Summary of Financial Results (Consolidated)
for the Fiscal 2016 Ended March 31, 2017
[under Japanese GAAP]

May 12, 2017

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 23, 2017
Dividends payment beginning day (Scheduled):	June 26, 2017
Filing of Securities Report *[Yuka shoken hokokusho]*(Scheduled):	June 26, 2017
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 12, 2017 at 14:00. (GMT+9)

(Rounded off to nearest million yen)

1. Consolidated financial results for the fiscal 2016 ended March 31, 2017. (April 1, 2016 ~ March 31, 2017)

(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, 2017	39,507	1.2	3,243	(7.9)	3,171	(11.2)	2,233	(7.3)
Year Ended March 31, 2016	39,035	16.0	3,521	33.2	3,570	17.3	2,410	13.8

(Note) Statements of comprehensive income Year Ended March 31, 2017 ¥2,121million [16.3%]
Year Ended March 31, 2016 ¥1,823million [(44.4)%]

	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, 2017	97.85	-	6.1	6.5	8.2
Year Ended March 31, 2016	104.75	-	6.8	7.5	9.0

(Reference) Equity in earnings of affiliates Year Ended March 31, 2017 ¥－million
Year Ended March 31, 2016 ¥－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, 2017	49,044	37,049	75.5	1,621.00
As of March 31, 2016	48,045	35,633	74.2	1,564.55

(Reference) Shareholders' equity As of March 31, 2017 ¥37,049million
As of March 31, 2016 ¥35,633million

(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, 2017	2,792	(178)	(787)	11,254
Year Ended March 31, 2016	356	(3,100)	(1,924)	9,596

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, 2016	-	9.00	-	23.00	32.00	735	30.5	2.1
Year Ended March 31, 2017	-	12.00	-	24.00	36.00	822	36.8	2.3
Year Ending March 31, 2018 (Forecast)	-	15.00	-	35.00	50.00		42.3	

(Note)
Forecast for the interim dividend for the year ending March 31, 2018:
An ordinary dividend of ¥14.00; a commemorative dividend of ¥1.00

Forecast for the year-end dividend for the year ending March 31, 2018:
An increased ordinary dividend of ¥34.00; a commemorative dividend of ¥1.00

3. Forecast of Consolidated Operating Results for the Fiscal 2017 Ending March 31, 2018(April 1, 2017 ~ March 31, 2018)

(% 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, 2017	17,500	1.4	1,200	18.9	1,250	50.0	850	65.9	37.19
Full-term	40,000	1.2	3,700	14.1	3,800	19.8	2,700	20.9	118.13

4. Others

(1) Transfers of important subsidiaries during this quarter (transfers of specified subsidiaries entailing changes in the scope of consolidation): No

New (Company name:) 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: No
2) Changes in accounting policies other than above: No
3) Changes in accounting estimates: No
4) Restatements of financial statements: No

(3) Number of outstanding shares (Ordinary shares)

1) Number of outstanding shares at end of term (Including treasury stock):	As of March 31, 2017	23,781,394 shares	As of March 31, 2016	23,781,394 shares
2) Number of treasury stock at end of term:	As of March 31, 2017	925,324 shares	As of March 31, 2016	1,005,514 shares
3) Average number of shares during the term (Consolidated quarter):	Year Ended March 31, 2017	22,820,478 shares	Year Ended March 31, 2016	23,009,486 shares

* This earnings report is not subject to the audit

* 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.

(Note) For details, see "Outlook for Fiscal 2017" on p. 5.

Index of Attached Material

1. Summary of Business Results

(1) Overview of Fiscal 2016 Operating Results

1) Operating Results for Fiscal 2016

During fiscal 2016, the year ending March 31, 2017, the outlook of the Japanese economy remained uncertain due to various concerns, including the yen's appreciation, the slowdown in the Chinese economy, and problems associated with the UK's decision to leave the EU. However, after the election of the president in the U.S., the yen weakened and there were signs of improvement in business sentiment.

Of the Company’s main customers, automotive manufacturers continued to invest aggressively.

In this environment, the Company strived to increase sales in overseas markets by further strengthening Group collaboration. At the same time, it worked on expanding its business domain in the automotive market in which the development of eco cars, such as electric vehicles and automated driving technology, is accelerating, and the "food and drug markets" centered on pharmaceuticals.

As a result, in the consolidated results for fiscal 2016, the amount of orders-received increased 1.0% year on year to ¥40,289 million and net sales increased 1.2% to ¥39,507 million. On the earnings front however, the Company posted a ¥3,243million operating income, down 7.9% year on year, mainly due to deterioration in the cost of sales ratio, and a ¥2,233million net profit attributable to owners of the parent, down 7.3% year on year.

	Year Ended March 31, 2016 (Million Yen)	Year Ended March 31, 2017 (Million Yen)	Change (%)
Orders-Received	39,903	40,289	1.0
Net Sales	39,035	39,507	1.2
Operating Income	3,521	3,243	(7.9)
Ordinary Income	3,570	3,171	(11.2)
Profit Attributable to Owners of Parent	2,410	2,233	(7.3)

2) Performance by Segment

Consolidated results by operating segment for fiscal 2016

	Orders-Received (Million Yen)	Net Sales (Million Yen)	Operating Income (Million Yen)
Equipment Business	33,124	32,334	2,630
Service Business	6,096	6,065	594
Other Business	1,331	1,378	18
Elimination	(264)	(270)	0
Total	40,289	39,507	3,243

<Equipment Business>

In the environmental test chambers field, in Japan the Company saw firm business for customized products. Overseas, sales to China, the U.S., South Korea and Taiwan increased, despite a drop in sales to Southeast Asia and Europe. As a result, environmental test chambers on the whole saw orders-received and net sales slightly increase year on year.

In the energy devices equipment field, orders-received increased year on year, in part due to strong sales of fuel cells chambers . However, net sales were mostly unchanged in comparison to the previous fiscal year because some sales have been recorded for next fiscal year.

In the semiconductor equipment field, both orders-received and net sales increased year on year due to strong sales centered on automotive manufacturers.

As a result, the Equipment Business overall saw orders-received increased 0.5% to ¥33,124 million and net sales increased 0.9% to ¥32,334 million, compared to the previous fiscal year. In terms of profit, operating income decreased 11.9% year on year to ¥2,630 million, mainly due to the deterioration in the cost of sales ratio associated with product mix changes.

	Year Ended March 31, 2016 (Million Yen)	Year Ended March 31, 2017 (Million Yen)	Change (%)
Orders-Received	32,951	33,124	0.5
Net Sales	32,030	32,334	0.9
Operating Income	2,986	2,630	(11.9)

< 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 ¥6,096 million, up 3.8% from the previous year. Net sales increased 4.8% to ¥6,065 million. Operating income increased 15.1% year on year to ¥594 million.

	Year Ended March 31, 2016 (Million Yen)	Year Ended March 31, 2017 (Million Yen)	Change (%)
Orders-Received	5,874	6,096	3.8
Net Sales	5,786	6,065	4.8
Operating Income	516	594	15.1

<Other Business>

The plant factory business and the waterfront biotope restoration was firm, but the reforestation (tree planting) business declined. As a result, the Other Business overall saw orders-received decrease 0.7% year on year to ¥1,331 million, and net sales decrease 6.6 % to ¥1,378 million, compared to the previous fiscal year. Operating income decreased 3.9% year on year to ¥18 million.

	Year Ended March 31, 2016 (Million Yen)	Year Ended March 31, 2017 (Million Yen)	Change (%)
Orders-Received	1,340	1,331	(0.7)
Net Sales	1,474	1,378	(6.6)
Operating Income (loss)	19	18	(3.9)

(2) Overview of Fiscal 2016 Consolidated Financial Situation

Total assets at the end of the fiscal year consolidated accounting period were ¥49,044 million, an increase of ¥998 million over the end of the previous consolidated fiscal year. Major factors included an increase of ¥1,355 million in cash and deposits, a decrease of ¥845 million in notes and accounts receivable - trade, and an increase of ¥333 million in work in investment securities. Liabilities were ¥11,994 million, a decrease of ¥416 million against the end of the previous consolidated fiscal year. Major factors included a decrease of ¥949 million in notes and accounts payable-trade, and an increase of ¥486 million in electronically recorded obligations - operating. Net assets were ¥37,049 million, an increase of ¥1,415 million against the end of the previous fiscal year. Major factors included an increase of ¥1,528 million in shareholders' equity and a decrease of ¥112 million in accumulated other comprehensive income. As a result, the shareholders' equity ratio stood at 75.5%, an increase of 1.3 points from the end of the previous fiscal year.

(3) Overview of Fiscal 2016 Cash Flows

Net cash provided by operating activities was ¥2,792 million. The main factors were ¥3,144 million in profit before income taxes and minority interests, depreciation of ¥795 million, and ¥1,086 million in income taxes paid.

Net cash used in investing activities was ¥178 million. The main factors were a ¥394 million in purchase of property, plant and equipment and intangible assets, a decrease of ¥300 million in securities, and an increase of ¥126 million in trust beneficiary right.

Net cash used in financing activities was ¥787 million. The main factors were ¥798 million in cash dividends paid.

As a result of the foregoing, the balance of cash and cash equivalents increased ¥1,657 million from a year earlier to ¥11,254 million at the end of the fiscal year under review.

	As of March 31, 2013	As of March 31, 2014	As of March 31, 2015	As of March 31, 2016	As of March 31, 2017
Shareholders' Equity Ratio (%)	76.2	75.6	75.1	74.2	75.5
Shareholders' Equity Ratio on a Fair Value Basis (%)	41.2	43.2	59.3	69.6	64.6
Average Debt Repayment Period (years)	-	-	0.1	0.2	-
Interest Coverage Ratio (times)	2,599.9	647.4	1,169.0	236.2	9,947.3

(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.

(4) Outlook for Fiscal 2017

Manufacturers in the automotive and other industries in Japan are poised to continue making growth investments, while the Company foresees an expansion in overseas demand for environmental testing, particularly in developed countries, which are leading the development of advanced technologies, and China and the ASEAN countries, where economic growth is prominent. However, the Japanese economy has been overshadowed by concerns that include foreign exchange rate movements and unstable worldwide circumstances.

Under these circumstances, the Company will strive to expand sales in overseas markets by applying the synergies of the ESPEC Group, and will work to expand its business domains by targeting growth and strategic markets, such as the life science field centered on automobiles and pharmaceuticals. In addition, we will focus on improving profitability through design and production reform of customized products.

As a result, the Company's business plan for fiscal 2017 projects net sales of ¥40,000 million, in line with fiscal 2016, and for operating income to increase 14.1% to ¥3,700 million, in part from an estimated improvement in the cost ratio. Profit attributable to owners of parent is forecast to increase 20.9% to ¥ 2,700 million.

Forecast of Consolidated Operating Results for Fiscal 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, 2017	17,500	1.4	1,200	18.9	1,250	50.0	850	65.9	37.19
Full-term	40,000	1.2	3,700	14.1	3,800	19.8	2,700	20.9	118.13

Forecast of Consolidated Operating Results by Segment for Fiscal 2017 (Full-term)

	Orders-Received (Million Yen)	Net Sales (Million Yen)	Operating Income (Million Yen)
Equipment Business	33,300	32,800	3,050
Service Business	6,200	6,200	650
Other Business	1,300	1,300	0
Elimination	(300)	(300)	0
Total	40,500	40,000	3,700

* 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.

(5) Basic Policy on Profit Distributions and Dividends for Fiscal 2016 and Fiscal 2017

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 ¥24 per share. Together with the payment of an interim dividend of ¥12 per share, the Company will pay an annual dividend of ¥36 per share for fiscal 2016.

For fiscal 2017, current projections are for an annual dividend of ¥48 per share. Together with the payment of a commemorative dividend of ¥2 per share to mark the Company's 70th founding anniversary, an annual dividend of ¥50 per share is planned for fiscal 2017. We will pay an interim dividend of ¥15 per share, which includes a commemorative dividend of ¥1 per share.

2. Management Policy

As stated in “PROGRESSIVE PLAN 2017,” its medium-term management plan running from the fiscal year ended March 31, 2015 through the fiscal year ending March 31, 2018, ESPEC is targeting consolidated net sales in excess of ¥40,000 million by the fiscal year ending March 31, 2018, along with operating income exceeding ¥4,000 million and an operating margin topping 10.0%. Unfortunately, the Company had to revise its consolidated earnings target because operating income for the fiscal year ended March 31, 2017 was lower than the original target set at the beginning of the fiscal year. The company achieved consolidated net sales in excess of ¥40,000 million for the fiscal year ended March 31, 2017, operating income exceeding ¥3,700 million, and an operating margin of over 9.2%. In addition, we are working to boost shareholder returns and aim to achieve a 40% dividend payout ratio.

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.

＜Main Priority Strategies＞

1) Implement Company-wide quality and process reforms focusing on design and production reforms for customized products

The Company will work to expand earnings from customized products by conducting Company-wide process reforms centering on design, production and procurement processes. In addition, we will further improve profitability by reducing costs regarding standard products.

2) Apply synergies of the ESPEC Group to expand in overseas markets

ESPEC will strengthen its response to global customers, who have a significant impact on various industries, by strengthening ties with Group companies. The Company will expand sales through the following two initiatives. In China, we will work to expand sales of our Chinese subsidiary's products and improve profitability, and in the ASEAN countries and India, we will strengthen the activities of the Thai subsidiary that provides technical support.

3) Expand business domains targeting growing and strategic markets, and promote activities to create new businesses

In the automotive market, ESPEC will strive to expand sales of energy device equipment, centered on secondary batteries and fuel cells, and aim to expand commission testing services and verification services. Moreover, we will focus on expanding sales of HALT/HASS chambers through collaboration with our U.S. subsidiary QUALMARK CORPORATION. In the "food and drug markets", we will strive to expand sales of stability test chambers used for pharmaceuticals and develop new products.

4) Take the lead by applying competitive strategies in the Japanese environmental testing market

ESPEC will strengthen its competitive edge by using proprietary services, including through early-stage market launches of products that comply with environmental regulations and its "5-year Product Guarantee". The Company will also enhance its after-service engineering products and rental resales, and strive to increase sales.

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, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	8,299	9,654
Notes and accounts receivable - trade	15,968	15,123
Electronically recorded monetary claims - operating	989	1,564
Securities	1,901	1,901
Merchandise and finished goods	896	623
Work in process	1,792	1,826
Raw materials and supplies	1,656	1,862
Deferred tax assets	412	402
Other	1,771	1,757
Allowance for doubtful accounts	(49)	(21)
Total current assets	33,640	34,694
Non-current assets		
Property, plant and equipment		
Buildings and structures	10,130	10,190
Accumulated depreciation	(6,440)	(6,606)
Buildings and structures, net	3,689	3,584
Machinery, equipment and vehicles	2,271	2,261
Accumulated depreciation	(1,415)	(1,460)
Machinery, equipment and vehicles, net	856	801
Tools, furniture and fixtures	4,078	4,156
Accumulated depreciation	(3,072)	(3,237)
Tools, furniture and fixtures, net	1,005	919
Land	4,462	4,455
Leased assets	48	64
Accumulated depreciation	(38)	(23)
Leased assets, net	9	40
Construction in progress	58	25
Total property, plant and equipment	10,081	9,827
Intangible assets		
Goodwill	706	614
Other	419	346
Total intangible assets	1,126	961
Investments and other assets		
Investment securities	2,408	2,741
Net defined benefit asset	—	47
Deferred tax assets	284	251
Other	544	552
Allowance for doubtful accounts	(40)	(33)
Total investments and other assets	3,197	3,560
Total non-current assets	14,405	14,349
Total assets	48,045	49,044

(Million yen)

	As of March 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,540	2,591
Electronically recorded obligations - operating	3,208	3,694
Income taxes payable	581	382
Provision for bonuses	417	383
Provision for directors' bonuses	9	13
Provision for product warranties	309	255
Provision for loss on order received	41	1
Asset retirement obligations	—	123
Other	2,674	2,817
Total current liabilities	10,783	10,263
Non-current liabilities		
Long-term loans payable	86	—
Deferred tax liabilities	304	460
Net defined benefit liability	55	53
Provision for directors' retirement benefits	12	12
Asset retirement obligations	52	13
Deferred tax liabilities for land revaluation	535	535
Other	580	655
Total non-current liabilities	1,628	1,731
Total liabilities	12,411	11,994
Net assets		
Shareholders' equity		
Capital stock	6,895	6,895
Capital surplus	6,914	6,914
Retained earnings	22,441	23,873
Treasury shares	(1,090)	(994)
Total shareholders' equity	35,161	36,689
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	823	1,079
Revaluation reserve for land	(659)	(661)
Foreign currency translation adjustment	532	120
Remeasurements of defined benefit plans	(224)	(179)
Total accumulated other comprehensive income	472	359
Total net assets	35,633	37,049
Total liabilities and net assets	48,045	49,044

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

Consolidated Statements of Income

(Million Yen)

	Year Ended March 31, 2016	Year Ended March 31, 2017
Net sales	39,035	39,507
Cost of sales	25,461	26,059
Gross profit	13,573	13,447
Selling, general and administrative expenses		
Salaries and allowances	3,143	3,190
Research and development expenses	956	1,025
Provision for bonuses	126	112
Provision for product warranties	240	206
Commission fee	1,192	1,329
Provision for directors' bonuses	9	13
Amortization of goodwill	—	63
Other	4,382	4,262
Total selling, general and administrative expenses	10,051	10,204
Operating profit	3,521	3,243
Non-operating income		
Interest income	28	16
Dividend income	141	87
Other	90	70
Total non-operating income	260	173
Non-operating expenses		
Interest expenses	1	0
Loss on sales of securities	6	—
Foreign exchange losses	181	204
Commission fee	11	9
Other	11	31
Total non-operating expenses	211	245
Ordinary income	3,570	3,171
Extraordinary income		
Gain on sales of non-current assets	0	3
Gain on sales of investment securities	32	—
Total extraordinary income	32	3
Extraordinary losses		
Loss on retirement of non-current assets	5	21
Loss on sales of investment securities	—	6
Impairment loss	2	1
Loss on sales of non-current assets	1	0
Total extraordinary losses	9	30
Profit before income taxes	3,593	3,144
Income taxes - current	1,149	870
Income taxes - deferred	15	40
Total income taxes	1,164	911
Profit	2,429	2,233
Profit attributable to non-controlling interests	18	—
Profit attributable to owners of parent	2,410	2,233

Consolidated Statements of Comprehensive Income

（Million Yen）

	Year Ended March 31, 2016	Year Ended March 31, 2017
Profit	2,429	2,233
Other comprehensive income		
Valuation difference on available-for-sale securities	(376)	256
Revaluation reserve for land	28	―
Foreign currency translation adjustment	(39)	(412)
Remeasurements of defined benefit plans, net of tax	(218)	44
Total other comprehensive income	(605)	(111)
Comprehensive income	1,823	2,121
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,798	2,121
Comprehensive income attributable to non-controlling interests	25	―

(3) Consolidated Statements of Changes in Net Assets

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
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
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 ownership interest of parent due to transactions with non-controlling interests							(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

Year Ended March 31, 2017

(Million Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,895	6,914	22,441	(1,090)	35,161
Changes of items during period					
Dividends of surplus			(800)		(800)
Profit attributable to owners of parent			2,233		2,233
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				96	96
Change of scope of consolidation					―
Change in ownership interest of parent due to transactions with non-controlling interests					―
Other			(0)		(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	―	―	1,432	95	1,528
Balance at end of current period	6,895	6,914	23,873	(994)	36,689

	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	823	(659)	532	(224)	472	―	35,633
Changes of items during period							
Dividends of surplus							(800)
Profit attributable to owners of parent							2,233
Purchase of treasury shares							(0)
Disposal of treasury shares							96
Change of scope of consolidation							―
Change in ownership interest of parent due to transactions with non-controlling interests							―
Other							(0)
Net changes of items other than shareholders' equity	256	(1)	(412)	44	(112)	―	(112)
Total changes of items during period	256	(1)	(412)	44	(112)	―	1,415
Balance at end of current period	1,079	(661)	120	(179)	359	―	37,049

(4) Consolidated Statements of Cash Flows

(Million Yen)

	Year Ended March 31, 2016	Year Ended March 31, 2017
Cash flows from operating activities		
Profit before income taxes	3,593	3,144
Depreciation	763	795
Impairment loss	2	1
Amortization of goodwill	—	63
Increase (decrease) in allowance for doubtful accounts	38	(15)
Increase (decrease) in provision for directors' bonuses	3	3
Increase (decrease) in net defined benefit liability	10	(1)
Interest and dividend income	(170)	(103)
Interest expenses	1	0
Loss (gain) on sales of securities	6	—
Decrease (increase) in notes and accounts receivable - trade	(2,957)	88
Decrease (increase) in inventories	(1,201)	(218)
Increase (decrease) in notes and accounts payable - trade	1,359	(356)
Other, net	48	363
Subtotal	1,500	3,765
Interest and dividend income received	189	113
Interest expenses paid	(1)	(0)
Income taxes (paid) refund	(1,332)	(1,086)
Net cash provided by (used in) operating activities	356	2,792
Cash flows from investing activities		
Net decrease (increase) in time deposits	(0)	1
Net decrease (increase) in trust beneficiary right	(164)	(126)
Net decrease (increase) in short-term investment securities	(600)	300
Purchase of property, plant and equipment and intangible assets	(959)	(394)
Proceeds from sales of property, plant and equipment and intangible assets	6	7
Proceeds from sales and redemption of investment securities	88	8
Payments of loans receivable	(31)	(1)
Collection of loans receivable	0	26
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	(3,100)	(178)
Cash flows from financing activities		
Repayments of long-term loans payable	(109)	(86)
Cash dividends paid	(648)	(798)
Dividends paid to non-controlling interests	(47)	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(578)	—
Purchase of treasury shares	(630)	(0)
Proceeds from disposal of treasury shares	103	106
Other, net	(14)	(8)
Net cash provided by (used in) financing activities	(1,924)	(787)
Effect of exchange rate change on cash and cash equivalents	(78)	(168)
Net increase (decrease) in cash and cash equivalents	(4,747)	1,657

Cash and cash equivalents at beginning of period	14,167	9,596
Increase in cash and cash equivalents from newly consolidated subsidiary	176	―
Cash and cash equivalents at end of period	9,596	11,254

(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: 11

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

(Note)

Real Chambers Corporation has been extinguished as a result of an absorption merger with QUALMARK CORPORATION, the surviving company.

(2) Name of main non-consolidated subsidiary:

Main non-consolidated subsidiary: ESPEC EUROPE GmbH

(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 EUROPE GmbH 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. and QUALMARK 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" 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.

(Additional Information)

(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.

	Previous consolidated fiscal year	This consolidated fiscal year
Book value of treasury stocks	1,090 million yen	994 million yen
Book value of treasury stocks held by the Company	991 million yen	991 million yen
Book value of treasury stocks held by the Employee Trust	99 million yen	3 million yen
Number of treasury stocks	1,005,514 shares	925,324 shares
Number of treasury stocks held by the Company	922,514 shares	922,724 shares
Number of treasury stocks held by the Employee Trust	83,000 shares	2,600 shares

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

	Previous consolidated fiscal year	This consolidated 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).

(Adoption of the "Implementation Guidance on the Recoverability of Deferred Tax Assets")

The "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) has been adopted from the fiscal year under review.

(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.

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

This consolidated fiscal year (April 1, 2016 ~ March 31, 2017)

(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	32,307	5,822	1,376	39,507	―	39,507
(2) Internal Sales or Transfers between Segments	26	242	1	270	(270)	―
Total	32,334	6,065	1,378	39,777	(270)	39,507
Segment Income	2,630	594	18	3,243	0	3,243
Segment Assets	29,190	5,731	909	35,831	13,213	49,044
Other						
Depreciation Expenses	538	246	5	789	―	789
Amortization of goodwill	63	―	―	63	―	63
Increases in Property, Plant and Equipment and Intangible Assets	354	266	8	629	25	655

(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 ¥13,308 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, 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
20,051	4,745	3,539	5,324	33,661

(2) Property, plant and equipment

(Million Yen)

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

This consolidated fiscal year (April 1, 2016 to March 31, 2017)

1.Information by product and service

(Million Yen)

	Equipment Business	Service Business	Other Business	Total
Sales to third parties	32,307	5,822	1,376	39,507

2.Information by region

(1) Net sales

(Million Yen)

Japan	China	Others in Asia	Others	Total
22,843	6,010	4,656	5,996	39,507

(2) Property, plant and equipment

(Million Yen)

Japan	China	Others in Asia	Others	Total
7,745	694	166	1,221	9,827

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

Previous 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

This consolidated fiscal year (April 1, 2016 to March 31, 2017)

(Million Yen)

	Equipment Business	Service Business	Other Business	Corporate and Elimination	Total
Impairment Loss	—	—	—	1	1

Information on amortization of goodwill and unamortized balance by reportable segment

Previous 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

This consolidated fiscal year (April 1, 2016 to March 31, 2017)

(Million Yen)

	Equipment Business	Service Business	Other Business	Corporate and Elimination	Total
Amortization	63	—	—	—	63
Unamortized Balance	614	—	—	—	614

Information on gain on negative goodwill by reportable segment

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

No items to report

This consolidated fiscal year (April 1, 2016 to March 31, 2017)

No items to report

(Per-Share Information)

FY2015 (From April 1, 2015 to March 31, 2016)		FY2016 (From April 1, 2016 to March 31, 2017)	
	Yen		Yen
Net Assets Per Share	1,564.55	Net Assets Per Share	1.621.00
Net Income Per Share	104.75	Net Income Per Share	97.85
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 for the purpose of calculating net assets per share in both the previous consolidated fiscal year and 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 was 83,000 shares. This consolidated financial year was 2,600 shares.

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

	FY2015 (From April 1, 2015 to March 31, 2016)	FY2016 (From April 1, 2016 to March 31, 2017)
Net income per share		
Profit attributable to owners of parent (Million Yen)	2,410	2,233
Net income available to minority interests (Million Yen)	—	—
Profit attributable to owners of parent available to common shares (Million Yen)	2,410	2,233
Weighted-average number of common shares outstanding for the period (Thousand Shares)	23,009	22,820
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 of the previous consolidated fiscal year and 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 was 116,225 shares. This consolidated financial year was 38,316 shares.

(Business Combinations)

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

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 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. Details and amount of the major acquisition-related costs

Remuneration and commissions to advisors: ¥83 million

5. 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.

6. Amount of assets accepted and liabilities assumed on the business combination date and major components

Current assets	¥810 million
Non-current assets	¥373 million
Total assets	¥1,183 million
Current liabilities	¥396 million
Total liabilities	¥396 million

7. Approximate amount and calculation method of the impact on the consolidated statements of income for the fiscal year under review, assuming that the business combination was completed on the first day of the fiscal year

Omitted from this report because they were deemed to have little importance.

This consolidated fiscal year (April 1, 2016 to March 31, 2017)

Not applicable.

(Material Subsequent Events)

Not applicable.