Summary of Financial Results (Consolidated)
for the Fiscal 2015 Ended March 31, 2016
[under Japanese GAAP]

May 13, 2016

Listed Company Name:	ESPEC CORP.
Listed Stock Exchange:	Tokyo, Stock Exchanges, First Section
Securities Code:	6859
Homepage:	http://www.espec.co.jp
Representative:	Masaaki Ishida, President
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Annual General Shareholders' Meeting (Scheduled):	June 24, 2016
Dividends payment beginning day (Scheduled):	June 27, 2016
Filing of Securities Report *[Yuka shoken hokokusho]*(Scheduled):	June 27, 2016
Preparing Supplementary Material on Financial Results:	Yes
Holding Financial Results Presentation Meeting:	Yes (For Institutional Investors)
U.S. GAAP Accounting standard:	Not Adopted

*The original disclosure in Japanese was released on May 13, 2016 at 14:00. (GMT+9)

(Rounded off to nearest million yen)

1. Consolidated financial results for the fiscal 2015 ended March 31, 2016. (April 1, 2015 ~ March 31, 2016)

(1) Consolidated operating results

(% figures are rates of change in comparison to previous year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Year Ended March 31, 2016	39,035	16.0	3,521	33.2	3,570	17.3	2,410	13.8
Year Ended March 31, 2015	33,661	4.9	2,643	27.3	3,044	28.5	2,118	34.9

(Note) Statements of comprehensive income Year Ended March 31, 2016 ¥1,823million [(44.4)%]
Year Ended March 31, 2015 ¥3,280million [15.5%]

	Net Income Per Share	Net Income Per Share, Diluted	Net Income to Shareholders' Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
Year Ended March 31, 2016	104.75	-	6.8	7.5	9.0
Year Ended March 31, 2015	91.19	-	6.3	6.8	7.9

(Reference) Equity in earnings of affiliates Year Ended March 31, 2016 ¥－million
Year Ended March 31, 2015 ¥－million

(2) Consolidated financial standing

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets Per Share
	Million Yen	Million Yen	%	Yen
As of March 31, 2016	48,045	35,633	74.2	1,564.55
As of March 31, 2015	46,792	35,451	75.1	1,521.96

(Reference) Shareholders' equity As of March 31, 2016 ¥35,633million
As of March 31, 2015 ¥35,158million

(3) Consolidated status on cash flows

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Cash Equivalents at End of Year
	Million Yen	Million Yen	Million Yen	Million Yen
Year Ended March 31, 2016	356	(3,100)	(1,924)	9,596
Year Ended March 31, 2015	1,818	(293)	(508)	14,167

2. Dividends

	Dividend Per Share					Total Cash Dividend (Total)	Dividend Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Term-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million Yen	%	%
Year Ended March 31, 2015	-	7.00	-	19.00	26.00	604	28.5	1.8
Year Ended March 31, 2016	-	9.00	-	23.00	32.00	735	30.5	2.1
Year Ending March 31, 2017 (Forecast)	-	12.00	-	24.00	36.00		31.6	

3. Forecast of Consolidated Operating Results for the Fiscal 2016 Ending March 31, 2017(April 1, 2016 ~ March 31, 2017)

(% figures for the full-term are rates of change in comparison to previous year and % figures for the six months ended are rates of change in comparison to the same quarter previous year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Net Income Per Share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Six Months Ending September 30, 2016	18,000	11.6	1,400	23.6	1,450	13.8	1,000	24.7	43.84
Full-term	39,000	(0.1)	3,600	2.2	3,700	3.6	2,600	7.9	113.98

4. Others

(1) Transfers of important subsidiaries during the term (transfers of specified subsidiaries entailing changes in the scope of consolidation): Yes

New (Company name:QUALMARK CORPORATION) Excluded (Company name:)

(2) Changes in accounting policies; changes in accounting estimates; restatements of financial statements

1) Changes in accounting policies due to amendment of accounting standards: Yes
2) Changes in accounting policies other than above: No
3) Changes in accounting estimates: No
4) Restatements of financial statements: No

(Note) For details, see "Change in accounting policy" on p. 21.

(3) Number of outstanding shares (Ordinary shares)

1) Number of outstanding shares at end of term (Including treasury stock):	As of March 31, 2016	23,781,394 shares	As of March 31, 2015	23,781,394 shares
2) Number of treasury stock at end of term:	As of March 31, 2016	1,005,514 shares	As of March 31, 2015	680,455 shares
3) Average number of shares during the term (Consolidated quarter):	Year Ended March 31, 2016	23,009,486 shares	Year Ended March 31, 2015	23,233,414 shares

* Disclosure Regarding Enactment of Audit Procedures

This earnings report is not subject to the audit procedures stipulated by Japan's Financial Instruments and Exchange Act. As of the date of release of this report, the Company's financial statements were undergoing audit procedures stipulated by the Financial Instruments and Exchange Act.

* Explanation of appropriate use of results forecasts and other matters of note

Statements concerning the future such as the results forecasts, etc., included in this document are based on currently available information and certain assumptions judged reasonable and actual results, etc., may differ due to various factors.

Index of Attached Material

1. Qualitative Information Concerning the Consolidated Results and Financial Situation

(1) Analysis of concerning the Operating Results

1) Operating Results for Fiscal 2015

During fiscal 2015, the Japanese economy continued to recover, mainly due to an improvement in corporate earnings against a backdrop of strong business expansion in the U.S. together with the yen depreciating and oil prices falling. However, the situation was clouded by concerns over the global economic impact of a slowdown in the Chinese economy, geopolitical risks and other factors.

Of the Company's main customers, automotive manufacturers continued to invest aggressively, while investment activity improved among electronics-related manufacturers.

In this environment, the Company strengthened marketing activities in China, and Southeast Asia, its designated priority markets, and focused on developing the energy device market centered on eco-cars, as well as the "food and drug markets".

As a result, in the consolidated results for fiscal 2015, the amount of orders-received increased 10.0% year on year to ¥39,903 million and net sales increased 16.0% to ¥39,035 million. On the earnings front, operating income increased 33.2% year on year to ¥3,521 million and profit attributable to owners of parent rose 13.8% year on year to ¥2,410 million.

	Year Ended March 31, 2015 (Million Yen)	Year Ended March 31, 2016 (Million Yen)	Change (%)
Orders-Received	36,287	39,903	10.0
Net Sales	33,661	39,035	16.0
Operating Income	2,643	3,521	33.2
Ordinary Income	3,044	3,570	17.3
Profit Attributable to Owners of Parent	2,118	2,410	13.8

2) Performance by Segment

Consolidated results by operating segment for fiscal 2015

	Orders-Received (Million Yen)	Net Sales (Million Yen)	Operating Income (Million Yen)
Equipment Business	32,951	32,030	2,986
Service Business	5,874	5,786	516
Other Business	1,340	1,474	19
Elimination	(263)	(256)	(0)
Total	39,903	39,035	3,521

<Equipment Business>

In the environmental test chambers field, in Japan the Company saw strong business for highly versatile standardized products, as well as for walk-in type temperature & humidity chambers and customized products centered on the automotive market. Overseas, exports grew steadily, to mainly the U.S., China, and Southeast Asia, and sales by the Company's U.S. and Chinese subsidiaries performed favorably. As a result, both orders-received and net sales of environmental test chambers on the whole increased year on year during the fiscal 2015.

In the energy devices equipment field, the Company concentrated on winning orders for charge-discharge evaluation systems for secondary batteries in automobiles and power device evaluation systems. As a result, orders-received were about the same level as the previous fiscal year, and net sales of energy devices equipment increased year on year.

In the semiconductor equipment field, an uptrend in orders from smartphone-related manufacturers drove a year-on-year increase in both orders-received and net sales.

As a result, the Equipment Business overall saw orders-received increase 12.1% to ¥32,951 million, and net sales increase by 18.7% to ¥32,030 million, compared with the previous fiscal year. Operating income increased 37.1% year on year to ¥2,986 million, due to increase in sales.

	Year Ended March 31, 2015 (Million Yen)	Year Ended March 31, 2016 (Million Yen)	Change (%)
Orders-Received	29,399	32,951	12.1
Net Sales	26,992	32,030	18.7
Operating Income	2,178	2,986	37.1

< Service Business >

In after-sales service and engineering, both orders-received and net sales were about the same compared to the previous fiscal year.

In commissioned tests and facility rentals, the core test consulting operation saw steady growth in the automobile market. Consequently, both orders-received and net sales increased year on year.

As a result, the Service Business overall recorded orders-received of ¥5,874 million, up 5.1% from the previous year. Net sales increased 4.4% to ¥5,786 million. Operating income increased 19.8% year on year to ¥516 million, mainly due to reduced selling, general and administrative expenses.

	Year Ended March 31, 2015 (Million Yen)	Year Ended March 31, 2016 (Million Yen)	Change (%)
Orders-Received	5,589	5,874	5.1
Net Sales	5,541	5,786	4.4
Operating Income	430	516	19.8

<Other Business>

In Other Business, Group subsidiary ESPEC MIC CORP. saw strong business performance in its reforestation (tree planting) and plant factory businesses. As a result, even though the segment’s orders-received fell 12.2% to ¥1,340 million from the previous fiscal year when they were strong, net sales increased 9.2% year on year to ¥1,474 million. As for earnings, the segment saw operating income decline 44.1% to ¥19 million, due in part to an increase in R&D expenses.

	Year Ended March 31, 2015 (Million Yen)	Year Ended March 31, 2016 (Million Yen)	Change (%)
Orders-Received	1,527	1,340	(12.2)
Net Sales	1,350	1,474	9.2
Operating Income (loss)	34	19	(44.1)

3) Outlook for Fiscal 2016

Manufacturers in the automotive and electronics industry in Japan are poised to continue making growth investments, while the Company foresees an expansion in overseas demand for environmental testing, particularly in Asia. However, the Japanese economy has been overshadowed by concerns that include a rapid appreciation of the yen.

Under these circumstances, the Company will strive to increase sales in overseas markets by further strengthening Group collaboration. At the same time, it will work on expanding its business domain in the automotive market where the development of eco-cars and other technologies is accelerating, and by focusing on the aerospace industry and the life-science market centered on pharmaceuticals.

As a result, the Company's business plan for fiscal 2016 projects net sales of ¥39,000 million, in line with fiscal 2015, and for operating income to increase 2.2% to ¥3,600 million, in part from an estimated improvement in the cost ratio. Profit attributable to owners of parent is forecast to increase 7.9% to ¥ 2,600 million.

Forecast of Consolidated Operating Results for Fiscal 2016

(% figures for the full-term are rates of change in comparison to previous year and
(% figures for the six months ended are rates of change in comparison to the same quarter previous year)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income Per Share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Six Months Ending September 30, 2016	18,000	11.6	1,400	23.6	1,450	13.8	1,000	24.7	43.84
Full-term	39,000	(0.1)	3,600	2.2	3,700	3.6	2,600	7.9	113.98

Forecast of Consolidated Operating Results by Segment for Fiscal 2016 (Full-term)

	Orders-Received (Million Yen)	Net Sales (Million Yen)	Operating Income (Million Yen)
Equipment Business	33,000	32,000	3,000
Service Business	6,000	6,000	600
Other Business	1,200	1,200	0
Elimination	(200)	(200)	0
Total	40,000	39,000	3,600

* There are marked seasonal fluctuations in our performance based on quarterly sales because of a strong trend towards contractual deliveries occurring in the 2nd and 4th consolidated quarters as a result of customers' budget implementation.

(2) Qualitative Information Concerning the Consolidated Financial Situation

Total assets at the end of the fiscal year consolidated accounting period were ¥48,045 million, an increase of ¥1,253 million over the end of the previous consolidated fiscal year. Major factors included an increase of ¥2,319 million in notes and accounts receivable-trade, an increase of ¥894 million in electronically recorded monetary claims-operating, a decrease of ¥2,999 million in securities, and an increase of ¥1,128 million in work in process and other inventories. Liabilities were ¥12,411 million, an increase of ¥1,071 million against the end of the previous consolidated fiscal year. Major factors included an decrease in notes and accounts payable-trade of ¥1,723 million, an increase in electronically recorded obligations-operating of ¥3,170 million, and a decrease in deferred tax liabilities of ¥232 million. Net assets were ¥35,633 million, an increase of ¥182 million against the end of the previous fiscal year. Major factors included an increase of ¥1,088 million in shareholders' equity and a decrease of ¥613 million in accumulated other comprehensive income. As a result, the shareholders' equity ratio stood at 74.2%, a decrease of 0.9 points from the end of the previous fiscal year.

Net cash provided by operating activities was ¥356 million. The main factors were ¥3,593 million in profit before income taxes and minority interests and a ¥2,957 million increase in notes and accounts receivable-trade.

Net cash used in investing activities was ¥3,100 million. The main factors were ¥600 million in purchase of securities, a ¥959 million in purchase of property, plant and equipment and intangible assets, and a ¥1,347 million in purchase of shares of subsidiaries resulting in change in scope of consolidation.

Net cash used in financing activities was ¥1,924 million. The main factors were ¥648 million in cash dividends paid, a payments ¥578 million from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation and a ¥630 million in purchase of treasury shares.

As a result of the foregoing, the balance of cash and cash equivalents decreased ¥4,571 million from a year earlier to ¥9,596 million at the end of the fiscal year under review.

	As of March 31, 2012	As of March 31, 2013	As of March 31, 2014	As of March 31, 2015	As of March 31, 2016
Shareholders' Equity Ratio (%)	74.8	76.2	75.6	75.1	74.2
Shareholders' Equity Ratio on a Fair Value Basis (%)	46.7	41.2	43.2	59.3	69.6
Average Debt Repayment Period (years)	-	-	-	0.1	0.2
Interest Coverage Ratio (times)	73.1	2,599.9	647.4	1,169.0	236.2

(Note)

Shareholders' equity ratio = Shareholders' equity / Total assets

Shareholders' equity ratio on a fair value basis = Market capitalization / Total assets

Average debt repayment period = Interest-bearing debt / Net cash provided by operating activities

Interest coverage ratio = Net cash provided by operating activities / Interest expense payments

1. Each index is calculated using figures from the consolidated financial statements.
2. Market capitalization is calculated by multiplying the closing share price at the fiscal year-end by the number of shares issued and outstanding at the fiscal year-end (excluding treasury stock).
3. The cash flow from operating activities is calculated from the net cash provided by operating activities as stated on the consolidated cash flow statements. The interest-bearing debt refers to liabilities booked on the consolidated balance sheet for which interest is paid, except for leasing liabilities. Interest expense payments are calculated from the interest expenses paid as stated on the consolidated statements of cash flows.

(3) Basic Policy on Profit Distributions and Dividends for Fiscal 2015 and Fiscal 2016

The Company recognizes the return of profits to shareholders as an important management priority, and believes that constantly raising enterprise value is the key element in ensuring improved shareholder returns. Regarding the dividend for the fiscal year under review, the Company decides dividends in consideration of continuity and the consolidated dividend payout ratio, and plans to pay an increased year-end dividend of ¥23 per share. Together with the payment of an interim dividend of ¥9 per share, the Company will pay an annual dividend of ¥32 per share for fiscal 2015.

For fiscal 2016, current projections are for an annual dividend of ¥36 per share, including an interim dividend of ¥12 per share.

(4) Business Risks

1) Risk of Fluctuation in Business Performance

The ESPEC Group's main customers are manufacturers in the electronic components, electronic devices, and automotive sectors. Consequently, the Group's business performance is strongly affected by trends in business and capital investment in these industries. ESPEC works to swiftly develop products that meet its customers' diverse needs. At the same time, the Company strives to minimize fluctuations in its own business performance by responding to requests for customization and developing customers in sectors outside of electronics. These efforts notwithstanding, lower levels of capital investment among the Group's main customers due to protracted economic weakness and other factors may adversely impact the business performance of the ESPEC Group.

Furthermore, although the ESPEC Group commands a high market share in Japan, the Japanese market is also a maturing one. As such, the Group is reliant on overseas markets for growth in this business. Emerging markets, particularly the fast-growing markets of Asia, are witnessing entry by a host of companies from around the world, a situation that is fueling intense price competition. The ESPEC Group was among the first in the industry to establish multiple bases in China and Southeast Asia, and has a business framework in place for coping with rapid market expansion. Nevertheless, the Group's business performance may be adversely impacted by competition with U.S. and European environmental test chamber makers, who enjoy a large share of the market in their home countries, as well as by Chinese and Taiwanese manufacturers, who are aiming to enter the market by flooding it with low-priced products.

2) Risk Associated with Increasing Overseas Sales Ratio

The ratio of sales from outside Japan for the ESPEC Group accounted for a high 41.2% of Group total sales on a consolidated basis in the fiscal year ended March 31, 2016. Moreover, this percentage is expected to rise further in the future. In terms of business development overseas, the Group's efforts may be hindered by any number of factors that could result in difficult to foresee social turmoil in the countries and regions where it operates. These factors include, but are not limited to, terrorism, political instability, natural disasters, and outbreaks of new strains of influenza or other pandemic diseases. Such problems, should they arise, could adversely impact the Group's financial position and business performance.

With regard to foreign exchange risk, the ESPEC Group believes that its exposure is relatively limited due to hedging operations carried out within certain limits under its risk management policy, as well as the fact that a large proportion of the Group's export revenues are denominated in Japanese yen.

3) Risk Associated with Export Regulations

The Company's products and technologies are subject to laws and regulations governing exports, such as the Foreign Exchange and Foreign Trade Control Law and its directives (export trade management directive, foreign exchange directive), as well as a related ministerial directive. Based on this, the Group makes every effort to gain a clear picture of export destinations, buyers, uses, and transaction channels as stipulated in the latest legislation. Nevertheless, there is a possibility of resale by the buyer or other parties to countries and users who might use the products or technologies for manufacturing weapons of mass destruction or conventional armaments. The use of the Group's products and technologies by unanticipated parties in applications for which they were not intended could ultimately have an adverse effect on the ESPEC Group's business performance.

4) Risks Associated with Dependency on Suppliers

The ESPEC Group procures a variety of parts and materials from suppliers. Similarly, the Group engages third-party processing companies as a means of coping with varying manufacturing volumes and efficiently acquiring knowledge of various manufacturing technologies. The Group implements strict transaction controls aimed at these entities, grades them on their quality assurance programs and production and environmental management systems, and provides guidance where necessary, in an effort to cultivate mutual relationships of trust. However, the Group's own production efforts could become compromised if procurement from these suppliers and third-party processing services is halted due to bankruptcy, an exit from business, or similar factors. In addition, suppliers could provide defective components, leading to serious production delays. In the worst case, this situation could require expensive countermeasures, such as a recall of products already sold.

5) Risk in Cases of Significant Damage to Key Facilities from Earthquakes or Other Natural Disasters

The ESPEC Group's key manufacturing and R&D facilities are located in Japan. If these key facilities were to suffer major damage from an earthquake or other natural disaster, it would not only interfere with the Group's ability to operate, but could potentially require huge sums for repairs or rebuilding. Even in cases in which the Company itself is not directly damaged, business activities could be severely undermined by secondary damage, such as limitations on the supply of electric power and other infrastructure, and the inability to procure necessary components and materials from suppliers.

6) Risk of Steep Rise in Raw Material Procurement Costs

The raw materials for the products manufactured by the ESPEC Group consist primarily of stainless steel, steel, copper and aluminum. Procurement prices of these materials fluctuate in line with movements on international commodity markets. In the event of a sudden steep rise in raw materials prices, there is a possibility that the Group's business performance will be adversely affected.

7) Risks associated with business alliances and corporate acquisitions

The Company may form business and capital alliances and execute corporate acquisitions to expand its business domain. In making decisions in this regard, the Company rigorously reviews the risks by conducting a detailed preliminary evaluation of a target company's business content, financial position, and business relationships, among other considerations. However, should problems unforeseen by the preliminary evaluation arise, or if changes in the business environment and other factors impede realization of the initially projected benefits, they might cause the amortization of goodwill and other obligations to affect the Company's business performance and financial position.

2. Management Policy

(1) Basic Policy for Management of the Company

The Group's mission statement is "To provide a more reliable living environment through services built on environmental creation technology". We believe firmly that growth of the Group in itself serves to achieve this mission, and that this also improves value exchangeability between the Group's various stakeholders, including its shareholders. As a full member of society, one of the Group's key management policies is "respect for social norms and respect for laws", and we regard improvements to value exchangeability as one of our management strategies. We aim to become a company which possesses "outstanding service as a result of its broad-ranging technology and a concentration of knowledge that creates a new level of expectation in our customers", as well as to become "a highly social company that quickly adapts to social change and people's wishes through sensitivity and dynamic preparation". We intend to implement ongoing improvements to corporate value.

(2) Management Index Target

The Group uses the ratio of operating income to sales as an important management index from the perspective of improving business growth and profitability.

(3) The Company's Medium to Long-term Management Strategy and Challenges Facing the Company

ESPEC is targeting consolidated net sales in excess of ¥40,000 million by the fiscal year ending March 31, 2018, along with an operating income exceeding ¥4,000 million and operating margin topping 10%, in its "PROGRESSIVE PLAN 2017" medium-term management plan from the fiscal year ended March 31, 2105 through the fiscal year ending March 31, 2018. The Company is working to boost shareholder returns and aims to achieve a 40% dividend payout ratio by the fiscal year ending March 31, 2018.

ESPEC's "PROGRESSIVE PLAN 2017" medium-term management plan describes the following three directions for growth.

1) Strengthen Group alliances to increase sales in growing countries and regions

In ASEAN countries, to which Japanese companies are currently transferring their development and production bases, the Company will strive to strengthen customer support by newly establishing service bases and commissioned testing centers, as well as to increase sales by reinforcing sales bases. In China, the Company will bolster production capacity at ESPEC TEST EQUIPMENT (GUANGDONG) CO., LTD., a production subsidiary, and work to expand sales. The Company will also endeavor to expand sales in emerging countries such as Turkey and India.

2) Expand business domains targeting growing and strategic markets

In the energy device market, centering on secondary batteries for automobiles, the Company will expand the product lineup and commissioned testing services. In the "food and drug markets," the Company will enhance products and services for pharmaceuticals, advance into the food and cosmetics field, and make further progress in the field for testing medical equipment. The Company will also strive to develop new domains, such as the aerospace field.

3) Take the lead in the domestic environmental testing business

The Company will change and expand models for ESPEC's proprietary services like network services, as well as for standard products, to strengthen its competitive capabilities. In order to respond rapidly to the needs of cutting-edge technology development, the Company will move ahead with module standardization of customized products and expand its scope of support by cooperating with other companies.

＜Targets for Consolidated Revenues and Earnings＞

Net Sales: ¥39,000 million

Operating Income: ¥3,600 million (operating income ratio of 9.2%)

＜Main Priority Strategies＞

1) Apply collaborative synergies of the ESPEC Group to increase sales in overseas markets

ESPEC will focus on increasing sales in the Chinese market by rebuilding the sales and manufacturing network of Group companies and establishing a framework for responding swiftly to diversifying needs with flexibility. Meanwhile, ESPEC TEST EQUIPMENT (GUANGDONG) CO., LTD., a manufacturing subsidiary, will strive to expand the scope of the equipment it manufactures. In the ASEAN market, the Company will strengthen the technological support it provides Japanese companies through the new ASEAN Technical Support Center it established in Thailand.

2) Expand business domains targeting growing and strategic markets

ESPEC will concentrate on the field of secondary batteries and fuel cells in the automotive market and strengthen sales of customized products focused on the research and development of the increased electrification of automobiles and the automated driving functions of automobiles. The Group will also work toward expanding its commissioned testing and verification services.

In the aerospace industry, ESPEC will strive to increase sales of customized products, while, in “food and drug markets”, it will concentrate on increasing sales of Walk-In Stability Test Chamber of pharmaceuticals, and developing new domains such as medical equipment.

3) Apply competitive strategies for increasing sales in the Japanese environmental testing market

ESPEC will strengthen its competitive edge in environmental testing with proprietary services, including the industry’s first five-year product guarantee. Differentiation will also be achieved by expanding and enhancing the range of the after-sales service and engineering field products and developing a new menu of commissioned tests. At the same time, ESPEC will make progress with standardizing the modules of customized products in an effort to strengthen its customization capabilities.

3. Basic Stance on the Selection of Accounting Standards

At the current time, the Company prepares its consolidated financial statements based on Japanese accounting standards. This is in consideration of the need to ensure that the consolidated financial statements can be readily compared between different periods and between different companies. Also, many of the Company’s stakeholders are shareholders or creditors in Japan.

Looking ahead, the Company will study the feasibility of applying International Financial Reporting Standards (IFRS) on the basis of whether there is a tendency for other Japanese companies in the industry to apply IFRS and growth in the proportion of foreign shareholders.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million Yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and deposits	9,270	8,299
Notes and accounts receivable - trade	13,649	15,968
Electronically recorded monetary claims - operating	94	989
Securities	4,901	1,901
Merchandise and finished goods	562	896
Work in process	1,110	1,792
Raw materials and supplies	1,544	1,656
Deferred tax assets	371	412
Other	1,543	1,771
Allowance for doubtful accounts	(11)	(49)
Total current assets	33,036	33,640
Non-current assets		
Property, plant and equipment		
Buildings and structures	9,536	10,130
Accumulated depreciation	(6,237)	(6,440)
Buildings and structures, net	3,298	3,689
Machinery, equipment and vehicles	2,153	2,271
Accumulated depreciation	(1,303)	(1,415)
Machinery, equipment and vehicles, net	849	856
Tools, furniture and fixtures	3,624	4,078
Accumulated depreciation	(2,775)	(3,072)
Tools, furniture and fixtures, net	848	1,005
Land	4,464	4,462
Leased assets	77	48
Accumulated depreciation	(59)	(38)
Leased assets, net	18	9
Construction in progress	165	58
Total property, plant and equipment	9,644	10,081
Intangible assets		
Goodwill	—	706
Other	364	419
Total intangible assets	364	1,126
Investments and other assets		
Investment securities	2,913	2,408
Net defined benefit asset	229	—
Deferred tax assets	14	284
Other	627	544
Allowance for doubtful accounts	(38)	(40)
Total investments and other assets	3,746	3,197
Total non-current assets	13,755	14,405
Total assets	46,792	48,045

(Million Yen)

	As of March 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,264	3,540
Electronically recorded obligations – operating	37	3,208
Income taxes payable	742	581
Provision for bonuses	377	417
Provision for directors' bonuses	6	9
Provision for product warranties	255	309
Provision for loss on order received	—	41
Other	2,653	2,674
Total current liabilities	9,336	10,783
Non-current liabilities		
Long-term loans payable	196	86
Deferred tax liabilities	536	304
Net defined benefit liability	45	55
Provision for directors' retirement benefits	12	12
Asset retirement obligations	52	52
Deferred tax liabilities for land revaluation	565	535
Other	595	580
Total non-current liabilities	2,003	1,628
Total liabilities	11,340	12,411
Net assets		
Shareholders' equity		
Capital stock	6,895	6,895
Capital surplus	7,172	6,914
Retained earnings	20,554	22,441
Treasury shares	(550)	(1,090)
Total shareholders' equity	34,072	35,161
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,199	823
Revaluation reserve for land	(686)	(659)
Foreign currency translation adjustment	578	532
Remeasurements of defined benefit plans	(5)	(224)
Total accumulated other comprehensive income	1,085	472
Non-controlling interests	293	—
Total net assets	35,451	35,633
Total liabilities and net assets	46,792	48,045

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Million Yen)

	Year Ended March 31, 2015	Year Ended March 31, 2016
Net sales	33,661	39,035
Cost of sales	21,567	25,461
Gross profit	12,094	13,573
Selling, general and administrative expenses		
Salaries and allowances	3,015	3,143
Research and development expenses	1,013	956
Provision for bonuses	112	126
Provision for product warranties	214	240
Commission fee	1,054	1,192
Provision for directors' bonuses	6	9
Other	4,033	4,382
Total selling, general and administrative expenses	9,450	10,051
Operating income	2,643	3,521
Non-operating income		
Interest income	45	28
Dividend income	124	141
Foreign exchange gains	176	―
Other	77	90
Total non-operating income	422	260
Non-operating expenses		
Interest expenses	1	1
Loss on sales of securities	1	6
Foreign exchange losses	―	181
Commission fee	9	11
Other	9	11
Total non-operating expenses	21	211
Ordinary income	3,044	3,570
Extraordinary income		
Gain on sales of non-current assets	3	0
Gain on sales of investment securities	4	32
Insurance income	264	―
Total extraordinary income	272	32
Extraordinary losses		
Loss on retirement of non-current assets	3	5
Loss on sales of investment securities	0	―
Impairment loss	4	2
Loss on sales of non-current assets	―	1
Total extraordinary losses	7	9
Profit before income taxes	3,309	3,593
Income taxes - current	1,106	1,149
Income taxes - deferred	35	15
Total income taxes	1,142	1,164
Profit	2,166	2,429
Profit attributable to non-controlling interests	48	18
Profit attributable to owners of parent	2,118	2,410

Consolidated Statements of Comprehensive Income

(Million Yen)

	Year Ended March 31, 2015	Year Ended March 31, 2016
Profit	2,166	2,429
Other comprehensive income		
Valuation difference on available-for-sale securities	386	(376)
Revaluation reserve for land	59	28
Foreign currency translation adjustment	575	(39)
Remeasurements of defined benefit plans, net of tax	91	(218)
Total other comprehensive income	1,113	(605)
Comprehensive income	3,280	1,823
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,201	1,798
Comprehensive income attributable to non-controlling interests	78	25

(3) Consolidated Statements of Changes in Net Assets

Year Ended March 31, 2015

(Million Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,895	7,172	18,838	(360)	32,546
Cumulative effects of changes in accounting policies			62		62
Restated balance	6,895	7,172	18,901	(360)	32,609
Changes of items during period					
Dividends of surplus			(465)		(465)
Profit attributable to owners of parent			2,118		2,118
Purchase of treasury shares				(194)	(194)
Disposal of treasury shares				5	5
Other			(0)		(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	1,652	(189)	1,463
Balance at end of current period	6,895	7,172	20,554	(550)	34,072

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	813	(743)	33	(97)	5	258	32,811
Cumulative effects of changes in accounting policies							62
Restated balance	813	(743)	33	(97)	5	258	32,874
Changes of items during period							
Dividends of surplus							(465)
Profit attributable to owners of parent							2,118
Purchase of treasury shares							(194)
Disposal of treasury shares							5
Other							(0)
Net changes of items other than shareholders' equity	386	56	544	91	1,080	34	1,114
Total changes of items during period	386	56	544	91	1,080	34	2,577
Balance at end of current period	1,199	(686)	578	(5)	1,085	293	35,451

Year Ended March 31, 2016

(Million Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,895	7,172	20,554	(550)	34,072
Cumulative effects of changes in accounting policies					－
Restated balance	6,895	7,172	20,554	(550)	34,072
Changes of items during period					
Dividends of surplus			(651)		(651)
Profit attributable to owners of parent			2,410		2,410
Purchase of treasury shares				(630)	(630)
Disposal of treasury shares				90	90
Change of scope of consolidation			129		129
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(258)			(258)
Other			(1)		(1)
Net changes of items other than shareholders' equity					
Total changes of items during period	－	(258)	1,887	(540)	1,088
Balance at end of current period	6,895	6,914	22,441	(1,090)	35,161

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,199	(686)	578	(5)	1,085	293	35,451
Cumulative effects of changes in accounting policies							—
Restated balance	1,199	(686)	578	(5)	1,085	293	35,451
Changes of items during period							
Dividends of surplus							(651)
Profit attributable to owners of parent							2,410
Purchase of treasury shares							(630)
Disposal of treasury shares							90
Change of scope of consolidation							129
Change in treasury shares of parent arising from transactions with non-controlling shareholders							(258)
Other							(1)
Net changes of items other than shareholders' equity	(376)	27	(45)	(218)	(613)	(293)	(906)
Total changes of items during period	(376)	27	(45)	(218)	(613)	(293)	182
Balance at end of current period	823	(659)	532	(224)	472	—	35,633

(4) Consolidated Statements of Cash Flows

(Million Yen)

	Year Ended March 31, 2015	Year Ended March 31, 2016
Cash flows from operating activities		
Profit before income taxes	3,309	3,593
Depreciation	645	763
Impairment loss	4	2
Increase (decrease) in allowance for doubtful accounts	10	38
Increase (decrease) in provision for directors' bonuses	0	3
Increase (decrease) in provision for directors' retirement benefits	(6)	―
Increase (decrease) in net defined benefit liability	8	10
Interest and dividend income	(169)	(170)
Interest expenses	1	1
Loss (gain) on sales of securities	1	6
Decrease (increase) in notes and accounts receivable - trade	(561)	(2,957)
Decrease (increase) in inventories	(784)	(1,201)
Increase (decrease) in notes and accounts payable - trade	10	1,359
Other, net	79	48
Subtotal	2,549	1,500
Interest and dividend income received	155	189
Interest expenses paid	(1)	(1)
Income taxes (paid) refund	(884)	(1,332)
Net cash provided by (used in) operating activities	1,818	356
Cash flows from investing activities		
Net decrease (increase) in time deposits	496	(0)
Net decrease (increase) in trust beneficiary right	(23)	(164)
Purchase of securities	―	(600)
Purchase of property, plant and equipment and intangible assets	(728)	(959)
Proceeds from sales of property, plant and equipment and intangible assets	3	6
Purchase of investment securities	(72)	―
Proceeds from sales and redemption of investment securities	29	88
Payments of loans receivable	―	(31)
Collection of loans receivable	0	0
Purchase of shares of subsidiaries resulting in change in scope of consolidation	―	(1,347)
Other, net	―	(92)
Net cash provided by (used in) investing activities	(293)	(3,100)
Cash flows from financing activities		
Proceeds from long-term loans payable	196	―
Repayments of long-term loans payable	―	(109)
Cash dividends paid	(463)	(648)
Dividends paid to non-controlling interests	(35)	(47)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	―	(578)
Purchase of treasury shares	(194)	(630)
Proceeds from disposal of treasury shares	5	103
Other, net	(16)	(14)
Net cash provided by (used in) financing activities	(508)	(1,924)

Effect of exchange rate change on cash and cash equivalents	297	(78)
Net increase (decrease) in cash and cash equivalents	1,314	(4,747)
Cash and cash equivalents at beginning of period	12,853	14,167
Increase in cash and cash equivalents from newly consolidated subsidiary	—	176
Cash and cash equivalents at end of period	14,167	9,596

(5) Notes to the Consolidated Financial Statements

(Notes on the assumption of a going concern)

Not applicable.

(Important Matters Concerning the Basis for Preparing Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 12

Name of main consolidated subsidiary: ESPEC NORTH AMERICA,INC.

(Note)

1.Due to its rising importance, ESPEC TEST TECHNOLOGY (SHANGHAI) CO., LTD. was included in the scope of consolidation from the first quarter of the fiscal year ended March 31, 2016.

2.Upon ESPEC acquiring all shares on December 28, 2015, QUALMARK CORPORATION and its subsidiary Real Chambers Corporation were included in the scope of consolidation from the third quarter of the fiscal year ended March 31, 2016.

(2) Name of main non-consolidated subsidiary:

Main non-consolidated subsidiary: ESPEC SOUTH EAST ASIA SDN. BHD.

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiaries have been excluded from the scope of consolidation because of their small size and because their total assets, net sales, net income (corresponding to equity) and retained earnings (corresponding to equity) have a negligible effect on the consolidated financial statements of the ESPEC Group.

2. Application of the Equity Method

(1) Number of non-consolidated subsidiaries accounted for using the equity method: None

(2) Number of affiliates accounted for using the equity method: None

(3) Some non-consolidated subsidiaries (ESPEC SOUTH EAST ASIA SDN. BHD. and others) not accounted for using the equity method have been excluded from the scope of companies accounted for by the equity method as they have a negligible effect on the consolidated net income and retained earnings of the ESPEC Group, and are immaterial overall.

3. Fiscal Year of Consolidated Subsidiaries

The fiscal year-ends of consolidated subsidiaries ESPEC NORTH AMERICA, INC., SHANGHAI ESPEC ENVIRONMENTAL EQUIPMENT CORP. ESPEC (CHINA) LIMITED, ESPEC ENVIRONMENTAL EQUIPMENT (SHANGHAI) CO.,LTD., ESPEC TEST TECHNOLOGY (SHANGHAI) CO., LTD. ESPEC TEST EQUIPMENT (GUANGDONG) CO., LTD., ESPEC KOREA CORP. QUALMARK CORPORATION and Real Chambers Corporation are December 31. Accordingly, the financial statements of these subsidiaries as of December 31 are used to prepare the consolidated financial statements, and any necessary adjustments are made to the consolidated statements for important transactions occurring between December 31 and March 31.

4. Summary of Significant Accounting Policies

(1) Valuation standards and accounting treatment for important assets

1) Marketable securities

Among available-for-sale securities, with listed securities, the market value is determined by the market price as of the end of the period, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets, and the cost of securities sold determined by the moving average method. With non-listed securities, the cost is determined by the moving average method.

2) Derivatives

Market value.

3) Inventories

Work in process is mainly stated by the specific identification method; other inventories are mainly stated using the acquisition cost method, cost being determined by the weighted average method (the book value in the balance sheet is reduced when the profitability has declined).

(2) Method for depreciating and amortizing important assets

1) Property, plant and equipment (excluding lease assets)

The Company uses the straight-line method.

Estimated useful lives are as follows: Buildings 5-50 years

2) Intangible assets (excluding lease assets)

The Company amortizes intangible assets using the straight-line method. Estimated useful lives are as follows:

Software used by the Company 5 years

3) Lease assets

Depreciation equivalents are accounted for by the straight-line method, assuming the lease period to be the useful lives and the residual value to be zero.

(3) Accounting for important allowances

1) Allowance for doubtful accounts

The allowance for doubtful accounts provides for possible losses arising from default on accounts receivable. It comprises a general reserve for accounts receivable based on historical default rates, and an estimated credit loss for accounts receivable based on an individual assessment of each account.

2) Allowance for bonuses

The allowance for employees' bonuses is based on the estimated requirements for the fiscal year.

3) Allowance for directors' bonuses

The allowance for directors' bonuses is based on the estimated requirements for the fiscal year.

4) Reserve for product warranties

The reserve for product warranties is provided to cover the after service expenses, which are free during the warranty period, and are calculated based on historical claim rates for warranty expenses proportional to net sales.

5) Allowance for loss on orders-received

The allowance for loss on orders-received provides for possible losses in the future arising from the orders the Company received. The amount of potential loss on orders-received as of the end of the fiscal year under review in this report that can be rationally estimated is recorded as an allowance for conceivable losses on orders-received in subsequent fiscal years.

6) Allowance for directors' retirement benefits

For the Company's domestic consolidated subsidiaries, the Board of Directors has decided to terminate retirement benefits for directors. The Company books an allowance for the monetary amount for the period served by current directors up to the date of termination of retirement benefits.

(4) Change in accounting method of retirement benefits

1) Attribution method for projected retirement benefits

As regards calculating retirement benefit obligations, at the end of the consolidated fiscal year under review the Company changed its method for attributing projected retirement benefits to accounting periods from the straight-line method to the benefit formula method.

2) Amortization method of actuarial gains or losses

Actuarial gains or losses are amortized from the consolidated fiscal year following the consolidated fiscal year in which they arise, using the straight-line method over a fixed number of years (10 years), but no more than the average remaining years of service of employees.

(5) Standards for Translation of Material Foreign Currency-Denominated Assets and Liabilities Into Japanese Yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date, with the foreign currency exchange gains and losses from translation recognized in the statement of income. The assets and liabilities of foreign subsidiaries, etc. are translated into Japanese yen at the current exchange rates at the balance sheet date. Revenue and expenses of foreign subsidiaries, etc. are translated into Japanese yen at the average rate for the year. Differences arising from such translation are shown as "Foreign currency translation adjustments" and "Minority interests" as separate components of net assets.

(6) Method and Period of Goodwill Amortization

Goodwill is amortized by the straight-line method, equally allocating the cost over a period of no longer than 20 years.

(7) Scope of Cash and Cash Equivalents on the Consolidated Statements of Cash Flows

Cash and cash equivalents include cash in hand and deposits as well as short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value, all of which mature or become due within three months of the date of acquisition.

(8) Other Significant Notes on Preparation of Consolidated Financial Statements

Treatment of Consumption Tax

Figures are presented exclusive of consumption taxes and local consumption taxes for accounting purposes.

(Change in accounting policy)

(Accounting standard applied to Business Combinations)

Effective from the beginning of the fiscal year ended March 31, 2016, the Company has adopted the Accounting Standard

for Business Combinations (ASBJ Statement No. 21, September 13, 2013, hereinafter the “Business Combination Accounting Standard”), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013, hereinafter the “Consolidated Accounting Standard”) and Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013, hereinafter the “Business Divestiture Accounting Standard”). As a result, gain or loss arising from a change in the Company's equity in subsidiaries in cases where control is retained was revised to a method recognizing them as an adjustment to capital surplus, along with recognizing the acquisition costs in connection with business combinations as expenses in the consolidated fiscal year in which they arise.
At the same time, for business combinations that take place on or after the beginning of fiscal year ended March 31, 2016, the disclosure method was revised so as to restate the distribution of acquisition cost upon provisional accounting recognition in the statements of the fiscal year in which the combination took place. In addition, the presentation of net income was changed to the presentation of income attributable to owners of parent, etc., and the presentation of minority interest was changed to the presentation of non-controlling interests. To reflect these changes in presentation, the consolidated financial statements were restated for the consolidated fiscal year ended March 31, 2015.
With regard to the adoption of the Business Combination Accounting Standard and other accounting standards, the Company has adopted the Business Combination Accounting Standard from April 1, 2015 onward in accordance with the transitional treatment set forth in Article 58-2 (4) of the Business Combination Accounting Standard, Article 44-5 (4) of the Consolidated Accounting Standard, and Article 57-4 (4) of the Business Divestiture Accounting Standard.
This change in accounting standard resulted in a decline of ¥83 million each in operating income, ordinary income, and income before income taxes and minority interests for the first nine months of fiscal 2015. It also resulted in a decrease of ¥258 million in capital surplus as of December 31, 2015.

(Changes in Presentation)

(Consolidated Balance Sheets)

Electronically recorded monetary claims were presented separately from the fiscal year ended March 31, 2016, because they had risen in monetary importance. They had been included in notes and accounts receivable-trade under current assets until the previous fiscal year. The consolidated balance sheet for the fiscal year ended March 31, 2015 has been restated to reflect this change in presentation.
As a result, the ¥13,744 million previously recorded as notes and accounts receivable-trade under current assets for the fiscal year ended March 31, 2015, was restated as ¥13,649 million in notes and accounts receivable-trade and ¥94 million in electronically recorded monetary claims.

Electronically recorded monetary obligations were presented separately from the fiscal year ended March 31, 2016, because they had risen in monetary importance. They had been included in notes and accounts payable-trade under current liabilities until the previous fiscal year. The consolidated balance sheet for the fiscal year ended March 31, 2015 has been restated to reflect this change in presentation.
As a result, the ¥5,301 million previously recorded as notes and accounts payable-trade under current liabilities for the fiscal year ended March 31, 2015, was restated as ¥5,264 million in notes and accounts payable-trade and ¥37 million in electronically recorded monetary obligations.

(Additional Information)

(Restatement of amounts of deferred tax assets and deferred tax liabilities due to changes in the corporate tax rate, etc.)

Following the promulgation of the "Act for Partial Revision of the Income Tax Act" (Act No. 15, 2016) and "Act for Partial Revision of the Local Tax Act" (Act No. 13, 2016) on March 29, 2016, the corporate income tax rate, etc. will be reduced from fiscal years beginning on or after April 1, 2016, among other revisions. In line with this change, the statutory income tax rate used to calculate deferred tax assets and deferred tax liabilities for temporary differences expected to reverse in the fiscal year beginning on April 1, 2016, as well as the fiscal year beginning on April 1, 2017, have been reduced from the previous 33.0% to 30.8%, and for temporary differences expected to reverse in the fiscal year beginning on April 1, 2018, has been reduced to 30.5%.

As a result of these changes in the tax rate, the amount of deferred tax liabilities (less the amount of deferred tax assets) was increased by ¥16 million and deferred tax liabilities associated with re-evaluation was reduced by ¥28 million, while valuation difference on other available-for-sale securities increased by ¥9 million, re-valuation difference on land increased by ¥28 million, and income taxes-deferred increased by ¥20 million.

(Trust-type Employee Stock Ownership Incentive Plan)

The Company has introduced a Trust-type Employee Stock Ownership Incentive Plan as a welfare benefit for employees. This Trust-type Employee Stock Ownership Incentive Plan is an incentive plan that is offered to all employees who participate in the ESPEC Employee Stock Ownership Association. Under the Trust-type Employee Stock Ownership Incentive Plan, the Company has set up the ESPEC Employee Stock Ownership Dedicated Trust (hereafter, “Employee Trust”) in a trust bank, and the Employee Trust will acquire the number of the Company’s shares that are expected to be acquired by the ESPEC Employee Stock Ownership Association for a period of three years from February 2015.

After that, the Employee Trust will continuously sell the Company’s shares to the ESPEC Employee Stock Ownership Association. If there is a balance amounting to the net accumulated gain on the sales of the Company’s shares left in the Employee Trust when it expires, this gain will be distributed to the employees who qualify as beneficiaries as a residual asset. If there is a balance of outstanding debt, due to a drop in the Company's share price, amounting to the net accumulated loss on the sales of the Company’s shares left in the Employee Trust when it expires, the Company will repay the outstanding debt as the guarantor of the debt the Employee Trust incurred in acquiring the Company’s shares. The Company guarantees the debt the Employee Trust incurs in acquiring or disposing the Company’s shares, and applies an accounting procedure by which the Company and the Employee Trust are handled as one entity. Accordingly, the assets, liabilities, and profit and loss, including those pertaining to the Company’s share held in the Employee Trust, are included for reporting in the Company's consolidated financial statements.

The following shows the book value and the number of treasury stocks held as of the end of the current fiscal year.

	End of current fiscal year
Book value of treasury stocks	1,090 million yen
Book value of treasury stocks held by the Company	991 million yen
Book value of treasury stocks held by the Employee Trust	99 million yen
Number of treasury stocks	1,005,514 shares
Number of treasury stocks held by the Company	922,514 shares

Number of treasury stocks held by the Employee Trust	83,000 shares

The following shows the book value of debt recorded under the aforementioned accounting procedure.

	End of current fiscal year
Long-term debt	86 million yen

The aforementioned accounting procedure applies the Accounting Standards Board of Japan's "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30, March 26, 2015).

(Segment Information and Others)

Segment Information

1. Overview of reportable segments

ESPEC's reportable segments refer to those components of the Company for which separate financial information is available and such information is reviewed regularly by the Board of Directors in determining the allocation of resources and in evaluating performance.

The Company classifies its business activities into segments according to the business format. There are three reportable segments: Equipment Business, Service Business, and Other Business.

The Equipment Business provides environmental test chambers, energy device equipment, semiconductor equipment, and FPD equipment. The Service Business is engaged in after service engineering, commissioned testing, and rentals. The Other Business is involved with environmental engineering and new businesses.

2. Method of calculating the monetary values of net sales, income or loss, assets, and other items of each reportable segment

Accounting treatment methods for reportable segments are the same as the methods shown in the "Important Matters Concerning the Basis for Preparing Consolidated Financial Statements." Inter-segment sales and transfers are based on market prices and certain other factors.

(Adoption of Accounting Standard and Guidance for Business Combinations)

As recorded under "Change in accounting policy" in this report, the Company has adopted the Business Combination Accounting Standard from the first quarter of the fiscal year ended March 31, 2016. As a result, gain or loss arising from a change in the Company's equity in subsidiaries in cases where control is retained was revised to a method recognizing them as an adjustment to capital surplus, along with recognizing the acquisition costs in connection with business combinations as expenses in the consolidated fiscal year in which they arise. At the same time, for business combinations that take place in or after the first quarter of the fiscal year ended March 31, 2016, the disclosure method was revised to restate the distribution of acquisition cost upon provisional accounting recognition in the statements of the fiscal year in which the combination took place.

As a result of these changes, segment income for the Equipment Business declined ¥83 million for the fiscal year ended March 31, 2016, in comparison to the previous accounting method.

3. Information concerning the monetary values of net sales, income or loss, assets and other items of each reportable

segment

Previous consolidated fiscal year (April 1, 2014 ~ March 31, 2015)

(Million Yen)

	Reportable Segment			Total	Adjustment *1	Carried Amount on Consolidated Financial Statements *2
	Equipment Business	Service Business	Other Business			
Net Sales						
(1) Sales to External Customers	26,981	5,331	1,349	33,661	―	33,661
(2) Internal Sales or Transfers between Segments	11	210	0	223	(223)	―
Total	26,992	5,541	1,350	33,884	(223)	33,661
Segment Income	2,178	430	34	2,643	0	2,643
Segment Assets	25,625	4,865	911	31,401	15,390	46,792
Other						
Depreciation Expenses	450	185	3	639	(1)	637
Increases in Property, Plant and Equipment and Intangible Assets	666	148	0	814	139	954

(Note)

1. Adjustments are as follows.

1) “Adjustment” for segment sales mainly represents eliminations of inter-segment transactions.

2) “Adjustment” for segment income mainly represents eliminations of inter-segment transactions.

3) “Adjustment” for segment assets mainly represents eliminations of inter-segment transactions and company-wide assets. Company-wide assets of ¥15,452 million primarily consist of surplus working capital at the parent company (cash and deposits, short-term investment securities, etc.), long-term investment funds (investment securities) and assets related to administrative divisions.

4) “Adjustment” for depreciation expenses mainly represents eliminations of inter-segment transactions.

5) “Adjustment” for increases in property, plant and equipment and intangible assets mainly represents eliminations of inter-segment transactions and company-wide assets.

2. Segment income is adjusted to be consistent with the operating income stated in the consolidated statements of income.

This consolidated fiscal year (April 1, 2015 ~ March 31, 2016)

(Million Yen)

	Reportable Segment			Total	Adjustment *1	Carried Amount on Consolidated Financial Statements *2
	Equipment Business	Service Business	Other Business			
Net Sales						
(1) Sales to External Customers	32,025	5,536	1,473	39,035	—	39,035
(2) Internal Sales or Transfers between Segments	5	249	1	256	(256)	—
Total	32,030	5,786	1,474	39,291	(256)	39,035
Segment Income	2,986	516	19	3,521	(0)	3,521
Segment Assets	30,438	5,517	950	36,906	11,138	48,045
Other						
Depreciation Expenses	510	241	5	757	(0)	757
Increases in Property, Plant and Equipment and Intangible Assets	607	452	26	1,085	76	1,162

(Note)

1. Adjustments are as follows.

1) "Adjustment" for segment sales mainly represents eliminations of inter-segment transactions.

2) "Adjustment" for segment income mainly represents eliminations of inter-segment transactions.

3) "Adjustment" for segment assets mainly represents eliminations of inter-segment transactions and company-wide assets. Company-wide assets of ¥11,288 million primarily consist of surplus working capital at the parent company (cash and deposits, short-term investment securities, etc.), long-term investment funds (investment securities) and assets related to administrative divisions.

4) "Adjustment" for depreciation expenses mainly represents eliminations of inter-segment transactions.

5) "Adjustment" for increases in property, plant and equipment and intangible assets mainly represents eliminations of inter-segment transactions and company-wide assets.

2. Segment income or segment loss is adjusted to be consistent with the operating income stated in the consolidated statements of income.

Related Information

Previous consolidated fiscal year (April 1, 2014 to March 31, 2015)

1.Information by product and service

(Million Yen)

	Equipment Business	Service Business	Other Business	Total
Sales to third parties	26,981	5,331	1,349	33,661

2.Information by region

(1) Net sales

(Million Yen)

Japan	China	Others in Asia	Others	Total
20,051	4,745	3,539	5,324	33,661

(2) Property, plant and equipment

(Million Yen)

Japan	China	Others in Asia	Others	Total
7,801	763	209	869	9,644

This consolidated fiscal year (April 1, 2015 to March 31, 2016)

1.Information by product and service

(Million Yen)

	Equipment Business	Service Business	Other Business	Total
Sales to third parties	32,025	5,536	1,473	39,035

2.Information by region

(1) Net sales

(Million Yen)

Japan	China	Others in Asia	Others	Total
22,962	5,960	4,377	5,734	39,035

(2) Property, plant and equipment

(Million Yen)

Japan	China	Others in Asia	Others	Total
7,858	799	185	1,237	10,081

Information on non-current assets and impairment loss by reportable segment

Previous consolidated fiscal year (April 1, 2014 to March 31, 2015)

(Million Yen)

	Equipment Business	Service Business	Other Business	Corporate and Elimination	Total
Impairment Loss	―	―	―	4	4

This consolidated fiscal year (April 1, 2015 to March 31, 2016)

(Million Yen)

	Equipment Business	Service Business	Other Business	Corporate and Elimination	Total
Impairment Loss	―	―	―	2	2

Information on amortization of goodwill and unamortized balance by reportable segment

Previous consolidated fiscal year (April 1, 2014 to March 31, 2015)

No items to report

This consolidated fiscal year (April 1, 2015 to March 31, 2016)

(Million Yen)

	Equipment Business	Service Business	Other Business	Corporate and Elimination	Total
Amortization	—	—	—	—	—
Unamortized Balance	706	—	—	—	706

Information on gain on negative goodwill by reportable segment

Previous consolidated fiscal year (April 1, 2014 to March 31, 2015)

No items to report

This consolidated fiscal year (April 1, 2015 to March 31, 2016)

No items to report

(Per-Share Information)

FY2014 (From April 1, 2014 to March 31, 2015)		FY2015 (From April 1, 2015 to March 31, 2016)	
	Yen		Yen
Net Assets Per Share	1,521.96	Net Assets Per Share	1,564.55
Net Income Per Share	91.19	Net Income Per Share	104.75
Diluted net income per share is not shown as there are no dilutive securities.		Diluted net income per share is not shown as there are no dilutive securities.	

※The Company's shares that the Employee Trust set up by the Trust-type Employee Stock Ownership Incentive Plan owns are recognized as treasury stocks in the Company's consolidated financial statements. Accordingly, the number of common shares used to calculate the amount of net assets per share in the consolidated fiscal year under review was calculated after deducting the relevant number of those shares. For the purpose of calculating net assets per share, the number of treasury stocks held by the Employee Trust after deducting the relevant number at the end of previous consolidated financial year under review was 158,500 shares. This consolidated financial year was 83,000 shares.

(Note) 1. The basis of calculation for net income per share is as follows:

	FY2014 (From April 1, 2014 to March 31, 2015)	FY2015 (From April 1, 2015 to March 31, 2016)
Net income per share		
Profit attributable to owners of parent (Million Yen)	2,118	2,410
Net income available to minority interests (Million Yen)	—	—
Profit attributable to owners of parent available to common shares (Million Yen)	2,118	2,410
Weighted-average number of common shares outstanding for the period (Thousand Shares)	23,233	23,009

Dilutive shares omitted from the calculation of diluted net income per share, due to absence of a dilution effect.	―――――――	―――――――

※The Company's shares that the Employee Trust set up by the Trust-type Employee Stock Ownership Incentive Plan owns are recognized as treasury stocks in the Company's consolidated financial statements. Accordingly, the average number of outstanding stock throughout the period in the consolidated fiscal year under review was calculated after deducting the relevant number of those shares. For the purpose of calculating net income per share, the average number of treasury stocks after deducting the relevant number for previous consolidated fiscal year under review was 26,133 shares. This consolidated financial year was 116,225 shares.

(Business Combinations)

Business Combination by Acquisition

1.Overview of Business Combination

(1)Name and business of the acquired company

Name: QUALMARK CORPORATION

Business: Manufacturing, sales and after-sales service of HALT & HASS environmental test chambers

(2)Main reasons for the business combination

In its "Progressive Plan 2017" medium-term management plan from fiscal 2014 through fiscal 2017, the Company established the expansion of business domains targeting growing and strategic markets as a key management strategy for sales expansion.

The Company manufactures and sells environmental test chambers designed to detect degradation failures that may arise over time by recreating the operating environment of products, and also simulating environments that are harsher than the operating environment. In contrast, highly accelerated life test and highly accelerated stress screening (HALT & HASS)* chambers excel at detecting defects in the initial stages of product design and manufacturing by applying a high stress exceeding the operating limits of products. Such chambers are indispensable to improving the reliability of products.

QUALMARK is a top brand in the HALT & HASS business. As a U.S. entrepreneurial company, it has the proprietary know-how for performing a HALT & HASS for detecting product malfunction in a timeframe far shorter than other generic environmental test chambers.

Going forward, the Company will respond to the rising need for more efficient product development among customers by utilizing QUALMARK as a wholly owned subsidiary and enhancing its business in the HALT & HASS field.

*HALT & HASS is a screening and testing method for improving design quality that was invented in the U.S. in the 1980s, and is now applied mainly in North America and Europe in the aviation, automotive and electronics sectors. In 2013, testing methods including HALT were incorporated into the International Electrotechnical Commission (IEC)'s IEC 62506:2013 methods for product accelerated testing. A HALT applies high stress to the point of causing a product to fail in order to clarify product defects and weak points within a short timeframe in the design stage. Design quality can be raised efficiently by repeatedly reflecting the analysis of HALT results in the product design. HASS is a screening method for identifying initial defects in products at the manufacturing stage, before they have the potential of materializing after the products have been shipped. The stress levels applied in HASS are set based on operating limits determined by the HALT.

(3)Business combination date

December 28, 2015

(4)Statutory format of business combination

“Reverse triangular merger” based on U.S. corporate reorganization laws and regulations

(5)Name of the company after business combination

No change

(6)Ratio of acquired voting rights

100%

(7)Main rationale for acquiring the company

ESPEC acquired all shares of QUALMARK CORPORATION in exchange for cash.

2.Period of Earnings from the Acquired Company Included in ESPEC’s Consolidated Financial Statements

Earnings of the acquired company were not included in ESPEC’s consolidated financial statements for the fiscal year ended March 31, 2016.

3.Acquisition Cost of the Acquired Company and the Component

Acquisition cost: Cash ¥1,500 million

4.Amount of Resulting Goodwill, Reason for Goodwill, and the Amortization Method and Period

(1)Amount of resulting goodwill

¥706 million

(2)Reason for goodwill

The acquisition cost in excess of the net acquired assets and assumed liabilities was recorded as goodwill.

(3)Amortization Method and Period

Goodwill will be amortized by the straight-line method, equally allocating the cost over a period of 10 years.

(Material Subsequent Events)

Not applicable.

5.Other Subsequent Events

Change in Corporate Officers

(1)Change in representative:

No change

(2)Change in other corporate officers (effective June 24, 2016)

・Candidate for newly appointed director

Hiroyuki Nagano, Director

(Hiroyuki Nagano is a candidate for outside director pursuant to Article 2-15 of the Companies Act)

・Directors scheduled to resign

Kaoru Okeya , Director

Seiichi Murakami, Director

Keiji Oshima, Director