



**Summary of Financial Results (Consolidated)**  
for the Fiscal 2017 Ended March 31, 2018  
[under Japanese GAAP]

May 15, 2018

Listed Company Name:	ESPEC CORP.
Listed Stock Exchange:	Tokyo, Stock Exchanges, First Section
Securities Code:	6859
Homepage:	<a href="http://www.espec.co.jp">http://www.espec.co.jp</a>
Representative:	Masaaki Ishida, President
Contact:	Keiji Oshima, Chief Officer of Corporate Control Headquarters
Tel:	+81-6-6358-4741
Annual General Shareholders' Meeting (Scheduled):	June 22, 2018
Dividends payment beginning day (Scheduled):	June 25, 2018
Filing of Securities Report [Yuka shoken hokokusho](Scheduled):	June 25, 2018
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 15, 2018 at 14:00. (GMT+9)

(Rounded off to nearest million yen)

1. Consolidated financial results for the fiscal 2017 ended March 31, 2018. (April 1, 2017 ~ March 31, 2018)

(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, 2018	44,069	11.5	4,602	41.9	4,746	49.7	3,308	48.2
Year Ended March 31, 2017	39,507	1.2	3,243	(7.9)	3,171	(11.2)	2,233	(7.3)

(Note) Statements of comprehensive income Year Ended March 31, 2018 ¥3,901million [83.9%]  
Year Ended March 31, 2017 ¥2,121million [16.3%]

	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, 2018	144.76	-	8.6	9.2	10.4
Year Ended March 31, 2017	97.85	-	6.1	6.5	8.2

(Reference) Equity in earnings of affiliates Year Ended March 31, 2018 ¥—million  
Year Ended March 31, 2017 ¥—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, 2018	54,588	39,943	73.2	1,747.46
As of March 31, 2017	49,044	37,049	75.5	1,621.00

(Reference) Shareholders' equity As of March 31, 2018 ¥39,943million  
As of March 31, 2017 ¥37,049million

(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, 2018	3,965	(269)	(1,019)	13,963
Year Ended March 31, 2017	2,792	(178)	(787)	11,254

2. Dividends

	Dividend Per Share					Total Cash Dividend (Total)	Dividend Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
	End of 1 <sup>st</sup> Quarter	End of 2 <sup>nd</sup> Quarter	End of 3 <sup>rd</sup> Quarter	Term-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million Yen	%	%
Year Ended March 31, 2017	-	12.00	-	24.00	36.00	822	36.8	2.3
Year Ended March 31, 2018	-	20.00	-	38.00	58.00	1,325	40.1	3.4
Year Ending March 31, 2019 (Forecast)	-	22.00	-	40.00	62.00		39.9	

(Note)

The interim dividend for the year ending March 31, 2018:  
An ordinary dividend of ¥19.00; a commemorative dividend of ¥1.00

The year-end dividend for the year ending March 31, 2018:  
An increased ordinary dividend of ¥37.00; a commemorative dividend of ¥1.00

3. Forecast of Consolidated Operating Results for the Fiscal 2018 Ending March 31, 2019(April 1, 2018 ~ March 31, 2019)  
 (% 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, 2018	20,500	11.4	1,800	10.7	1,850	9.4	1,300	11.5	56.87
Full-term	48,000	-	4,800	-	4,900	-	3,550	-	155.31

As detailed in the press release dated May 15, 2018, the full-year figures presented above include the results of a 15-month period (hitherto a 12-month period) for overseas consolidated subsidiaries, assuming that the overseas consolidated subsidiaries will change their fiscal year-end to the same date shared by all subsidiaries. There is no impact on the results for the six months ending September 30, 2018.

\* Full-year comparisons with the previous fiscal year are omitted as the comparison targets are different.

Consolidated operating results forecasts assuming a 12-month period for overseas consolidated subsidiaries, as before, are presented below. The impact of these changes has been to increase net sales by ¥2,500 million, operating income by ¥100 million, ordinary income by ¥100 million, and profit attributable to owners of parent by ¥50 million.

(Reference) Consolidated operating results forecast assuming a 12-month period for overseas consolidated subsidiaries  
 (% figures for the full-term are rates of change in comparison to 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
Full-term (12 months)	45,500	3.2	4,700	2.1	4,800	1.1	3,500	5.8	153.12

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, 2018	23,781,394 shares	As of March 31, 2017	23,781,394 shares
As of March 31, 2018	923,237 shares	As of March 31, 2017	925,324 shares
Year Ended March 31, 2018	22,858,444 shares	Year Ended March 31, 2017	22,820,478 shares

2) Number of treasury stock at end of term:

3) Average number of shares during the term (Consolidated quarter):

\* This earnings report is not subject to audit by a certified public accountant or accounting firm.

\* 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. 4.

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## 1. Summary of Business Results

### (1) Overview of Fiscal 2017 Operating Results

#### 1) Operating Results for Fiscal 2017

During fiscal 2017, the year ended March 31, 2018, the global economy trended firmly, although the economic outlook remained uncertain, mainly due to the U.S. trade policies and uncertain global conditions. Accordingly, the Japanese economy saw exports perform favorably, and capital investment tracked an expansionary path supported by improving corporate earnings and measures to address personnel shortfalls.

Of the Company's main customers, automotive manufacturers continued to invest aggressively, while investment by electronics-related manufacturers was also strong.

In this environment, the Company strove to expand sales in overseas markets by applying the synergies of the ESPEC Group. At the same time, it worked to improve the profitability of customized products, which are seeing increasing demand in the automotive market amid accelerating development of eco cars and automated driving technology.

As a result, in the consolidated results for fiscal 2017, the amount of orders-received increased 11.1% year on year to ¥44,775 million and net sales increased 11.5% to ¥44,069 million. On the earnings front however, the Company posted a ¥4,602million operating income, up 41.9% year on year, owing to the higher net sales and improvement in the cost of sales ratio, and profit attributable to owners of parent increased 48.2% year on year to ¥3,308 million due to decreasing of exchange losses.

	Year Ended March 31, 2017 (Million Yen)	Year Ended March 31, 2018 (Million Yen)	Change (%)
Orders-Received	40,289	44,775	11.1
Net Sales	39,507	44,069	11.5
Operating Income	3,243	4,602	41.9
Ordinary Income	3,171	4,746	49.7
Profit Attributable to Owners of Parent	2,233	3,308	48.2

#### 2) Performance by Segment

Consolidated results by operating segment for fiscal 2017

	Orders-Received (Million Yen)	Net Sales (Million Yen)	Operating Income (Loss) (Million Yen)
Equipment Business	37,076	36,602	4,092
Service Business	6,488	6,292	524
Other Business	1,416	1,375	(15)
Elimination	(206)	(201)	0
Total	44,775	44,069	4,602

#### <Equipment Business>

In the environmental test chambers field, in Japan the Company saw strong business for highly versatile standardized products and customized products. Overseas, exports and local subsidiaries performed favorably, and sales increased year on year in China, the U.S., Europe, Southeast Asia, and South Korea. As a result, both orders-received and net sales of environmental test chambers on the whole increased year on year.

In the energy devices equipment field, orders-received decreased year on year, reflecting orders received for large projects in the same period last year. However, net sales increased because of the recording of sales for certain orders outstanding as of the previous fiscal year-end.

In the semiconductor equipment field, orders-received increased year on year atop solid orders from smartphone and automotive manufacturers, but net sales decreased.

As a result, the Equipment Business overall saw orders-received increased 11.9% to ¥37,076 million and net sales increased 13.2% to ¥36,602 million, compared to the previous fiscal year. Operating income increased 55.6% to ¥4,092 million, owing to the higher net sales and improvement in the cost of sales ratio.

	Year Ended March 31, 2017 (Million Yen)	Year Ended March 31, 2018 (Million Yen)	Change (%)
Orders-Received	33,124	37,076	11.9
Net Sales	32,334	36,602	13.2
Operating Income	2,630	4,092	55.6

#### < 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 the requested tests and facility rentals, test consulting performed firmly, with orders-received and net sales both increasing year on year.

As a result, the Service Business overall recorded orders-received increased 6.4% to ¥6,488 million and net sales increased 3.7% to ¥6,292 million, compared to the previous fiscal year. Operating income decreased 11.7% year on year to ¥524 million, mainly due to increased selling, general and administrative expenses associated with R&D and market development, among others.

	Year Ended March 31, 2017 (Million Yen)	Year Ended March 31, 2018 (Million Yen)	Change (%)
Orders-Received	6,096	6,488	6.4
Net Sales	6,065	6,292	3.7
Operating Income	594	524	(11.7)

#### <Other Business>

At ESPEC MIC Corp., which operates the forest and wetland greening business and plant factory business, orders received increased but net sales remained level year on year. In the Other Business overall, orders received increased 6.4% year on year to ¥1,416 million; however, net sales were level year on year at ¥1,375 million. On the earnings front, the segment recorded an operating loss of ¥15 million, mainly due to increases in selling, general and administrative expenses associated with market development, among others.

	Year Ended March 31, 2017 (Million Yen)	Year Ended March 31, 2018 (Million Yen)	Change (%)
Orders-Received	1,331	1,416	6.4
Net Sales	1,378	1,375	(0.2)
Operating Income (Loss)	18	(15)	-

#### (2) Overview of Fiscal 2017 Consolidated Financial Situation

Total assets at the end of the fiscal year consolidated accounting period were ¥54,588 million, an increase of ¥5,544 million over the end of the previous consolidated fiscal year. Major factors included an increase of ¥1,425 million in cash and deposits, an increase of ¥1,348 million in notes and accounts receivable - trade, an increase of ¥987 million in electronically recorded monetary claims – operating, and an increase of ¥1,000 million in securities. Liabilities were ¥14,644 million, an increase of ¥2,649 million against the end of the previous consolidated fiscal year. Major factors included an increase of ¥575 million in electronically recorded obligations – operating, an increase of ¥563 million in income taxes payable, and an increase of ¥909 million in other current liabilities. Net assets were ¥39,943 million, an increase of ¥2,894 million against the end of the previous fiscal year. Major factors included an increase of ¥2,300 million in retained earnings and an increase of ¥535 million in valuation difference on available-for-sale securities. As a result, the shareholders' equity ratio stood at 73.2%, a decrease of 2.3 points from the end of the previous fiscal year.

#### (3) Overview of Fiscal 2017 Cash Flows

Net cash provided by operating activities was ¥3,965 million. The main factors were ¥4,746 million in profit before income taxes and minority interests, depreciation of ¥817 million, and an increase of ¥2,259 million in notes and accounts receivable - trade.

Net cash used in investing activities was ¥269 million. The main factors were a ¥499 million in purchase of property, plant and equipment and intangible assets, a decrease of ¥300 million in securities, and an increase of ¥87 million in trust beneficiary right.

Net cash used in financing activities was ¥1,019 million. The main factors were ¥1,002 million in cash dividends paid.

As a result of the foregoing, the balance of cash and cash equivalents increased ¥2,709 million from a year earlier to ¥13,963 million at the end of the fiscal year under review.

#### (4) Outlook for Fiscal 2018

Manufacturers in the automotive and electronics-related manufacturers 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 conditions, the Company formulated the new medium-term management plan "Progressive Plan 2021," aimed at achieving further growth. Based on this plan, the Company will take steps to expand its business, targeting the automotive and IoT-related markets, while aiming to launch businesses in new fields. The Company will also strengthen the consolidated management of the ESPEC Group and promote sales expansion in the global market.

As detailed in the press release dated May 15, 2018, the Company's operating results forecast for the fiscal year ending March 31, 2019, including a 15-month period for overseas consolidated subsidiaries, calls for net sales of ¥48,000 million, operating income of ¥4,800 million, and profit attributable to owners of parent of ¥3,550 million.

The impact of these changes has been to increase net sales by ¥2,500 million, operating income by ¥100 million, ordinary income by ¥100 million, and profit attributable to owners of parent by ¥50 million.

#### Forecast of Consolidated Operating Results for Fiscal 2018

(% 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, 2018	20,500	11.4	1,800	10.7	1,850	9.4	1,300	11.5	56.87
Full-term	48,000	-	4,800	-	4,900	-	3,550	-	155.31

#### Forecast of Consolidated Operating Results by Segment for Fiscal 2018 (Full-term)

	Orders-Received (Million Yen)	Net Sales (Million Yen)	Operating Income (Million Yen)
Equipment Business	40,650	40,250	4,250
Service Business	6,650	6,550	550
Other Business	1,400	1,400	0
Elimination	(200)	(200)	0
Total	48,500	48,000	4,800

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

\* As detailed in the press release dated May 15, 2018, the figures presented above include the results of a 15-month period (hitherto a 12-month period) for overseas consolidated subsidiaries, assuming that the overseas consolidated subsidiaries will change their fiscal year-end to the same date shared by all subsidiaries.

\* Full-year comparisons with the previous fiscal year are omitted as the comparison targets are different.

(Reference) Consolidated operating results forecast assuming a 12-month period for overseas consolidated subsidiaries

(% figures for the full-term are rates of change in comparison to 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
Full-term (12 months)	45,500	3.2	4,700	2.1	4,800	1.1	3,500	5.8	153.12

#### Forecast of Consolidated Operating Results by Segment for Fiscal 2018 (Full-term)

	Orders-Received (Million Yen)	Net Sales (Million Yen)	Operating Income (Million Yen)
Equipment Business	38,200	37,800	4,150
Service Business	6,600	6,500	550
Other Business	1,400	1,400	0
Elimination	(200)	(200)	0
Total	46,000	45,500	4,700

#### (5) Basic Policy on Profit Distributions and Dividends for Fiscal 2017 and Fiscal 2018

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 ¥38 per share, including a commemorative dividend of ¥1 per share. Together with the payment of an interim dividend of ¥20 per share, which includes a commemorative dividend of ¥1 per share, the Company will pay an annual dividend of ¥58 per share for fiscal 2017. For fiscal 2018, current projections are for an annual dividend of ¥62 per share, including an interim dividend of ¥22 per share.

#### 2. Basic Stance on the Selection of Accounting Standards

The Group plans to adopt the International Financial Reporting Standards from the first quarter of the fiscal year ending March 31, 2021 for the purpose of improving international comparability of financial information in capital markets and unifying the accounting standards of the Group.



### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

(Million Yen)

	As of March 31, 2017	As of March 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	9,654	11,079
Notes and accounts receivable - trade	15,123	16,471
Electronically recorded monetary claims – operating	1,564	2,551
Securities	1,901	2,901
Merchandise and finished goods	623	946
Work in process	1,826	1,473
Raw materials and supplies	1,862	1,937
Deferred tax assets	402	443
Other	1,757	1,953
Allowance for doubtful accounts	(21)	(64)
Total current assets	34,694	39,695
Non-current assets		
Property, plant and equipment		
Buildings and structures	10,190	10,307
Accumulated depreciation	(6,606)	(6,822)
Buildings and structures, net	3,584	3,485
Machinery, equipment and vehicles	2,261	2,290
Accumulated depreciation	(1,460)	(1,542)
Machinery, equipment and vehicles, net	801	748
Tools, furniture and fixtures	4,156	4,220
Accumulated depreciation	(3,237)	(3,298)
Tools, furniture and fixtures, net	919	921
Land	4,455	4,449
Leased assets	64	133
Accumulated depreciation	(23)	(21)
Leased assets, net	40	111
Construction in progress	25	10
Total property, plant and equipment	9,827	9,727
Intangible assets		
Goodwill	614	530
Other	346	315
Total intangible assets	961	845
Investments and other assets		
Investment securities	2,741	3,518
Net defined benefit asset	47	130
Deferred tax assets	251	136
Other	552	575
Allowance for doubtful accounts	(33)	(40)
Total investments and other assets	3,560	4,320
Total non-current assets	14,349	14,893
<b>Total assets</b>	<b>49,044</b>	<b>54,588</b>

(Million Yen)

	As of March 31, 2017	As of March 31, 2018
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	2,591	2,800
Electronically recorded obligations - operating	3,694	4,269
Income taxes payable	382	945
Provision for bonuses	383	413
Provision for directors' bonuses	13	12
Provision for product warranties	255	250
Provision for loss on order received	1	1
Asset retirement obligations	123	123
Other	2,817	3,726
Total current liabilities	10,263	12,544
Non-current liabilities		
Deferred tax liabilities	460	736
Net defined benefit liability	53	60
Provision for directors' retirement benefits	12	12
Asset retirement obligations	13	14
Deferred tax liabilities for land revaluation	535	534
Other	655	741
Total non-current liabilities	1,731	2,100
Total liabilities	11,994	14,644
Net assets		
Shareholders' equity		
Capital stock	6,895	6,895
Capital surplus	6,914	6,914
Retained earnings	23,873	26,174
Treasury shares	(994)	(992)
Total shareholders' equity	36,689	38,992
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,079	1,615
Revaluation reserve for land	(661)	(662)
Foreign currency translation adjustment	120	131
Remeasurements of defined benefit plans	(179)	(133)
Total accumulated other comprehensive income	359	951
Total net assets	37,049	39,943
Total liabilities and net assets	49,044	54,588

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

## Consolidated Statements of Income

(Million Yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net sales	39,507	44,069
Cost of sales	26,059	28,487
Gross profit	13,447	15,581
Selling, general and administrative expenses		
Salaries and allowances	3,190	3,510
Research and development expenses	1,025	1,023
Provision for bonuses	112	121
Provision for product warranties	206	203
Commission fee	1,329	1,511
Provision for directors' bonuses	13	12
Amortization of goodwill	63	65
Other	4,262	4,530
Total selling, general and administrative expenses	10,204	10,979
Operating income	3,243	4,602
Non-operating income		
Interest income	16	19
Dividend income	87	90
Other	70	60
Total non-operating income	173	171
Non-operating expenses		
Interest expenses	0	0
Provision of allowance for doubtful accounts	5	6
Foreign exchange losses	204	1
Commission fee	9	10
Other	26	7
Total non-operating expenses	245	27
Ordinary income	3,171	4,746
Extraordinary income		
Gain on sales of non-current assets	3	7
Gain on sales of investment securities	—	0
Total extraordinary income	3	7
Extraordinary losses		
Loss on retirement of non-current assets	21	4
Loss on sales of investment securities	6	—
Impairment loss	1	1
Other	0	0
Total extraordinary losses	30	7
Income before income taxes	3,144	4,746
Income taxes - current	870	1,378
Income taxes - deferred	40	59
Total income taxes	911	1,437
Profit	2,233	3,308
Profit attributable to owners of parent	2,233	3,308

## Consolidated Statements of Comprehensive Income

(Million Yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit	2,233	3,308
Other comprehensive income		
Valuation difference on available-for-sale securities	256	535
Foreign currency translation adjustment	(412)	10
Remeasurements of defined benefit plans, net of tax	44	46
Total other comprehensive income	(111)	592
Comprehensive income	2,121	3,901
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,121	3,901

## (3) Consolidated Statements of Changes in Net Assets

Year Ended March 31, 2017

(Million Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained	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
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					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
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

Year Ended March 31, 2018

(Million Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,895	6,914	23,873	(994)	36,689
Changes of items during period					
Dividends of surplus			(1,005)		(1,005)
Profit attributable to owners of parent			3,308		3,308
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares				3	3
Other			(2)		(2)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	2,300	1	2,302
Balance at end of current period	6,895	6,914	26,174	(992)	38,992

	Accumulated other comprehensive income					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	1,079	(661)	120	(179)	359	37,049
Changes of items during period						
Dividends of surplus						(1,005)
Profit attributable to owners of parent						3,308
Purchase of treasury shares						(1)
Disposal of treasury shares						3
Other						(2)
Net changes of items other than shareholders' equity	535	(1)	10	46	591	591
Total changes of items during period	535	(1)	10	46	591	2,894
Balance at end of current period	1,615	(662)	131	(133)	951	39,943

## (4) Consolidated Statements of Cash Flows

(Million Yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
<b>Cash flows from operating activities</b>		
Profit before income taxes	3,144	4,746
Depreciation	795	817
Impairment loss	1	1
Amortization of goodwill	63	65
Increase (decrease) in allowance for doubtful accounts	(15)	48
Increase (decrease) in provision for directors' bonuses	3	(0)
Increase (decrease) in net defined benefit liability	(1)	5
Interest and dividend income	(103)	(110)
Interest expenses	0	0
Decrease (increase) in notes and accounts receivable - trade	88	(2,259)
Decrease (increase) in inventories	(218)	(207)
Increase (decrease) in notes and accounts payable - trade	(356)	722
Other, net	363	803
<b>Subtotal</b>	<b>3,765</b>	<b>4,633</b>
Interest and dividend income received	113	118
Interest expenses paid	(0)	(0)
Income taxes (paid) refund	(1,086)	(785)
<b>Net cash provided by (used in) operating activities</b>	<b>2,792</b>	<b>3,965</b>
<b>Cash flows from investing activities</b>		
Net decrease (increase) in time deposits	1	(16)
Net decrease (increase) in trust beneficiary right	(126)	(87)
Net decrease (increase) in short-term investment securities	300	300
Purchase of property, plant and equipment and intangible assets	(394)	(499)
Proceeds from sales of property, plant and equipment and intangible assets	7	32
Proceeds from sales and redemption of investment securities	8	1
Payments of loans receivable	(1)	—
Collection of loans receivable	26	1
<b>Net cash provided by (used in) investing activities</b>	<b>(178)</b>	<b>(269)</b>
<b>Cash flows from financing activities</b>		
Repayments of long-term loans payable	(86)	—
Cash dividends paid	(798)	(1,002)
Purchase of treasury shares	(0)	(1)
Proceeds from disposal of treasury shares	106	3
Other, net	(8)	(18)
<b>Net cash provided by (used in) financing activities</b>	<b>(787)</b>	<b>(1,019)</b>
Effect of exchange rate change on cash and cash equivalents	(168)	31
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,657</b>	<b>2,709</b>
Cash and cash equivalents at beginning of period	9,596	11,254
Cash and cash equivalents at end of period	11,254	13,963

(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: 10

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

(Note)

On January 1, 2018, QUALMARK CORPORATION was dissolved in an absorption-type merger with ESPEC NORTH AMERICA, INC. as 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 ENVIRONMENTAL EQUIPMENT (SHANGHAI) CO., LTD., ESPEC TEST TECHNOLOGY (SHANGHAI) CO., LTD. ESPEC TEST EQUIPMENT (GUANGDONG) CO., LTD., ESPEC (CHINA) LIMITED, 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)

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

With the passing of the US Tax Cuts and Jobs Act on December 22, 2017, the corporate income tax rate in the US was lowered from 35% to 21% from January 1, 2018, among other changes. For the fiscal year under review, this revision will result in decreases in deferred tax assets under current assets of ¥19 million, deferred tax assets under non-current assets of ¥59 million, and deferred tax liabilities under non-current liabilities of ¥48 million, as well as an increase in income taxes-deferred of ¥30 million.

(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, 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 ¥13,303 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, 2017 ~ March 31, 2018)

(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	36,580	6,115	1,373	44,069	—	44,069
(2) Internal Sales or Transfers between Segments	22	177	1	201	(201)	—
Total	36,602	6,292	1,375	44,271	(201)	44,069
Segment Income (Loss)	4,092	524	(15)	4,602	0	4,602
Segment Assets	31,301	5,938	1,071	38,311	16,277	54,588
Other						
Depreciation Expenses	550	255	5	811	—	811
Amortization of goodwill	65	—	—	65	—	65
Increases in Property, Plant and Equipment and Intangible Assets	350	331	29	712	35	748

(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 ¥16,343 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, 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	U.S.	China	Others in Asia	Others	Total
22,843	3,780	6,010	4,733	2,138	39,507

(2) Property, plant and equipment

(Million Yen)

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

This consolidated fiscal year (April 1, 2017 to March 31, 2018)

1. Information by product and service

(Million Yen)

	Equipment Business	Service Business	Other Business	Total
Sales to third parties	36,580	6,115	1,373	44,069

2. Information by region

(1) Net sales

(Million Yen)

Japan	U.S.	China	Others in Asia	Others	Total
24,581	4,699	6,863	5,299	2,625	44,069

(2) Property, plant and equipment

(Million Yen)

Japan	U.S.	China	Others in Asia	Total
7,758	1,144	654	170	9,727

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

Previous 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

This consolidated fiscal year (April 1, 2017 to March 31, 2018)

(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, 2016 to March 31, 2017)

(Million Yen)

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

This consolidated fiscal year (April 1, 2017 to March 31, 2018)

(Million Yen)

	Equipment Business	Service Business	Other Business	Corporate and Elimination	Total
Amortization	65	—	—	—	65
Unamortized Balance	530	—	—	—	530

Information on gain on negative goodwill by reportable segment

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

No items to report

This consolidated fiscal year (April 1, 2017 to March 31, 2018)

No items to report

## (Per-Share Information)

FY2016 (From April 1, 2016 to March 31, 2017)		FY2017 (From April 1, 2017 to March 31, 2018)	
	Yen		Yen
Net Assets Per Share	1,621.00	Net Assets Per Share	1,747.46
Net Income Per Share	97.85	Net Income Per Share	144.76
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 2,600 shares.

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

	FY2016 (From April 1, 2016 to March 31, 2017)	FY2017 (From April 1, 2017 to March 31, 2018)
Net income per share		
Profit attributable to owners of parent (Million Yen)	2,233	3,308
Net income available to minority interests (Million Yen)	—	—
Profit attributable to owners of parent available to common shares (Million Yen)	2,233	3,308
Weighted-average number of common shares outstanding for the period (Thousand Shares)	22,820	22,858
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 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 38,316 shares.

## (Material Subsequent Events)

Not applicable.