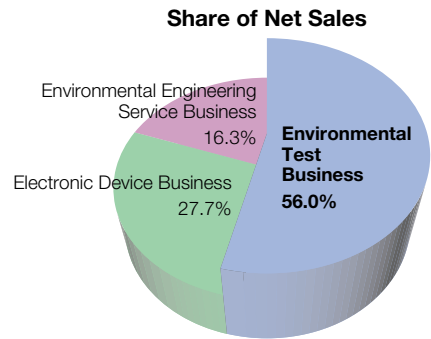
Testing of each part for its durability and reliability is indispensable to maintain high performance and quality even in the rapidly changing environment. The Company is engaged in the production and sale of test chambers (container-structured chambers) that is used for the artificial simulation of a wide range of climatic environments using various environmental factors, such as temperature, humidity, and pressure, either on

their own or in combination. The Company also applies this technology to new fields such as sports science.

Main products: temperature & humidity chambers, thermal shock chambers, walk-in type temperature (& humidity) chambers, hypoxic training chambers



Temperature (& Humidity) Chamber Platinous K Series



Electronic Device Business

The electronic products are evolving day by day. The Company offers a variety of devices for use in the development, production, inspection, and evaluation of key devices, such as semiconductors and displays, which sustain the technological advancements being made in electronic products.

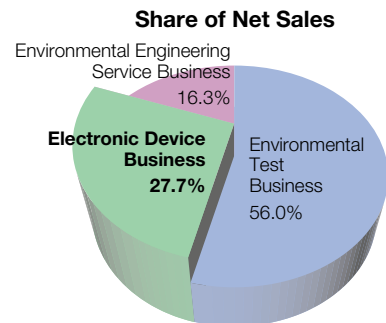
Main products: loading clean ovens, LCD aging systems, ion migration evaluation systems, dynamic and monitored burn-in systems



High Speed Clean Oven For Glass Sheet HSC Series



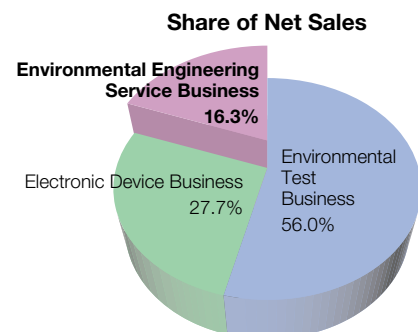
TDDB Evaluation System



Environmental Engineering Service Business



The Company offers comprehensive after-sale services, such as 24-hour monitoring system, contract testing on behalf of its customers on a commissioned basis, products rental and the sale of used products, the hands-on creation of forests and waterfront environments utilizing its unique know-how, and the sale of devices for amelioration and remediation of air, water, and soil.



A Message to Our Shareholders



Under such circumstances, the Company established, through its new management system, a management innovation plan called the “ESPEC 130 Plan,” which focuses on “reform and restructuring.” Pursuant to this plan the Company has actively promoted its marketing activities in booming markets while focusing on the development of new technologies and products that have the potential to become sources of its future earnings.

Against this background, while net sales declined slightly by 2.0% from the previous year to ¥26,737 million, orders received increased by 15.2% over the previous year to ¥27,219 million, mainly by virtue of a strong growth in the electronics device business where orders from manufacturers in Republic of Korea and Taiwan increased.

In addition, operating income increased by 30.6% over the previous year to ¥1,184 million as a result of the launch of renewed models, measures implemented to improve the profitability of products for customers manufacturing display devices, as well as efforts to reduce costs. Furthermore, net income for the year increased by 245.4% over the previous year to achieve ¥189 million despite an outlay of director’s retirement allowances and appraisal losses on investment securities.

Business Performance

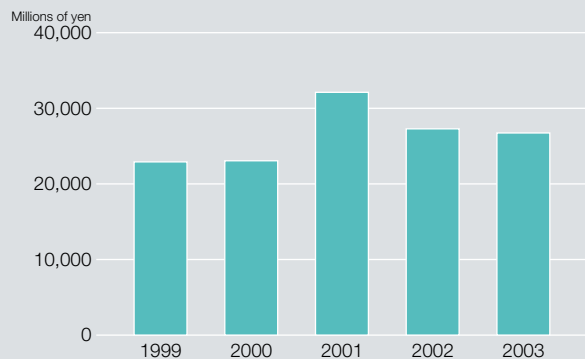
During the year ended March 31, 2003 the Company continued to face extremely severe economic conditions that prevailed in Japan amidst the delay in economic structural reforms and concerns over a prolonged deflation. Also overseas, the performance of the Company saw sluggishness due to the uncertainties in the U.S. economy along with the repeated downward revisions made by various European officials to their own economic growth outlook.

Management Innovation Plan

Over the years, the Company has faced several issues such as rising costs and lower product quality as a result of an increase in the number of customized specifications products, a decline in productivity as a result of the obsolescence of supply chain infrastructure, a slow down in the growth of the existing businesses, and a leveling off in the domestic market. While the Company coped with these issues individually, such efforts did not materialize in the form of a drastic reform and the issues remained unresolved.

In April 2002 the Company changed its name, and, in order to resolve the above-mentioned issues, established a management innovation plan called the “ESPEC 130 Plan,” which focuses on “reform and restructuring.” The plan forms

Net Sales



Operating Income & Ratio of Operating Income



part of the efforts of the Company to realize its "Year 2007 Vision" to coincide with its Sixtieth Anniversary, with the goal of becoming a "company that can raise the expectations of global customers" and a "superior company with a high value exchangeability."

The "ESPEC 130 Plan" embodies a fundamental policy of becoming a "global company" and an "environmentally superior company" through the creation of innovative technologies. The "1" in the "ESPEC 130 Plan" represents an operating income ratio of 10% or more, and the "30" symbolizes a non-consolidated sales of ¥30 billion or more, a cost reduction by 30% or more, and a sales ratio for new products of 30% or more. While these figures are certainly not easy targets, the Company will undertake every effort to achieve them through a variety of strategies and measures, considering now is the Company's second formation period.

Enhancement of Shareholder Value

The management philosophy of the Company, entitled "The ESPEC Mind," clarifies its corporate mission, which is to "provide a more reliable living environment" through "services that are driven by an environment creation technologies," while maintaining that the Company will grow through its efforts to realize such a mission and the enhancement of its value exchangeability with its various stakeholders, such as its customers, shareholders, and employees. In line with this management philosophy, the Company will promote the following measures in order to enhance shareholder value:

Corporate Governance

In April 2002 the Company implemented a new executive officer system in order to strengthen its management control function and to improve the transparency of its management system. Under the new system, a clear separation between the executive function and the management supervisory function has been implemented by a drastic reduction in the number of directors from 10 to 4, the implementation of a drastic

rejuvenation to the management system by selecting a majority of its executive officers from those who are in their 40s, and the acceleration of a decision-making and implementation process. In addition, in order to clarify managerial responsibility, concurrent assumption of duties of a director and an executive officer is only allowed to the president himself, and the term of a director has been shortened from two years to one year.

Introduction of ESPEC Value Creation (EVC)

In order to clarify profit responsibility and to further strengthen the management of shareholder value, the Company introduced ESPEC Value Creation (EVC: business income after taxes – capital costs) as its own indicator for economic value added. The Company will eventually aim to create a system based on EVC linking performance evaluation to the remuneration of directors, executive officers, and other employees, so as to realize a consistency among shareholder profits, corporate profits, and employee profits.

In these rapidly changing days, we will aggressively pursue our management innovation plan, the "ESPEC 130 Plan," while undertaking every effort to ensure that each of our employees, shareholders, and other stakeholders will be proud of their involvement in the Company.

We will be dedicated to move forward with all synergies and potentials of the ESPEC Group to further improve shareholder value while striving to create an organization that is progressive, reliable, open, and fair in order to meet your expectations. We will appreciate your continued support.

June 2003

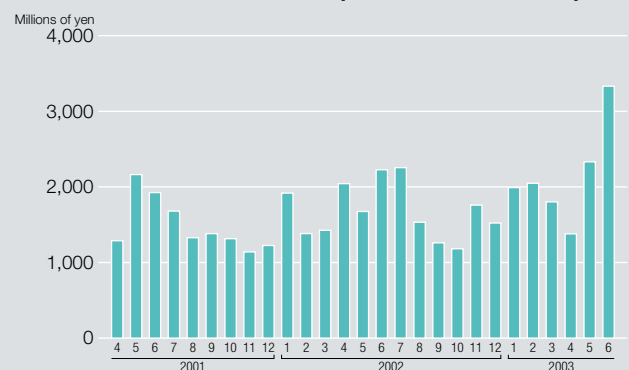


Susumu Nojii
President, COO

Net Income & Ratio of Net Income



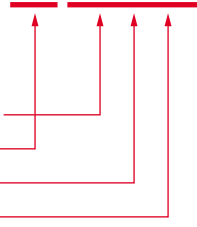
Orders Received Trend (Non-Consolidated)



ESPEC 130 Plan

Targets for the year ending March 31, 2006

- Net sales of ¥40 billion or more (¥30 billion or more on a non-consolidated basis)
- Operating income margin of 10% or more
- Cost reduction by 30% or more
- Sales ratio for new products of 30% or more
- Increase in global market share by 6 points or more



Growth program toward the achievement of ESPEC 130 Plan

Four Priority Policy Strategies



Technological R&D Strategy

- Strategic investments in R&D: Fiscal 2003 and afterward.
- Sales ratio for new products of 30% in fiscal 2005.

Overseas Business Development Strategy

- Enhancement of corporate governance of the group: Fiscal 2003 and afterward.
- Increase in global market share by 6 points in fiscal 2005.

New Business Development Strategy

- New business development in the environmental and biological fields.
- Introduction of new products for the advanced medical field: Fiscal 2004.

Existing Business Development Strategy

- Enhancement of competitiveness through module development: Fiscal 2003.
- Expansion of product line-up for overseas markets: Fiscal 2003.

Implementation of reforms to create the infrastructure for the transformation of the corporate culture and the promotion of priority policy strategies

Four Reforms



Cost/Quality Reform

- Enhancement of standardization and module development: Fiscal 2003.
- Standardization of parts, and reduction in the number of parts: Fiscal 2003.

Personnel-System Reform

- Introduction of salary system commensurate with job functions and performance: Fiscal 2004.
- Introduction of an annual salary system for management positions, an in-house staff recruitment system, and advance retirement payments: Fiscal 2002.

Information System Reform

- Implementation of a supply chain management (SCM): Fiscal 2003.
- Overhaul of the backbone information system: Fiscal 2004.

Sales System Reform

- Establishment of a "customer center": Fiscal 2004.
- Introduction of marketing activities through projects by market: Fiscal 2002.

Four Reforms

- **Cost/Quality Reform**
- Personnel-System Reform
- Information System Reform
- Sales System Reform

Promotion of Module Development

1. Introduction of a modularized system: Fiscal 2003

Modularization through the integration of customized specifications, and reduction in customized specifications by 50%.

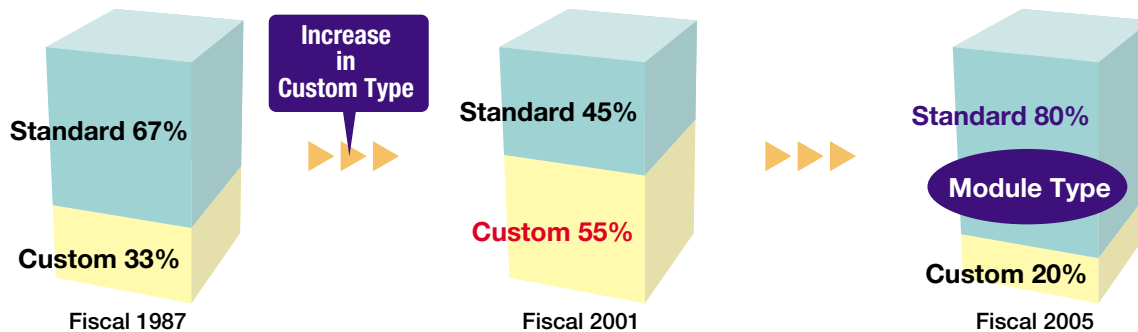
2. Umbrella administration function of parts through the establishment of "Parts Center": Fiscal 2003.

Reduction of the types of parts to 1/3 and the number of parts used in each product by more than 30% through the sharing of common parts.

3. Overhaul of the backbone information system: Fiscal 2004.

From a number of partially optimal systems to fully optimal systems. Establishment of an infrastructure to promote modularization.

Ratio of Standard Products and Non-Standard Products



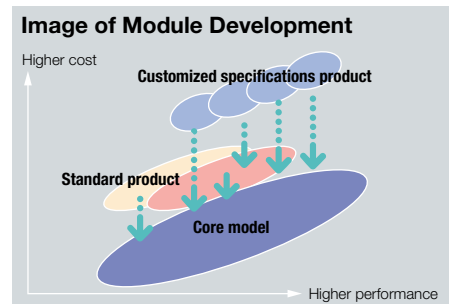
In the past, the Company has accommodated the majority of the requests from its customers to customize products on a case-by-case basis. This has resulted in a higher cost structure and a lower level of product quality. In the coming years, the Company will focus its efforts to modularize customized specifications, to reduce the number of parts through the establishment of a standard parts center, and to optimize the overall supply chain through an overhaul of the backbone information system. The Company will strive to overcome its current high cost structure, refine the level of its product quality, and design a business model which will increase customer satisfaction and generate profits.

Example of Module Development

Walk-in Type Temperature (& Humidity) Chamber

By cutting the number of parts by 30% from the previous level through the sharing of common product component parts, modularizing the customized specifications, and standardizing of designs, the Company has achieved a substantial cost reduction while increasing the level of its product quality. This can be evidenced by the reduction in production costs by approximately 11% for standard products and about 38% for customized specifications products. The Company has also realized a reduction of its delivery time by about half from the previous level.

The above efforts have dramatically increased the competitiveness of the Company and led to a substantial increase in the volume of orders received. In fiscal 2003 the Company expects a 28% increase in the sale of walk-in type chambers year-on-year, which will account for approximately 5% of the total sales of the ESPEC Group. The Company plans to apply a similar effort to other products as well.



Walk-in Type Temperature (& Humidity) Chamber core model

Four Priority Policy Strategies



Technologies for the creation of innovative new products

Over the next three years through fiscal 2005 the Company will invest a total of ¥6 billion in R&D, over double the amount spent in the last three years, in order to promote growth in its core technologies. Such technologies include the thermal plate technology, which is a new temperature control technology, the

far-infrared rays (IR) technology, and measurement and analytical technologies. This investment will enable the Company to offer products with new value to its customers and will create a source of earnings for the next generation.

For the realization of the sales ratio for new products of 30% in fiscal 2005

Increase the number of technical staff	Investment in R&D	Investment for the enhancement of developmental infrastructure
From 60 in fiscal 2002 to 100 in fiscal 2005	¥6 billion (fiscal 2003 – 2005) Double the amount spent over the last three years	¥500 million (fiscal 2003 – 2005) Investment in digitalization, instruments, and development facilities

Introduction of New Technologies

Thermal Plate Technology

The Company has developed a thermal plate by using a unique freezing technology in place of the traditional air circulation method. The thermal plate has dramatically improved temperature transfer speed and temperature distribution accuracy that can meet the strong demand in the market. The Company is confident that it will tap into new markets and explore new uses for this technology. The thermal plate technology enables us to conduct a device temperature characteristics test and a temperature characteristics inspection for cell production. Such test and inspection have not been possible with the traditional devices like optical devices, such as the laser diode and CCD, and high frequency semiconductor devices. The Company will further develop this thermal plate technology with the goal of making it one of the core technologies of ESPEC.



Super Thermal Test Equipment

IR Technology

The Company has established its own far-infrared rays (IR) technology in place of the traditional hot air heating method. The flat panel display (FPD), which is used in thin-shaped televisions, PDA, and mobile telephones, continues to grow in size and become further sophisticated. As a result, production processes have become more efficient and the quality of products has increased, creating a need for a more accurate temperature distribution and a highly particle clean heat processing. The IR technology can now meet such needs. Through this technology and other new technologies, the Company will continue to enhance its competitiveness in the FPD market, where a significant growth is anticipated for the future to expand its market share.

Four Priority Policy Strategies

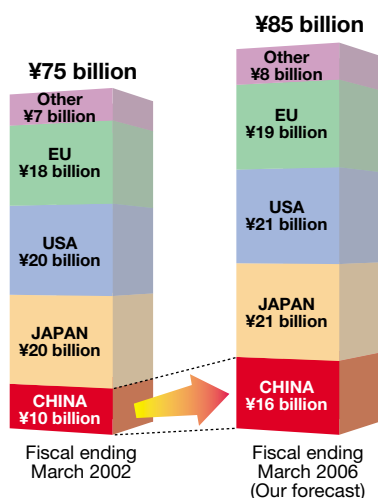


Establishing a system that meets the expectations of global customers

The Company will work towards increasing its global market share by 6 points through a number of measures, including the enhancement of its control over four affiliates in China in terms of strategy, sales, services, and supply chain management functions, the commencement of the display device system production in China, the enhancement of sales and planning functions for measurement system products in the U.S., and the reinforcement of product development and sales in the EU market.

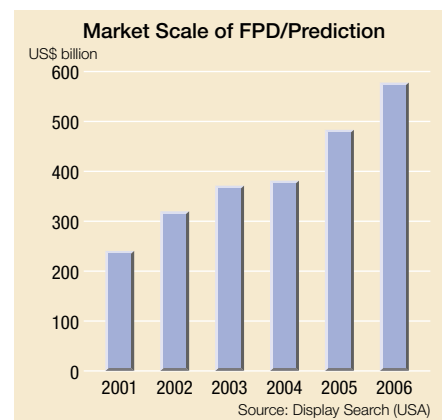
Forecast for the Testing Device Market

It is our forecast that the environmental test device market will grow only marginally in the U.S., EU, and Japan. On the other hand, Chinese market is expected to expand in the years ahead, and as such, the Company views China as its most significant market.



Forecast for the FPD Market

With a significant growth anticipated in the display market, the demand for display device systems is expected to remain stable in the future as well. By region, the majority of the sales of display device systems is at present generated in Republic of Korea and Taiwan. However, in the future production in China is expected to increase. Against this background, the Company will pursue its strategy for the expansion of the sales of display device systems in China.



Key Measures to Increase Global Market Share by 6 Points

Establishment of an umbrella company in China

In fiscal 2005 the Company plans to establish a new company in Shanghai that will control over the four affiliated companies in China. In order to enhance a synergy effect within the ESPEC Group, the new company will integrate and strengthen the functions, which are dispersed and overlapping at present. Through the new company, we will target the Chinese market, which is expected to continue expanding and growing in the future, as the driving force for higher earnings for the ESPEC Group as a whole.

Display device system production in China

In response to the increasing demand for display device systems in China and stronger demand for lower price for such systems, the Company will open in October 2003 a new

production plant for display device systems at Shanghai ESPEC Environmental Equipment Corp.

Establishment of a sales-marketing company for measurement systems in the U.S.

In fiscal 2004 the Company will establish a sales and marketing company in the U.S. for measurement system products. The new company will closely target communications, semiconductors, and fuel cell manufacturers in the U.S. and undertake efforts to enhance earnings. By locating its marketing base at the world's most technologically advanced region, the Company will strive to tap into the needs of the rapidly changing market before any of its competitors and will utilize the feedback obtained for the development of new products.

Review of Operations

Environmental Test Business

In the environmental test business, the Company has launched market-specific projects and made it a point to explore new business opportunities in booming and growing markets and to respond nimbly to them. As a result of these efforts, orders received have increased primarily for thermal shock chambers in the automobile market and walk-in type chambers (temperature & humidity chambers) in the copier and printer markets. The strong growth in these orders received offset the negative impact of sluggish plant and equipment investment in the domestic electronics and electric industries. The Company has also offered products tailored to suit the future needs. For example, it has developed VOC (volatile organic compound) measurement chambers for testing and analyzing the effect of

VOCs, which are believed to be one of the causes of sick house syndrome, on the human body and daily life.

Against this background, sales declined by 9.0% year-on-year to ¥15,095 million largely reflecting the lower sales of our U.S. subsidiaries, affected by the event of September 11 in the U.S. Orders received, however, increased by 9.4% year-on-year to ¥15,784 million. On the other hand, the Company improved its profit margin by the introduction of the new walk-in type chamber models, integrating and eliminating certain products, and standardizing parts, modules, and customized specifications. In addition, a reduction in fixed costs offset the lower sales. As a result, operating income increased by 1.2% year-on-year to ¥1,206 million.

Environmental Test



Thermal Shock Chamber TSA Series

Priority Measures for the Future

Introduction of a modularized system

Introducing a system for modularizing customized specifications to reduce the engineering man-hours and shorten delivery time and to improve productivity.

Development of a VOC measurement chambers

Taking a firm control of the market by expanding sales in new fields at an early stage.

Enhancing of products development for overseas markets

Broadening of the product line-up to pursue the overseas strategies.

Net Sales

Millions of yen

20,000

15,000

10,000

5,000

0

2002

2003

Operating Income

Millions of yen

2,000

1,500

1,000

500

0

2002

2003

Electronic Device Business

In the display device business, while the Company saw a decline in the level of domestic plant and equipment investment in FPDs (flat panel displays), the overseas ratio for them increased substantially as a result of the large orders received from FPD manufacturers in Republic of Korea and Taiwan. The Company has also developed unique far-infrared rays (IR) heating system, emerged into the process of the FPD production line that it had not undertaken, and cultivated new customers and markets.

In the area of measurement system products, the Company has launched products aimed at buoyant markets, such as evaluation systems designed for in-vehicle sensors, to improve earnings. At the same time, it made an effort to create new technologies, new products, and new markets that could become sources of future profits. For example, the Company developed a testing device of a new temperature control system

designed for the optical communications and other device markets.

As a result, sales increased by 2.7% year-on-year to ¥7,536 million, and orders received significantly increased by 42.9% year-on-year to ¥7,602 million. Profitability was squeezed by the burden of the up-front investment for developing a new product that was delivered to one of the largest LCD manufacturers.

The achievement of that delivery was highly praised by other customers and led to an increase in orders received. In addition, the Company actively worked toward cost reduction through the standardization of the design for multiple modules and the sharing of common parts. Such efforts resulted in an improvement in our operating loss, which was decreased to ¥306 million.

Electronic Device



Priority Measures for the Future

Improvement of earnings capacity and quality competitiveness through the development of modules

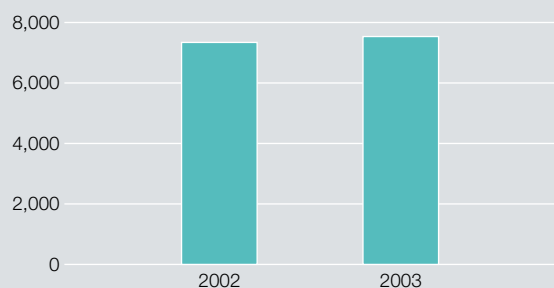
Reducing costs and establishing reliability in performance and product quality by enhancing the development of modules and promoting their combination.

Expansion of sales of super-thermal test devices and IR heat processing devices

Strengthening of sales of measurement system products in the U.S. and Asia

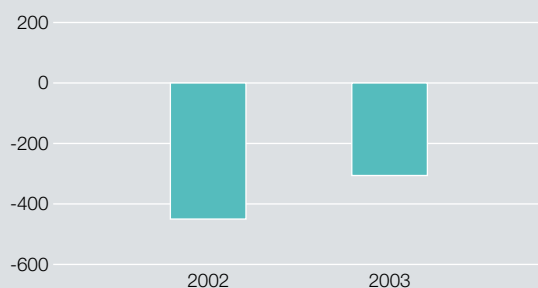
Net Sales

Millions of yen
10,000



Operating Income

Millions of yen
400



Environmental Engineering Service Business

In the after-sales services business, the Company made an effort to speed up service responses by establishing a 24-hour monitoring system. In the engineering business, the Company transferred the walk-in chamber production function from ESPEC Environmental Equipment Corp. At the same time, the Company focused on expanding its installation activities through the development offers and sales of peripheral devices, the strengthening of the technological capability to perform installation works, and the improvement and enhancement of energy-saving, safety, and the environment.

In the commissioned testing services business, the ESPEC Environmental Test Technology Center Corp. was established in April 2002 as a spin-off from the Company to offer its

customers more advanced solutions for environmental tests and to clarify profit responsibility.

In the agri-ecosystem business, following the implementation of the Nature Restoration Law, the Company focused its efforts on waterfront environment creation projects, such as environment remediation and a water quality monitoring system.

Against this background, sales increased by 13.1% year-on-year to ¥5,404 million due to the solid continuity of the after-sales services and engineering business as well as the commissioned testing services business. Orders received also increased by 7.6% year-on-year to ¥5,271 million, and operating income grew dramatically by 79.4% to ¥298 million.

Environmental Engineering Service

Waterfront environment creation project



Pre project



Post project

Priority Measures for the Future

Enhancement of the engineering business

Enhancing competitiveness by offering all-around services, such as installation works of peripherals to product and other device sold.

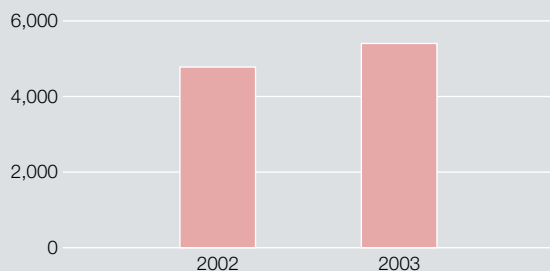
Enhancement of the long-term rental and used products business

Generating stable profits by responding to the demand for low prices triggered by the increase in enterprise management without assets or plant and equipment investment reduction.

Enhancement of the waterfront environment creation business

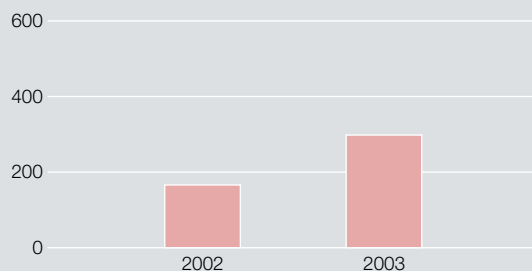
Net Sales

Millions of yen
8,000



Operating Income

Millions of yen
800

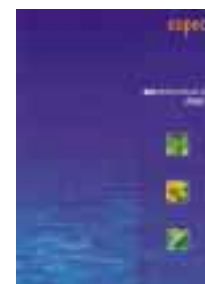


Environmental Activities

Our Environmental Management Policy

The Company gives the highest priority to “adherence to laws and regulations” as to environmental management activities. Equally important is “communications” with all the stakeholders. Based on these fundamental concepts, the Company engages in environmental management activities aimed primarily at “environmental amelioration relating to products and services,”

“environmental management activities at the business premises,” and “social contributions,” with an understanding that the core concept behind these activities is the ISO14001 Standards.



ESPEC Environmental Management Report 2003

Topics

Working towards a group-wide single-step acquisition of ISO14001 certification

Since its announcement of the introduction of “environmental management system” in 1996, the Company has acquired ISO14001 certification for 11 domestic offices and one overseas office. In order to boost each and every employee’s understandings and awareness of the environment, the Company is gathering all of its group companies’ potential to acquire in a single-step ISO14001 certification (scheduled to be acquired in July 2003) rather than having each office and facility acquire it individually and in several different times.

Recovery of chlorofluorocarbons (CFCs)

In 1995, ESPEC ENGINEERING CORP., a subsidiary of the Company, became the first company in the industry to begin recovery of the CFCs. As of March 2003, the cumulative volume of CFCs recovered since 1995 amounted to as much as 8,124 kg. Low-boiling CFCs, which is necessary for producing an ultra low temperature atmosphere, used to be inevitably discharged to the atmosphere during the repair and disposal of the product. In March 2002, ESPEC developed a low-boiling CFCs recovery device in order to solve this problem. Since the fiscal year 2002, the device has been installed at each service facility to recover low-boiling CFCs, which amounted to 83 kg in the fiscal year 2002 alone.

Offering energy-saving products

The Company is actively engaged in the development of ecological products, with the highest priority placed on offering products that reduce power consumption and thus reducing their environmental impact. A liquid-to-liquid thermal shock chamber (TSB Series) developed by the Company in 2002 has achieved a reduction in electric power consumption of up to 52% (compared to our conventional model). Our walk-in type chambers have achieved an average of a 42% reduction in power consumption for all models.

Support for the participation in the Eco Action 21 (green procurement)

The Company has established the standard for recognition of suppliers in order to practice green procurement from those who are actively engaged in environmental activities and have an environmental management system in place. These suppliers will have priority over other suppliers for supplying materials to the Company. The Company supports its suppliers in designing their own environmental management systems to promote green procurement. It supported 63 small- to medium-sized suppliers who have had difficulties in acquiring the ISO14001 certification to apply for the participation in the Eco Action 21, an evaluation program for environmental activities promulgated by the Ministry of Environment. All of these 63 companies completed their applications to participating in the program by the end of March 2003.

Achieved a reduction in electric power consumption by 52%



Thermal Shock Chamber (Liquid-to-liquid Type)

Achieved a reduction in electric power consumption by 42%



Walk-in Type Temperature (& Humidity) Chamber

Environmental Accounting

Environmental Conservation Costs

Coverage: ESPEC CORP. and ESPEC ENGINEERING CORP.
Period: From April 1, 2002 through March 31, 2003

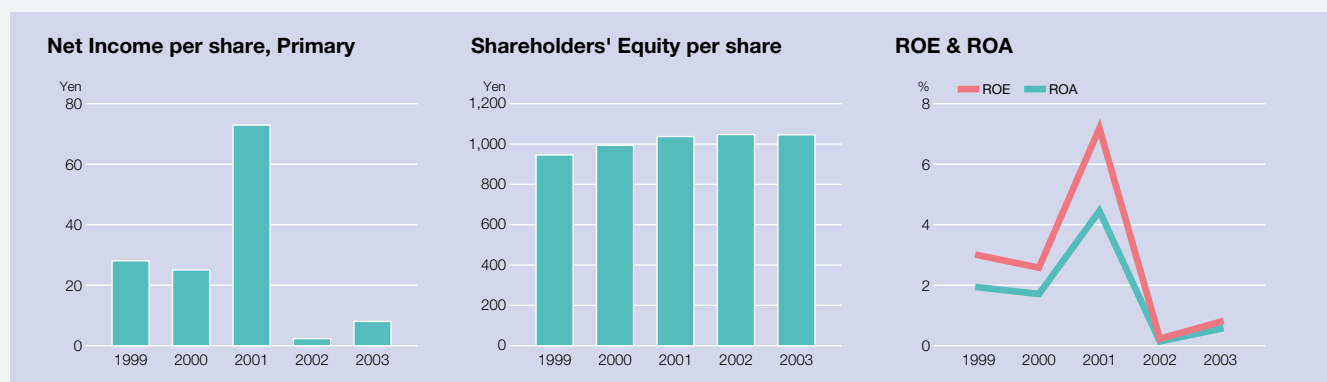
Classification		Main Projects	Fiscal 2003 investments	Fiscal 2003 expenses
Environmental conservation costs for reducing environmental loads arising from production and service activities within business area:		—	12,343	69,099
Break down	Pollution prevention costs:	—	—	6,834
	Global environmental conservation costs:	Introduction of a low-boiling refrigerant recovery device and others	12,343	37,391
	Resource management costs:	—	—	24,874
Environmental conservation costs for reducing upstream/downstream environmental loads arising from production and service activities:		Green procurement	—	408
Environmental conservation costs from management activities:		Acquisition of ISO14001 Certification by Saitama Office and Nagoya Sales Office	15	55,191
Environmental conservation costs incurred in R&D activities:		R&D expenses	—	220,581
Environmental conservation costs incurred in social activities:		—	4,832	37,464
Costs pertaining to environmental damage:		—	—	—
TOTAL		—	17,190	382,743

Five-year Summary of Selected Financial Data

ESPEC CORP. and Consolidated Subsidiaries

	Millions of yen					% change	Thousands of U.S. dollars (Note)
	2003	2002	2001	2000	1999	2003/2002	2003
For the year:							
Net sales	26,738	27,283	32,115	23,059	22,913	-2.0%	222,446
Operating income	1,185	907	3,209	1,104	892	30.7%	9,859
Net income before income taxes	472	263	2,981	1,116	1,109	79.5%	3,927
Net income	189	55	1,714	588	659	243.6%	1,572
Depreciation and amortization	644	701	548	512	524	-8.1%	5,358
Capital expenditures	398	591	2,043	774	291	-32.7%	3,311
Per share amounts (yen and U.S. dollars):							
Net income, primary	8.03	2.33	72.94	25.02	28.06	244.6%	0.07
Net income, diluted	7.82	—	67.20	23.33	26.01	—	0.07
Cash dividends applicable for the year	10.00	10.00	10.00	8.00	8.00	0.0%	0.08
Shareholders' equity	1,045.93	1,047.03	1,037.35	991.85	945.87	-0.1%	8.70
At year-end:							
Total assets	31,960	34,970	41,752	35,206	33,657	-8.6%	265,890
Working capital	12,301	11,537	14,156	16,220	16,006	6.6%	102,338
Cash and cash equivalents	4,393	5,880	5,420	4,606	3,308	-25.3%	36,547
Interest-bearing debt	306	3,527	3,527	3,527	3,527	-91.3%	2,546
Shareholders' equity	23,782	24,336	24,377	23,307	22,227	-2.3%	197,854
Cash flows:							
Operating activities	2,457	1,332	593	659	—	84.5%	20,441
Investing activities	(243)	(617)	399	862	—	—	(2,022)
Financing activities	(3,684)	(431)	(203)	(186)	—	—	(30,649)
Ratio:							
ROE	0.79%	0.23%	7.19%	2.58%	2.99%	243.5%	
ROA	0.56%	0.14%	4.45%	1.71%	1.93%	300.0%	
Capital adequacy ratio	74.4%	69.6%	58.4%	66.2%	66.0%	6.9%	
Other statistics:							
Number of shares outstanding (thousand)	23,500	23,500	23,500	23,500	23,500	0.0%	
Number of employees	869	897	885	873	—	-3.1%	

Note: U.S. dollar amounts are translated from yen at the rate of ¥120.20 = U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003.



Financial Review

Operating Results

Net sales

In the year ended March 31, 2003 the Japanese economy in general experienced a deflationary spiral and other severe conditions. Despite such conditions, the Company engaged in aggressive sales activities in buoyant markets, while focusing on the development of new technologies and products that could become sources of income in the future.

As a result, while sales declined slightly by 2.0% year-on-year to ¥26,738 million, orders received increased by 15.2% to ¥27,219 million mainly owing to a strong growth in the electronic device business.

Overseas, in spite of the impact of the downturn in the U.S. economy following the September 11 terrorist attacks, sales increased by 11.8% year-on-year to ¥8,405 million as a result of an increase in sales in the display device system business as growing numbers of liquid crystal manufacturers move their production bases out of Japan.

Cost of sales, SG&A expenses, Operating income

Cost of sales fell by 3.0% year-on-year to ¥19,247 million as a result of measures that included the clarification of profit responsibility through structural reform, such as the enhancement of the business division system, the enhancement of efforts in cost reduction, and the improvement of profitability at the time orders are received. The ratio of cost of sales to net sales decreased by 0.7 points to 72.0%.

SG&A expenses declined by 3.5% year-on-year to ¥6,306 million primarily as a result of a reduction in fixed costs, with the ratio of SG&A to net sales decreasing by 0.4 points to 23.6%.

As a result, operating income increased by 30.6% year-on-year to ¥1,185 million, with the ratio of operating income to net sales rising by 1.1 points to 4.4%.

Other income (expenses)

Other income (expenses) totaled to ¥713 million, a year-on-year increase of ¥69 million from ¥644 million, primarily as a result of ¥462 million in directors' retirement allowances, including the founder of the Company.

The retirement allowance system has been eliminated for any new directors (including executive officers) elected after April 2002. The system was also eliminated subsequent the regular general meeting of shareholders held in June 2002 for any directors and corporate auditors who are reappointed.

Net income

As a result of the above, the Company achieved a 243.6% increase in net income year-on-year to ¥189 million. The ratio of net income to sales also rose by 0.5 points to 0.7%.

Financial Position

Total assets as of March 31, 2003 stood at ¥31,960 million, a year-on-year decline of ¥3,010 million. The decline in total assets reflects a year-on-year reduction in cash and cash equivalents by ¥1,487 million as a primary result of the self-financed repayment of convertible bonds which came due in March 2003.

Total liabilities amounted to ¥8,024 million, representing a year-on-year decline of ¥2,460 million, mainly as a result of the repayment

in March 2003 of convertible bonds maturing within one year, which amounted to ¥3,527 million.

Shareholders' equity was ¥23,782 million, a year-on-year decline of ¥554 million which was primarily the result of a year-on-year increase in treasury stock of ¥211 million to ¥375 million, in spite of the net income for the year of ¥189 million. As a result of the above as well as efforts to reduce total assets, the shareholders' equity ratio increased significantly by 4.8 points to 74.4%.

Cash Flows

Cash flows from sales activities increased by ¥1,125 million year-on-year to ¥2,457 million. The increase largely reflects income before income taxes and minority interests for ¥472 million, an increase in funds by ¥916 million as a result of higher accounts payables, a decline in inventories by ¥324 million as a result of efforts to reduce inventories, and dividends received from group companies for ¥173 million.

Cash flows used in investment activities amounted to ¥243 million, a decline of ¥374 million year-on-year. The funds were used mainly for purchases of tangible fixed assets.

Cash flows used in financing activities stood at ¥3,684 million, an increase of ¥3,253 million year-on-year. The funds used were comprised of ¥3,527 million for the repayment of convertible bonds which came due in March 2003 and ¥211 million for purchases of treasury stock.

As a result, cash and cash equivalents declined by ¥1,531 million year-on-year. When an increase of ¥44 million associated with a change of the scope of consolidation is factored into the above amount, the balance of cash and cash equivalents as of March 31, 2003 fell by ¥1,487 million year-on-year to ¥4,393 million.

Risk Management

The Company's management makes an effort to improve earnings by controlling its overall risk rather than by fully evading all the risks, so as to enhance its corporate value.

The market risk that the Company directly faces during its normal course of business operations is mainly comprised of the foreign exchange fluctuation risk that accompanies exports to overseas markets as well as its overseas operations. At present, the foreign exchange fluctuation risk has a relatively small impact on the operations since a large percentage of import transactions are denominated in the yen. Nonetheless, it is also possible that such fluctuation risk will become more significant as the Company expands its business in overseas markets over the next years. The Company has mainly engaged in foreign exchange contracts in order to offset part of the foreign exchange fluctuation risk associated with individual transactions.

As part of its risk management system associated with transactions, the Company pays the utmost attention to the prevention of misconduct and errors. The amount of each foreign exchange contract is constantly monitored by the accounting and finance group, and each transaction must be approved by the general manager of the said group. A report concerning the risk management system is submitted on a monthly basis to the senior officer responsible for accounting in accordance with strict internal management regulations.

Consolidated Balance Sheets

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2003 AND 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
CURRENT ASSETS:			
Cash and cash equivalents	¥ 4,393	¥ 5,880	\$ 36,547
Marketable securities (Note 3)	137	111	1,140
Receivables:			
Trade notes	4,221	4,135	35,116
Trade accounts	6,598	6,834	54,892
Unconsolidated subsidiaries and associated companies	737	472	6,131
Other	181	104	1,506
Allowance for doubtful receivables	(85)	(51)	(707)
Inventories (Note 4)	2,261	2,705	18,810
Deferred tax assets (Note 10)	614	444	5,108
Prepaid expenses and other current assets	246	266	2,047
Total current assets	19,303	20,900	160,590
PROPERTY, PLANT AND EQUIPMENT:			
Land	4,335	4,326	36,065
Buildings and structures	7,274	7,284	60,516
Machinery and equipment	862	876	7,171
Furniture and fixtures	3,236	3,272	26,922
Total	15,707	15,758	130,674
Accumulated depreciation	(7,257)	(6,908)	(60,374)
Net property, plant and equipment	8,450	8,850	70,300
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	1,522	2,081	12,662
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 5)	928	1,021	7,720
Deferred tax assets (Note 10)	485	693	4,035
Other assets	1,488	1,702	12,380
Allowance for doubtful receivables	(216)	(277)	(1,797)
Total investments and other assets	4,207	5,220	35,000
TOTAL	¥31,960	¥34,970	\$265,890

See notes to consolidated financial statements.

Consolidated Balance Sheets

	Millions of yen	2002	Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	2003		2003
CURRENT LIABILITIES:			
Short-term borrowing (Note 6)	¥ 300		\$ 2,496
Current portion of long-term debt (Note 6)	6		50
Convertible bonds due within one year		¥ 3,527	
Payables:			
Trade notes	3,488	2,505	29,018
Trade accounts	1,784	1,840	14,842
Unconsolidated subsidiaries and associated companies	63	9	524
Construction and other	4	35	33
Accrued income taxes	200	52	1,664
Accrued expenses	677	754	5,632
Other current liabilities	480	641	3,994
Total current liabilities	7,002	9,363	58,253
LONG-TERM LIABILITIES:			
Liability for retirement benefit (Note 7)	501	592	4,168
Deposits received	508	507	4,226
Other (Note 6)	13	22	108
Total long-term liabilities	1,022	1,121	8,502
MINORITY INTERESTS	154	150	1,281
COMMITMENTS (Notes 13)			
SHAREHOLDERS' EQUITY (Notes 9 and 15):			
Common stock, no par value			
authorized, 80,000,000 shares; issued 23,499,894 shares at March 31, 2003 and 2002	6,779	6,779	56,398
Additional paid-in capital	7,020	7,020	58,403
Retained earnings	10,640	10,804	88,519
Unrealized loss on available-for-sale securities	(117)	(86)	(973)
Foreign currency translation adjustments	(164)	(16)	(1,365)
Total	24,158	24,501	200,982
Treasury stock – at cost			
765,628 shares in 2003 and 256,383 shares in 2002	(376)	(165)	(3,128)
Total shareholders' equity	23,782	24,336	197,854
TOTAL	¥31,960	¥34,970	\$265,890

See notes to consolidated financial statements.

Consolidated Statements of Income

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2003 AND 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
NET SALES	¥26,738	¥27,283	\$222,446
COST OF SALES	19,247	19,840	160,125
Gross profit	7,491	7,443	62,321
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,306	6,536	52,462
Operating income	1,185	907	9,859
OTHER INCOME (EXPENSES):			
Interest and dividend income	51	108	424
Interest expense	(27)	(26)	(225)
Loss on sales of securities	(164)	(108)	(1,364)
Loss on devaluation of investment securities	(239)	(744)	(1,988)
Foreign currency exchange loss	(31)		(258)
Equity in earnings of unconsolidated subsidiaries and associated companies	105	115	874
Retirement benefit for directors	(462)		(3,844)
Other – net	54	11	449
Other income (expenses) – net	(713)	(644)	(5,932)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	472	263	3,927
INCOME TAXES (Note 10):			
Current	237	221	1,972
Deferred	36	(26)	300
Total income taxes	273	195	2,272
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	10	13	83
NET INCOME	¥ 189	¥ 55	\$ 1,572
PER SHARE OF COMMON STOCK (Note 2.n):	Yen		U.S. dollars
Basic net income	¥ 8.03	¥ 2.33	\$0.07
Diluted net income	7.82		0.07
Cash dividends applicable to the year	10.00	10.00	0.08

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2003 AND 2002

	Thousands		Millions of yen				
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Loss on Available-for- sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2001	23,500	¥6,779	¥7,020	¥11,021	¥(227)	¥(216)	
Adjustment of retained earnings for additional consolidation and application of equity method				(2)			
Net income				55			
Cash dividends, ¥10 per share				(235)			
Bonuses to directors and corporate auditors				(35)			
Sales of treasury stock – net							¥(165)
Unrealized gain on available-for-sale securities – net					¥141		
Foreign currency translation adjustments – net						¥200	
BALANCE, MARCH 31, 2002	23,500	6,779	7,020	10,804	(86)	(16)	(165)
Adjustment of retained earnings due to change in scope of consolidation				(111)			
Net income				189			
Cash dividends, ¥10 per share				(232)			
Bonuses to directors and corporate auditors				(10)			
Purchase of treasury stock – net							(211)
Unrealized gain on available-for-sale securities – net					(31)		
Foreign currency translation adjustments – net						(148)	
BALANCE, MARCH 31, 2003	23,500	¥6,779	¥7,020	¥10,640	¥(117)	¥(164)	¥(376)

	Thousands of U.S. dollars (Note 1)						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Loss on Available-for- sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
BALANCE, MARCH 31, 2002	\$56,398	\$58,403	\$89,883	\$ (715)	\$ (134)	\$ (1,373)	
Adjustment of retained earnings due to change in scope of consolidation			(923)				
Net income			1,572				
Cash dividends, \$0.08 per share			(1,930)				
Bonuses to directors and corporate auditors			(83)				
Purchase of treasury stock – net							(1,755)
Unrealized gain on available-for-sale securities – net				(258)			
Foreign currency translation adjustments – net					(1,231)		
BALANCE, MARCH 31, 2003	\$56,398	\$58,403	\$88,519	\$ (973)	\$ (1,365)	\$ (3,128)	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2003 AND 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 472	¥ 263	\$ 3,927
Adjustments for:			
Income taxes – paid	(89)	(1,341)	(740)
Depreciation and amortization	648	706	5,391
Loss on devaluation of securities	235	744	1,955
Provision for doubtful receivables	54	137	449
Decrease in liability for retirement benefits	(87)	(106)	(724)
Equity in earnings of unconsolidated subsidiaries and associated companies	(105)	(115)	(874)
Bonuses to directors and corporate auditors	(12)	(35)	(100)
Loss on sales of securities	164	108	1,364
Changes in assets and liabilities:			
Decrease (increase) in receivables	(162)	4,507	(1,348)
Decrease in inventories	324	1,069	2,696
Increase (decrease) in payables	961	(4,034)	7,995
Decrease (increase) in interest and dividend receivable	250	(18)	2,080
Other – net	(196)	(553)	(1,630)
Total adjustments	1,985	1,069	16,514
Net cash provided by operating activities	2,457	1,332	20,441
INVESTING ACTIVITIES:			
Purchases of marketable securities	(57)	(201)	(474)
Proceeds from sales and redemptions of marketable securities	139	731	1,156
Purchases of property, plant and equipment	(313)	(1,552)	(2,604)
Purchases of investment securities	(568)	(1,225)	(4,725)
Proceeds from sales and redemptions of investments securities	497	1,576	4,135
Other – net	59	54	490
Net cash used in investing activities	(243)	(617)	(2,022)
FINANCING ACTIVITIES:			
Increase in short-term bank loans – net	300		2,496
Payment for redemption of convertible bond	(3,527)		(29,343)
Dividends paid	(236)	(236)	(1,963)
Purchases of treasury stock	(211)	(165)	(1,755)
Other – net	(10)	(30)	(84)
Net cash used in financing activities	(3,684)	(431)	(30,649)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(61)	56	(507)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (FORWARD)	(1,531)	340	(12,737)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,880	5,420	48,918
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	49	120	408
CASH AND CASH EQUIVALENTS DECREASED BY ELIMINATION OF CONSOLIDATED SUBSIDIARIES	(5)		(42)
CASH AND CASH EQUIVALENTS, END OF YEAR	¥4,393	¥5,880	\$36,547

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2003 AND 2002

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to

present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in 2002 financial statements to conform to the classifications used in 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ESPEC CORP. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.20 to \$1, the approximate rate of exchange at March 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — Under the control or influence concept, those companies over whose operations the Company, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method. The consolidated financial statements as of March 31, 2003 include the accounts of the Company and its 7 significant (6 in 2002) subsidiaries (together, the "Group"). Investments in 3 (3 in 2002) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the net assets at the respective dates of acquisition, is being amortized over a period of 5 years in principle.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and money management funds all of which mature or become due within three months of the date of acquisition.

c. Inventories — Inventories are stated mainly at cost determined by the average method, except for work in process which is determined mainly by the specific identification method.

d. Marketable and Investment Securities — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The Group's securities are all classified as available-for-sale.

Non-marketable available-for-sale securities are stated at cost

determined by the moving-average method.

For other than temporary declines in fair value, marketable and investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets. However the straight-line method is applied to buildings of the Company and its consolidated domestic subsidiaries that were acquired after April 1, 1998. Depreciation of property, plant and equipment of consolidated foreign subsidiaries is computed by the straight-line method based on the estimated useful lives of the assets.

The range of useful lives is principally from 15 to 50 years for buildings and structures, 11 years for machinery and equipment, and from 3 to 15 years for furniture and fixtures.

f. Land Revaluation — Under the "Law of Land Revaluation", promulgated on March 31, 1998, and revised on March 31, 1999 and 2001, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002 and the latest assessed value of fixed assets.

The Company performed a one-time revaluation on March 29, 2002. The aggregate carrying amount of the land was the same before and after the revaluation. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at March 31, 2003, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥219 million.

g. Employees' Retirement Benefits — The Company and certain domestic consolidated subsidiaries have contributory defined benefit pension plan covering substantially all of their employees. Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥397 million (\$3,204 thousand) as of April 1, 2000 is being amortized over five years and the annual amortization is presented as other expense in the statement of income.

h. Research and Development Costs — Research and development costs are charged to income as incurred.

i. Leases — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

j. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. Appropriations of Retained Earnings — Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholder’s approval.

l. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign currency exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by forward exchange contracts.

m. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except

for shareholders’ equity, which is translated at historical rates. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate for the year. Differences arising from such translation are shown as “Foreign currency translation adjustments” in a separate component of shareholders’ equity.

n. Per Share Information — Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax. Diluted net income per share is not disclosed for 2002 because it was anti-dilutive. Basic net income and diluted net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current:			
Government and corporate bonds	¥ 128	¥ 100	\$ 1,065
Trust fund investments	9	11	75
Total	¥ 137	¥ 111	\$ 1,140
Non-current:			
Marketable equity securities	¥ 579	¥ 959	\$ 4,817
Non-marketable equity securities	391	120	3,253
Government and corporate bonds	301	393	2,504
Trust fund investments	251	609	2,088
Total	¥1,522	¥2,081	\$12,662

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2003 and 2002 were as follows:

	Millions of yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
March 31, 2003				
Securities classified as available-for-sale:				
Equity securities	¥682	¥27	¥130	¥579
Debt securities	327	2		329
Trust fund investments	355		95	260
March 31, 2002				
Securities classified as available-for-sale:				
Equity securities	¥1,000	¥57	¥98	¥959
Debt securities	394	2	3	393
Trust fund investments	727	1	107	621
	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2003				
Securities classified as available-for-sale:				
Equity securities	\$5,674	\$225	\$1,082	\$4,817
Debt securities	2,720	17		2,737
Trust fund investments	2,953		790	2,163

Notes to Consolidated Financial Statements

The amount of impairment losses were ¥239 million (\$1,988 thousand) and ¥743 million for the years ended March 31, 2003 and 2002, respectively. Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Available-for-sale:			
Non-marketable equity securities	¥390	¥120	\$3,245
Debt securities	100	100	832
Total	¥490	¥220	\$4,077

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥498 million (\$4,143 thousand) and ¥775 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥41 million (\$341 thousand) and ¥205 million (\$1,705 thousand), respectively, for the year ended March 31, 2003, and ¥97 million and ¥205 million, respectively, for the year ended March 31, 2002.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥137	\$1,140
Due after one year through five years	8	67
Due after five years through ten years	187	1,556
Due after ten years	201	1,672
Total	¥533	\$4,435

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Merchandise	¥ 208	¥ 23	\$ 1,731
Finished products	251	328	2,088
Work in process	943	1,025	7,845
Raw materials and supplies	859	1,329	7,146
Total	¥2,261	¥2,705	\$18,810

5. INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Investments	¥861	¥ 941	\$7,165
Advances	67	80	555
Total	¥928	¥1,021	\$7,720

6. SHORT-TERM BORROWING AND LONG-TERM DEBT

Short-term borrowing at March 31, 2003 consisted of a one-year loan from an insurance company. The annual average rate was 0.2%.

Long-term debt at March 31, 2003 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Unsecured loan from bank, 1.5%, due serially through 2005	¥14	\$116
Less current portion	(6)	(50)
Long-term debt, less current portion	¥ 8	\$ 66

Annual maturities of long-term debt as of March 31, 2003 for the next five years were as follows:

	Millions of yen	Thousands of U.S. dollars
Year Ending March 31		
2004	¥ 6	\$ 50
2005	6	50
2006	2	16
2007		
2008		
Total	¥14	\$116

7. RETIREMENT AND PENSION PLANS

The Company and certain domestic consolidated subsidiaries have a contributory defined benefit pension plan covering substantially all of their employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment or annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at

certain specific ages prior to the mandatory retirement age.

In addition, the Company participates in a contributory multiemployer pension plan covering substantially all of its employees. The pension fund assets available for benefits under this plan were approximately ¥2,082 million (\$17,321 thousand) and ¥2,625 million at March 31, 2003 and 2002, respectively.

The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits, other than the above multiemployer pension plan, at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥1,912	¥2,751	\$15,907
Fair value of plan assets	(629)	(1,657)	(5,233)
Unrecognized actuarial loss	(639)	(265)	(5,316)
Unrecognized transitional obligation	(149)	(237)	(1,240)
Prepaid pension cost	6		50
Net liability	¥ 501	¥ 592	\$ 4,168

The components of net periodic retirement benefit costs for the year ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥162	¥157	\$1,348
Interest cost	79	75	657
Expected return on plan assets	(63)	(54)	(524)
Amortization of transitional obligation	75	79	624
Recognized actuarial loss	55	37	457
Contribution for the multiemployer pension plan	175	221	1,456
Net periodic retirement benefit cost	¥483	¥515	\$4,018

Assumptions used for the year ended March 31, 2003 and 2002 were set forth as follows:

	2003	2002
Discount rate	2.5%	3.0%
Expected rate of return on plan assets	2.5%	4.0%
Recognition period of actuarial gain / loss	10 years	10 years
Amortization period of transitional obligation	5 years	5 years

8. STOCK OPTION PLAN

The stock option plan which was approved by the shareholders meeting held on June 27, 2002, provides options on subscriptions to purchase the Company's common stock in an aggregate maximum of 250,000 shares for the Group's executive officers, and the Company's

operating officers and managers. The exercise period of stock options is between July 1, 2004 and June 30, 2007, at the exercise price of ¥547 per share. The exercise price of stock options is subject to adjustment in certain circumstances.

9. SHAREHOLDERS' EQUITY

Japanese Companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of

the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board

Notes to Consolidated Financial Statements

of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥7,525 million (\$ 62,604 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Write-down of securities	¥ 50	¥ 192	\$ 416
Unrealized loss on available-for-sale securities	79	62	657
Bad debt allowance	87	72	724
Accrued bonuses	139	119	1,156
Accrued warranty cost	97	112	807
Pension and severance costs	201	249	1,672
Tax loss carryforwards	352	198	2,929
Other	94	133	782
Total	¥1,099	¥1,137	\$9,143

Reconciliations between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Normal effective statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	8.4	21.5
Income not taxable for income tax purposes	(3.9)	(7.6)
Taxation per capita	8.2	14.2
Other - net	3.1	3.9
Actual effective tax rate	57.8%	74.0%

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 42.0% to 40.4%, effective for years beginning April 1, 2004. The effect of this change on deferred taxes in the consolidated statements of income for the year ended March 31, 2003 was approximately ¥10 million (\$83 thousand).

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,080 million (\$8,985 thousand) and ¥1,141 million for the years ended March

account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

normal effective statutory tax rate of approximately 42% for the years ended March 31, 2003 and 2002.

At March 31, 2003, certain subsidiaries had tax loss carryforwards aggregating approximately ¥352 million (\$2,298 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire in the years 2006 through 2011.

31, 2003 and 2002, respectively.

12. LEASES

The Group leases certain machinery, computer equipment and other assets.

Total rental expenses for the years ended March 31, 2003 and 2002

were ¥474 million (\$3,943 thousand) and ¥140 million, respectively, including ¥128 million (\$1,065 thousand) and ¥112 million of lease payments under finance leases.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥433	¥282	¥715	¥437	¥223	¥660	\$3,602	\$2,346	\$5,948
Accumulated depreciation	225	149	374	176	105	281	1,872	1,239	3,111
Net leased property	¥208	¥133	¥341	¥261	¥118	¥379	\$1,730	\$1,107	\$2,837

Notes to Consolidated Financial Statements

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥114	¥110	\$ 948
Due after one year	227	269	1,889
Total	¥341	¥379	\$2,837

The cost of leased property and obligations under finance leases include imputed interest expense. Depreciation expenses, which are not reflected in the accompanying statements of income, computed by

the straight-line method were ¥128 million (\$1,065 thousand) and ¥112 million for the years ended March 31, 2003 and 2002, respectively.

13. COMMITMENTS

The parent company has a credit agreement to meet short-term working capital needs with a group of financial institutions that provides an unsecured revolving credit facility with an aggregate commitment of

¥1,800 million. There was no borrowing under the agreement at March 31, 2003.

14. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2003 was as follows:

	Millions of yen	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2003:				
Basic EPS				
Net income available to common shareholders	¥186	23,125	¥8.03	\$0.07
Effect of Dilutive Securities Convertible bonds	12	2,191		
Diluted EPS Net income for computation	¥198	25,316	¥7.82	\$0.07

Diluted net income per share for the year ended March 31, 2002 was

not disclosed because it was anti-dilutive.

15. SUBSEQUENT EVENTS

a. Stock Option Plan — At the general shareholders meeting held on June 25, 2003, the Company's shareholders approved a stock option plan for the Group's executive officers, and the Company's operating officers and managers.

The plan provides for granting options to purchase up to 362 thousand shares of the Company's common stock in the period from July 1, 2005 to June 30, 2008.

b. Appropriations of Retained Earnings — The following appropriations of retained earnings at March 31, 2003 were approved at the Company's shareholders meeting held on June 25, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥5 (\$0.04) per share	¥114	\$948

16. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2003 and 2002, were as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen					Thousands of U.S. dollars									
	2003					2002					2003				
	Environmental Testing Business	Electronics Devices Business	Engineering Service Business	Eliminations/Corporate	Consolidated	Environmental Testing Business	Electronics Devices Business	Maintenance Service	Eliminations/Corporate	Consolidated	Environmental Testing Business	Electronics Devices Business	Engineering Service Business	Eliminations/Corporate	Consolidated
Sales to customers	¥14,983	¥7,409	¥4,346		¥26,738	¥16,844	¥7,827	¥2,612		¥27,283	\$124,650	\$61,639	\$36,157		\$222,446
Intersegment sales	112	128	1,059	¥(1,299)		25	853	612	¥(1,490)		932	1,065	8,810	¥(10,807)	
Total sales	15,095	7,537	5,405	(1,299)	26,738	16,869	8,680	3,224	(1,490)	27,283	125,582	62,704	44,967	(10,807)	222,446
Operating expenses	13,889	7,843	5,107	(1,286)	25,553	16,036	8,799	3,031	(1,490)	26,376	115,549	65,250	42,487	(10,699)	212,587
Operating income	¥ 1,206	¥ (306)	¥ 298	¥ (13)	¥ 1,185	¥ 833	¥ (119)	¥ 193	¥ -	¥ 907	\$ 10,033	\$ (2,546)	\$ 2,480	\$ (108)	\$ 9,859

b. Assets, Depreciation and Capital Expenditures

	Millions of yen										Thousands of U.S. dollars				
	2003					2002					2003				
	Environmental Testing Business	Electronics Devices Business	Environmental Engineering Service Business	Eliminations/Corporate	Consolidated	Environmental Testing Business	Electronics Devices Business	Maintenance Service	Eliminations/Corporate	Consolidated	Environmental Testing Business	Electronics Devices Business	Environmental Engineering Service Business	Eliminations/Corporate	Consolidated
Assets	¥11,884	¥6,246	¥4,025	¥9,805	¥31,960	¥13,003	¥8,141	¥1,808	¥12,018	¥34,970	\$98,869	\$51,963	\$33,486	\$81,572	\$265,890
Depreciation	287	192	123	42	644	358	251	6	86	701	2,388	1,597	1,023	350	5,358
Capital expenditures	34	25	132	207	398	300	114	5	172	591	283	208	1,098	1,722	3,311

Notes:

- The Group is primarily engaged in the manufacture and sale of products in three major segments grouped on the basis of similarities in the nature of the products and the market. The three segments and their primary products are as follows:
Environmental Testing Business: Temperature and humidity chambers, High accelerated stress system, Thermal shock chambers, Clean ovens, Artificial climatic chambers.
Electronics Devices Business: Measurement evaluation system, Burn-in system, LCD production equipment.
Environmental Engineering Service Business: Commissioned testing service, Artificial agriculture system, Eco system, A service network and support system for environmental test equipment.
- Corporate assets mainly consisted of cash, time deposits, marketable and investments securities and administrative assets of the Company amounting to ¥10,120 million (\$84,193 thousand) and ¥12,759 million as of March 31, 2003 and 2002, respectively.
- The change of industry segment - the industry segments had historically been based on the similarity of the type, nature and market for the product. However, the Group changed the segmentation in order to provide more useful segment information and to more accurately reflect the production styles and managerial organization to be consistent with the revised operational structure of the Group. The restructuring occurred on October 1, 2002. Consequently Thermal shock chambers and Clean ovens which had previously belonged to the Electronics Devices Business segment are now reflected within the Environmental Testing Business segment and the Measurement evaluation system which had previously belonged to the Environmental Testing Business segment are now reflected within the Electronics Devices Business segment in the year ended March 31, 2003. In addition, Commissioned testing service, Artificial agriculture system and Eco system which had previously belonged to the Electronics Devices Business segment and the Maintenance Service segment are now reflected within the Environmental Engineering Service segment.

The sales, operating income, assets, depreciation and capital expenditures for the year ended March 31, 2002, presented considering the revised segmentation, were as follows:

a. Sales and Operating Income

	Millions of yen				
	2002				
	Environmental Testing Business	Electronics Devices Business	Environmental Engineering Service Business	Eliminations/Corporate	Consolidated
Sales to customers	¥16,573	¥6,630	¥4,080		¥27,283
Intersegment sales	13	711	700	¥(1,424)	
Total sales	16,586	7,341	4,780	(1,424)	27,283
Operating expenses	15,395	7,791	4,614	(1,424)	26,376
Operating income	¥ 1,191	¥ (450)	¥ 166	¥ -	¥ 907

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2002				
	Environmental Testing Business	Electronics Devices Business	Environmental Engineering Service Business	Eliminations/Corporate	Consolidated
Assets	¥11,342	¥7,860	¥3,688	¥12,080	¥34,970
Depreciation	345	238	33	85	701
Capital expenditures	144	135	140	172	591

(2) Geographical Segments

The geographical segments of the Company and consolidated subsidiaries for the years ended March 31, 2003 and 2002 were summarized as follows:

	Millions of yen								Thousands of U.S. dollars					
	2003				2002				2003					
	Japan	U.S.A	Other	Eliminations/ Corporate	Consolidated	Japan	U.S.A	Eliminations/ Corporate	Consolidated	Japan	U.S.A	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥24,939	¥1,496	¥303		¥26,738	¥24,833	¥2,450		¥27,283	\$207,479	\$12,446	\$2,521		\$222,446
Interarea transfer	541	47		¥ (588)		354	45	¥ (399)		4,501	391		¥ (4,892)	
Total sales	25,480	1,543	303	(588)	26,738	25,187	2,495	(399)	27,283	211,980	12,837	2,521	(4,892)	222,446
Operating expenses	24,268	1,607	253	(575)	25,553	24,430	2,345	(399)	26,376	201,897	13,369	2,105	(4,784)	212,587
Operating income	¥ 1,212	¥ (64)	¥ 50	¥ (13)	¥ 1,185	¥ 757	¥ 150	¥ -	¥ 907	\$ 10,083	\$ (532)	\$ 416	\$ (108)	\$ 9,859
Assets	¥20,546	¥1,385	¥ 87	¥9,942	¥31,960	¥20,860	¥1,494	¥12,616	¥34,970	\$170,932	\$11,522	\$ 724	\$82,712	\$265,890

Notes:

- The segment information is grouped by geographic area based on the countries where the companies are located.
- Corporate assets mainly consisted of cash, time deposits, marketable and investments securities and administrative assets of the Company amounting to ¥10,120 million (\$84,193 thousand) and ¥12,759 million as of March 31, 2003 and 2002, respectively.

(3) Sales to Foreign Customers

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Asia	Other	Total	Asia	Other	Total	Asia	Other	Total
Sales to foreign customers (A)	¥6,690	¥1,715	¥ 8,405	¥4,846	¥2,670	¥ 7,516	\$55,657	\$14,268	\$ 69,925
Consolidated sales (B)			26,738			27,283			222,446
(A)/(B)	25.0%	6.4%	31.4%	17.7%	9.8%	27.5%	25.0%	6.4%	31.4%

Notes:

The sales to foreign customers grouped by geographic area based on the countries where the Group's customers are located. The geographic groupings mainly consists of the following countries:

Asia: China, Taiwan, Republic of Korea, Singapore, Malaysia, Philippines and Thailand
 Other: United States of America

Independent Auditors' Report

**Deloitte
Touche
Tohmatsu**

**To the Board of Directors and Shareholders of
ESPEC CORP.:**

We have audited the accompanying consolidated balance sheets of ESPEC CORP. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ESPEC CORP. and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Deloitte Touche Tohmatsu

June 25, 2003

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Head Office



ESPEC NORTH AMERICA, INC.



SHANGHAI ESPEC ENVIRONMENTAL EQUIPMENT CORP.



GUANGZHOU ESPEC ENVIRONMENTAL EQUIPMENT CO., LTD.

Directors, Officers and Auditors

As of June 25, 2003

CEO

Kiyoshi Shimazaki (Representative Director)

President/COO

Susumu Nojii (Representative Director)

Director

Nobuyoshi Shin

Hisakazu Wada

Senior Officer

Toshikazu Adachi

Technical Development Headquarter
(Technical Issue, Overseas Business and New Business Development)

Eishiro Hizukuri

Environmental Facilities Business Division
(Sales Issue)

Yoshio Nakai

Administration Headquarter
Export Control Headquarter
(Administrative Issue)

Hikomichi Fukumoto

Environmental Test Business Division
Fukuchiyama Plant
(Production and Environmental Management Issue)

Officer

Kouzo Mizuno

Quality Assurance Department
Environmental Management Department

Hitoshi Kirimura

Logistics Department
Information System Development Department
Kobe Technocomplex

Masaaki Ishida

Material Headquarter

Taneo Shimada

FPD Device Business Division

Kunikazu Ishii

Measurement & Test System Business Division
Utsunomiya Technocomplex

Seiji Soda

Sales Headquarter

Standing Corporate Auditor

Nobuyoshi Hiro

Yoshinobu Yamada

Corporate Auditor

Shouichiro Yoshioka

Corporate Data

As of March 31, 2003

Company Name: ESPEC CORP.

Founded: July 25, 1947

Incorporated: January 13, 1954

Paid-in Capital: ¥6,779 million

Number of Employees: 552

Number of Shares Authorized: 80,000,000 shares

Number of Shares Issued: 23,499,894 shares

Stock Listings:

The first section of the Tokyo Stock Exchange
and Osaka Securities Exchange

Number of Shareholders: 4,068

Transfer Agent and Registrar:

Mizuho Trust & Banking Co., Ltd.
1-2-1, Yaesu, Chiyoda-ku, Tokyo, Japan

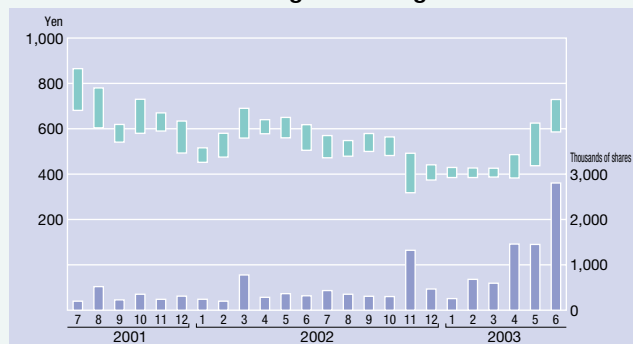
For further information, please contact

General Affairs Department
Telephone: 81-6-6358-4741 Facsimile: 81-6-6358-5500
<http://www.espec.co.jp> E-mail: ir-div@espec.co.jp

Principal Shareholders

Shareholder	Number of shares (thousands)	% of total shares issued
The Chase Manhattan Bank N.A. London	1,369	6.14%
Mizuho Corporate Bank, Ltd.	1,073	4.81
Nippon Life Insurance Company	929	4.16
UFJ Bank Limited	917	4.11
Resona Bank, Limited	860	3.86
ESPEC's Business Partners Shareholders' Association	749	3.36
The Dai-ichi Mutual Life Insurance Company	696	3.12
ESPEC's Employees Shareholders' Association	659	2.95
The Master Trust Bank of Japan, Ltd. (Trust Account)	585	2.62
The Kinki Osaka Bank, Ltd.	486	2.18

Common Stock Price Range & Trading Volume



Note: Stock prices and trading volume are based on Tokyo Stock Exchange data.

ESPEC CORP.

