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May 14, 2021

Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (Under Japanese GAAP)

Company name: ESPEC CORP.
 Listing: Tokyo, Stock Exchange, First section
 Securities code: 6859
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 Scheduled date of annual general meeting of shareholders: June 23, 2021
 Scheduled date to commence dividend payments: June 24, 2021
 Scheduled date to file annual securities report: June 24, 2021
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (An on-demand video of the presentation meeting is scheduled to be posted on the Company's website.)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2021	38,668	(8.9)	2,572	(31.3)	2,840	(27.8)	1,961	(30.4)
March 31, 2020	42,443	-	3,742	-	3,933	-	2,818	-

Note: Comprehensive income For the fiscal year ended March 31, 2021: ¥3,271million [48.8 %]
 For the fiscal year ended March 31, 2020: ¥2,199million [- %]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
March 31, 2021	85.79	-	4.5	4.9	6.7
March 31, 2020	123.26	-	6.6	6.9	8.8

Reference: Share of profit (loss) of entities accounted for using equity method

For the fiscal year ended March 31, 2021 ¥ - million

For the fiscal year ended March 31, 2020 ¥ - million

Note: Rates of change in comparison to the previous fiscal year are omitted because the year ended March 31, 2019 was an irregular 15-month period due to a change in the fiscal year-end at overseas consolidated subsidiaries.

(2) Consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2021	58,607	44,984	76.8	1,967.34
March 31, 2020	57,461	42,731	74.4	1,868.77

Reference: Equity

As of March 31, 2021 ¥ 44,984 million

As of March 31, 2020 ¥ 42,731 million

(3) Consolidated cash flows

Fiscal year ended	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2021	3,041	(2,034)	(1,503)	17,301
March 31, 2020	4,870	(1,942)	(931)	16,779

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2020	-	22.00	-	46.00	68.00	1,567	55.2	3.7
Fiscal year ended March 31, 2021	-	10.00	-	41.00	51.00	1,175	59.4	2.7
Fiscal year ending March 31, 2022 (Forecast)	-	18.00	-	42.00	60.00		57.2	

Note: The year-end dividend for the year ended March 31, 2021 was revised from ¥38 per share to ¥41. For further details, please refer to "Notice of Differences between Consolidated Financial Forecast Figures and Financial Results for Fiscal 2020 and Resolution of Dividend of Surplus" announced on May 14, 2021.

3. Forecasts of consolidated operating results for fiscal 2021, ending March 31, 2022 (From April 1, 2021 to March 31, 2022)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending September 30, 2021	18,500	7.0	1,200	63.5	1,250	49.8	750	51.7	32.80
March 31, 2022	41,000	6.0	3,300	28.3	3,400	19.7	2,400	22.3	104.96

Note: With regard to the forecast of consolidated operating results for the fiscal year ending March 31, 2022, the final year of the medium term management plan, initial targets were net sales of ¥52 billion, operating profit of ¥5.2 billion, and operating profit to net sales of 10%, but they have been revised as described.

* Notes

(1) Changes in significant subsidiaries during the period

(changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: (Company name:)

Excluded: (Company name:)

(2) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement: None

(3) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2021	23,781,394 shares
As of March 31, 2020	23,781,394 shares

2) Number of treasury shares at the end of the period

As of March 31, 2021	915,593 shares
As of March 31, 2020	915,230 shares

3) Average number of shares outstanding during the period

As of March 31, 2021	22,865,944 shares
As of March 31, 2020	22,864,168 shares

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

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 2021" on p. 5.

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1. Summary of Business Results

(1) Overview of Fiscal 2020 Operating Results

1) Operating Results for Fiscal 2020

During fiscal 2020, the year ended March 31, 2021, the Japanese economy drastically worsened as economic activity came to a standstill due to the global spread of COVID-19, but economic activities, primarily in China, continued to normalize, and a moderate recovery was achieved. However, there are concerns about the worsening of U.S.-China friction and a resurgence of COVID-19, so the future remains uncertain.

Among the Company's main customers, investment related to digitalization was strong, and trends toward resuming some investments was seen from the third quarter onward in automotive-related and other markets as well.

With restrictions such as limitations on movement in place, the Company's initiatives included advancing online sales and strengthening activities centered on markets related to 5G and IoT and automated driving and electrification.

As a result, in the consolidated results for fiscal 2020, orders-received decreased 13.8% year on year to ¥37,580 million and net sales decreased 8.9% to ¥38,668 million. On the earnings front, decreased net sales saw operating income fall 31.3% to ¥2,572 million and profit attributable to owners of parent decreased 30.4% to ¥1,961 million.

	Year Ended March 31, 2020 (Millions of yen)	Year Ended March 31, 2021 (Millions of yen)	Change (%)
Orders-Received	43,571	37,580	(13.8)
Net sales	42,443	38,668	(8.9)
Operating profit	3,742	2,572	(31.3)
Ordinary profit	3,933	2,840	(27.8)
Profit attributable to owners of parent	2,818	1,961	(30.4)

2) Performance by Segment

Consolidated results by operating segment for fiscal 2020

	Orders-Received (Millions of yen)	Net sales (Millions of yen)	Operating profit (Millions of yen)
Equipment Business	30,775	30,669	2,062
Service Business	6,153	6,063	446
Other Business	976	2,241	60
Elimination	(304)	(305)	3
Total	37,580	38,668	2,572

<Equipment Business>

In the environmental test chambers field, in Japan, orders-received and net sales both decreased year on year for versatile standardized products and customized products. In overseas markets, net sales increased year on year in China and Southeast Asia, but decreased in Europe, the U.S., South Korea and Taiwan.

In the energy devices equipment field, orders-received and net sales both decreased year on year due to sluggish sales of evaluation systems for secondary batteries and fuel cells.

In the semiconductor equipment field, investment, mainly related to memory, continued to increase, but orders-received declined year on year. Net sales increased, mainly due to recording sales of large-scale projects ordered in the previous fourth quarter.

As a result, the Equipment Business on the whole saw orders-received decrease 11.3% to ¥30,755 million and net sales decrease 10.7% to ¥30,669 million, compared to the last year. Operating income decreased 32.2% year on year to ¥2,062 million due to decreased net sales

	Year Ended March 31, 2020 (Millions of yen)	Year Ended March 31, 2021 (Millions of yen)	Change (%)
Orders-Received	34,682	30,755	(11.3)
Net sales	34,361	30,669	(10.7)
Operating profit	3,041	2,062	(32.2)

< Service Business >

In the after-sales service and engineering field, business activities were restricted in the first quarter but recovered from the second quarter onwards, and both orders-received and net sales remained level year on year.

In commissioned tests and facility rentals, orders-received and net sales both decreased year on year due mainly to sluggish market conditions of commissioned tests.

As a result, the Service Business on the whole saw orders-received decrease 3.5% year on year to ¥6,153 million and net sales decrease 6.1% to ¥6,063 million. On the earnings front, operating income decreased 30.9% year on year to ¥446 million due to a decrease in net sales and deteriorating cost ratio.

	Year Ended March 31, 2020 (Millions of yen)	Year Ended March 31, 2021 (Millions of yen)	Change (%)
Orders-Received	6,378	6,153	(3.5)
Net sales	6,459	6,063	(6.1)
Operating profit	646	446	(30.9)

<Other Business>

In the Other Business, which is centered on the environmental preservation and plant factory businesses, forest creation activities decreased due to the cancellations and postponements of events, such as planting festivals, and alongside this, plant factory results were sluggish. Orders-received declined 64.0% to ¥976 million year on year due to receipt of a large-scale order for a plant factory in the previous fiscal year. Net sales increased 22.4% to ¥2,241 million due to recording the aforementioned large-scale plant factory project, while operating profit rose 22.4% to ¥60 million.

	Year Ended March 31, 2020 (Millions of yen)	Year Ended March 31, 2021 (Millions of yen)	Change (%)
Orders-Received	2,715	976	(64.0)
Net sales	1,831	2,241	22.4
Operating profit	49	60	22.4

(2) Overview of Fiscal 2020 Consolidated Financial Situation

Total assets at the end of the fiscal year consolidated accounting period were ¥58,607 million, an increase of ¥1,146 million over the end of the previous consolidated fiscal year. Major factors included a decrease of ¥1,477 million in trade receivables due to the decline in net sales, an increase of ¥736 million in property, plant and equipment due to capital investment, and an increase of ¥1,564 million in investments and other assets.

Liabilities were ¥13,623 million, a decrease of ¥1,106 million against the end of the previous consolidated fiscal year. Major factors included a decrease of ¥542 million resulting from payment of trade payables (notes and accounts payable – trade and electronically recorded obligations – operating), an increase of ¥408 million in deferred tax liabilities (non-current), a decrease of ¥1,421 million in other current liabilities, and an increase of ¥449 million in other non-current liabilities.

Net assets were ¥44,984 million, an increase of ¥2,253 million against the end of the previous fiscal year. Major factors included an increase of ¥972 million in retained earnings resulting from ¥1,290 million in dividends of surplus, despite the recording of ¥1,961 million in profit attributable to owners of parent in the fiscal 2020, an increase of ¥570 million in valuation difference on available-for-sale securities, and an increase of ¥550 million in foreign currency translation adjustment.

As a result, the equity-to-asset ratio stood at 76.8%, an increase of 2.4 points from the end of the previous fiscal year.

(3) Overview of Fiscal 2020 Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the fiscal year under review were ¥17,301 million, an increase of ¥522 million from the previous fiscal year-end. This was mainly the result of net cash provided by operating activities of ¥3,041 million, net cash used in investing activities of ¥2,034 million, net cash used in financing activities of ¥1,503 million, an increase in effect of exchange rate change on cash and cash equivalents of ¥277 million, and an increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation of ¥740 million.

The status of each cash flow and the factors behind that for the fiscal 2020 are as follows.

Net cash provided by operating activities was ¥3,041 million, compared with net cash provided of ¥4,870 million in the previous fiscal year. The main sources of cash were profit before income taxes of ¥2,840 million and a decrease in notes and accounts receivable – trade of ¥2,661 million, while the main cash outflow was a decrease in trade payables of ¥2,000 million.

Net cash used in investing activities was ¥2,034 million, compared with net cash used of ¥1,942 million in the previous fiscal year. This was mainly due to a purchase of property, plant and equipment and intangible assets of ¥1,171 million.

Net cash used in financing activities was ¥1,503 million, compared with net cash used of ¥931 million in the previous fiscal year. This was mainly due to cash dividends paid of ¥1,288 million.

(4) Outlook for Fiscal 2021

ESPEC CORP. has formulated "ESPEC Vision 2025," a long-term business vision that aims to enable the Company to continue to grow in the years ahead, and it is currently advancing "Progressive Plan 2021," its medium-term management plan forming Stage II of this vision. However, achieving the plan's initial results targets has become difficult with the slowdown of the global economy caused by the COVID-19 pandemic. Therefore, the Company has revised the results targets for fiscal 2021, the plan's final fiscal year. The medium-term management plan's initial targets for fiscal 2021 were net sales of ¥52 billion, operating profit of ¥5.2 billion, and operating profit to net sales of 10%, but they have been revised to net sales of ¥41 billion, operating profit of ¥3.3 billion, and operating profit to net sales of 8%. Furthermore, the target for profit attributable to owners of parent is ¥2.4 billion. Presently, there is no end in sight to the COVID-19 pandemic and conditions in the future remain unclear, but the Company has positioned markets related to digitalization, including rapidly advancing 5G and IoT, and automated driving and electrification of vehicles as growth fields, and is strengthening measures for these fields.

Forecasts of consolidated operating results for fiscal 2021, ending March 31, 2022

(Percentages indicate year-on-year changes.)

Fiscal year ending	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
September 30, 2021	18,500	7.0	1,200	63.5	1,250	49.8	750	51.7	32.80
March 31, 2022	41,000	6.0	3,300	28.3	3,400	19.7	2,400	22.3	104.96

Forecasts of consolidated operating results by segment for fiscal 2021 (Full-term)

	Orders-Received (Millions of yen)	Net sales (Millions of yen)	Operating profit (Millions of yen)
Equipment Business	35,000	33,400	2,820
Service Business	6,500	6,300	450
Other Business	1,800	1,600	30
Elimination	(300)	(300)	0
Total	43,000	41,000	3,300

* There are marked seasonal fluctuations in the Group's performance based on quarterly sales because of a strong trend towards contractual deliveries occurring in the second and fourth quarters as a result of customers' budget implementation.

(5) Basic Policy on Profit Distributions and Dividends for Fiscal 2020 and Fiscal 2021

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 ¥41 per share. Together with the payment of an interim dividend of ¥10 per share, the Company will pay an annual dividend of ¥51 per share for fiscal 2020.

For fiscal 2021, current projections are for an annual dividend of ¥60 per share, including an interim dividend of ¥18 per share.

2. Basic Stance on the Selection of Accounting Standards

The Company's policy is to create consolidated financial statements in accordance with Japanese standards, in consideration of enabling comparisons of fiscal periods for the consolidated financial statements and enabling comparisons with other companies, and also on taking into account that many of its stakeholders are shareholders and creditors within Japan. The Company intends to consider the adoption of international accounting standards in light of factors such as trends in the adoption of international accounting standards by peer companies in the same industry in Japan, and changes in the composition of foreign shareholders in those companies.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and deposits	13,378	13,398
Notes and accounts receivable - trade	14,808	13,708
Electronically recorded monetary claims - operating	2,595	2,217
Securities	3,402	3,902
Merchandise and finished goods	1,172	1,563
Work in process	1,768	1,745
Raw materials and supplies	2,140	2,053
Other	2,197	1,640
Allowance for doubtful accounts	(35)	(47)
Total current assets	41,428	40,182
Non-current assets		
Property, plant and equipment		
Buildings and structures	10,661	12,276
Accumulated depreciation	(7,151)	(7,406)
Buildings and structures, net	3,509	4,869
Machinery, equipment and vehicles	2,575	2,777
Accumulated depreciation	(1,731)	(1,882)
Machinery, equipment and vehicles, net	843	895
Tools, furniture and fixtures	4,858	5,131
Accumulated depreciation	(3,659)	(3,818)
Tools, furniture and fixtures, net	1,199	1,312
Land	4,443	4,601
Leased assets	169	826
Accumulated depreciation	(87)	(157)
Leased assets, net	82	669
Construction in progress	1,552	20
Total property, plant and equipment	11,631	12,368
Intangible assets		
Goodwill	382	324
Other	314	463
Total intangible assets	696	787
Investments and other assets		
Investment securities	2,916	3,697
Retirement benefit asset	163	406
Deferred tax assets	124	117
Other	533	1,081
Allowance for doubtful accounts	(33)	(33)
Total investments and other assets	3,704	5,269
Total non-current assets	16,032	18,424
Total assets	57,461	58,607

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,651	2,745
Electronically recorded obligations - operating	4,120	3,484
Short-term borrowings	230	146
Current portion of long-term borrowings	73	74
Income taxes payable	311	356
Provision for bonuses	400	408
Provision for bonuses for directors (and other officers)	17	18
Provision for share awards for directors (and other officers)	—	15
Provision for product warranties	212	181
Provision for loss on order received	2	4
Other	4,755	3,333
Total current liabilities	12,775	10,769
Non-current liabilities		
Long-term borrowings	368	318
Deferred tax liabilities	180	588
Retirement benefit liability	56	67
Provision for share awards for directors (and other officers)	79	152
Provision for retirement benefits for directors (and other officers)	4	4
Asset retirement obligations	14	22
Deferred tax liabilities for land revaluation	534	534
Other	715	1,164
Total non-current liabilities	1,953	2,853
Total liabilities	14,729	13,623
Net assets		
Shareholders' equity		
Share capital	6,895	6,895
Capital surplus	7,120	7,120
Retained earnings	30,325	31,297
Treasury shares	(1,180)	(1,181)
Total shareholders' equity	43,160	44,132
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	930	1,501
Revaluation reserve for land	(662)	(663)
Foreign currency translation adjustment	(535)	15
Remeasurements of defined benefit plans	(161)	(0)
Total accumulated other comprehensive income	(428)	852
Total net assets	42,731	44,984
Total liabilities and net assets	57,461	58,607

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

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net sales	42,443	38,668
Cost of sales	27,724	25,255
Gross profit	14,719	13,412
Selling, general and administrative expenses		
Salaries and allowances	3,429	3,440
Research and development expenses	1,169	1,302
Provision for bonuses	121	129
Provision for product warranties	150	128
Provision for share awards for directors (and other officers)	28	75
Commission expenses	1,377	1,255
Provision for bonuses for directors (and other officers)	17	18
Amortization of goodwill	63	62
Other	4,619	4,427
Total selling, general and administrative expenses	10,976	10,839
Operating profit	3,742	2,572
Non-operating income		
Interest income	22	17
Dividend income	153	81
Subsidy income	36	25
Foreign exchange gains	—	120
Reversal of allowance for doubtful accounts	44	—
Other	47	71
Total non-operating income	304	316
Non-operating expenses		
Interest expenses	10	26
Loss on investments in investment partnerships	—	7
Provision of allowance for doubtful accounts	0	—
Foreign exchange losses	84	—
Commission expenses	9	8
Other	8	5
Total non-operating expenses	113	48
Ordinary profit	3,933	2,840
Extraordinary income		
Gain on sale of non-current assets	—	7
Gain on sale of investment securities	—	9
Total extraordinary income	—	17
Extraordinary losses		
Loss on retirement of non-current assets	10	15
Loss on sale of non-current assets	2	0
Loss on sale of investment securities	—	0
Impairment losses	—	1
Total extraordinary losses	13	17
Profit before income taxes	3,920	2,840
Income taxes - current	1,016	896
Income taxes - deferred	85	(17)
Total income taxes	1,102	878
Profit	2,818	1,961
Profit attributable to owners of parent	2,818	1,961

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit	2,818	1,961
Other comprehensive income		
Valuation difference on available-for-sale securities	(192)	570
Foreign currency translation adjustment	(379)	578
Remeasurements of defined benefit plans, net of tax	(46)	160
Total other comprehensive income	(619)	1,309
Comprehensive income	2,199	3,271
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,199	3,271

(3) Consolidated Statements of Changes in Net Assets

Year Ended March 31, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,895	7,120	29,080	(1,198)	41,898
Changes of items during period					
Dividends of surplus			(1,567)		(1,567)
Profit attributable to owners of parent			2,818		2,818
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				18	18
Change in scope of consolidation					—
Other			(6)		(6)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	1,244	17	1,262
Balance at end of current period	6,895	7,120	30,325	(1,180)	43,160

	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	1,123	(662)	(155)	(115)	190	42,088
Changes of items during period						
Dividends of surplus						(1,567)
Profit attributable to owners of parent						2,818
Purchase of treasury shares						(0)
Disposal of treasury shares						18
Change in scope of consolidation						—
Other						(6)
Net changes of items other than shareholders' equity	(192)	—	(379)	(46)	(619)	(619)
Total changes of items during period	(192)	—	(379)	(46)	(619)	643
Balance at end of current period	930	(662)	(535)	(161)	(428)	42,731

Year Ended March 31, 2021

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,895	7,120	30,325	(1,180)	43,160
Changes of items during period					
Dividends of surplus			(1,290)		(1,290)
Profit attributable to owners of parent			1,961		1,961
Purchase of treasury shares				(0)	(0)
Change in scope of consolidation			300		300
Other			0		0
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	972	(0)	971
Balance at end of current period	6,895	7,120	31,297	(1,181)	44,132

	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	930	(662)	(535)	(161)	(428)	42,731
Changes of items during Period						
Dividends of surplus						(1,290)
Profit attributable to owners of parent						1,961
Purchase of treasury shares						(0)
Change in scope of consolidation						300
Other						0
Net changes of items other than shareholders' equity	570	(0)	550	160	1,281	1,281
Total changes of items during period	570	(0)	550	160	1,281	2,253
Balance at end of current period	1,501	(663)	15	(0)	852	44,984

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities		
Profit before income taxes	3,920	2,840
Depreciation	912	1,061
Impairment losses	—	1
Amortization of goodwill	63	62
Increase (decrease) in allowance for doubtful accounts	(50)	7
Increase (decrease) in provision for bonuses for directors (and other officers)	3	0
Increase (decrease) in provision for share awards for directors (and other officers)	24	89
Increase (decrease) in retirement benefit liability	(5)	9
Interest and dividend income	(175)	(99)
Interest expenses	10	26
Decrease (increase) in trade receivables	3,381	2,661
Decrease (increase) in inventories	(645)	(299)
Increase (decrease) in trade payables	(778)	(2,000)
Other, net	(489)	(554)
Subtotal	6,172	3,806
Interest and dividends received	197	98
Interest paid	(8)	(26)
Income taxes refund (paid)	(1,490)	(836)
Net cash provided by (used in) operating activities	4,870	3,041
Cash flows from investing activities		
Net decrease (increase) in trust beneficiary right	101	315
Purchase of property, plant and equipment and intangible assets	(1,765)	(1,711)
Proceeds from sale of property, plant and equipment and intangible assets	1	10
Purchase of investment securities	(280)	(70)
Proceeds from sale and redemption of investment securities	0	14
Payments for investments in capital	—	(593)
Loan advances	(0)	—
Proceeds from collection of loans receivable	0	0
Net cash provided by (used in) investing activities	(1,942)	(2,034)
Cash flows from financing activities		
Dividends paid	(1,562)	(1,288)
Net increase (decrease) in short-term borrowings	234	(99)
Proceeds from long-term borrowings	471	—
Repayments of long-term borrowings	(30)	(53)
Purchase of treasury shares	(0)	(0)
Proceeds from disposal of treasury shares	0	—
Other, net	(44)	(60)
Net cash provided by (used in) financing activities	(931)	(1,503)
Effect of exchange rate change on cash and cash equivalents	(146)	277
Net increase (decrease) in cash and cash equivalents	1,850	(218)
Cash and cash equivalents at beginning of period	14,929	16,779
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	740
Cash and cash equivalents at end of period	16,779	17,301

(5) Notes to the Consolidated Financial Statements

(Notes on the assumption of a going concern)

Not applicable.

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

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 12

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

Note: From fiscal 2020, ESPEC ENGINEERING (THAILAND) CO., LTD. and ESPEC EUROPE GmbH have been included in the scope of consolidation, because their degree of importance has increased.

(2) Name of main non-consolidated subsidiary:

ESPEC ENGINEERING VIETNAM CO., LTD.

(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 ENGINEERING VIETNAM CO., LTD. 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 SHANGHAI ESPEC ENVIRONMENTAL EQUIPMENT CORP., ESPEC ENVIRONMENTAL EQUIPMENT (SHANGHAI) CO., LTD., ESPEC TEST TECHNOLOGY (SHANGHAI) CO., LTD., ESPEC TEST EQUIPMENT (GUANGDONG) CO., LTD., and ESPEC (CHINA) LIMITED are December 31. These subsidiaries are included in the scope of consolidation based on a provisional financial closing of accounts on March 31, the consolidated closing date.

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 15-50 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.

7) Executive share benefit reserve

The Company posted provision for delivery of shares based on the estimated amount of the share-benefit obligation at the end of the fiscal year under review in preparation for providing Company shares to the Directors, etc.

(Additional Information)

(Performance-linked share-based remuneration system)

Since August 2018, the Company has introduced a performance-linked share-based remuneration system (hereinafter referred to as "the System"), for the Company's Directors (excluding Outside Directors) and Executive Officers (hereinafter, Directors other than Outside Directors and Executive Officers who do not concurrently serve as Directors are collectively referred to as "Directors, etc.").

The System is a performance-linked, share-based remuneration system under which the Company shares are acquired through a trust (hereinafter, referred to as "the Trust") using funds contributed by the Company, and the Directors, etc. are provided with the Company shares and money equivalent to the market value of the Company shares (hereinafter referred to as "the Company shares, etc.") through the Trust in accordance with the Regulations for Delivery of Shares to Officers stipulated by the Company.

Regarding the accounting procedure for the System, the Company applies the gross method whereby the Trust's assets, liabilities, and profit and loss are included in the Company's consolidated financial statements. Moreover, the Company posted provision for delivery of shares to officers based on the estimated amount of the share-benefit obligation at the end of fiscal 2020 in preparation for providing Company shares to the Directors, etc. in accordance with the Regulations for Delivery of Shares to Officers. The following shows the book value and the number of treasury stocks held.

	Previous consolidated fiscal year March 31, 2020	This consolidated fiscal year March 31, 2021
Book value of treasury stocks	1,180 Millions of yen	1,181 Millions of yen
Book value of treasury stocks held by the company	786 Millions of yen	787 Millions of yen
Book value of treasury stocks held by the Trust	393 Millions of yen	393 Millions of yen
Number of treasury stocks	915,230 shares	915,593 shares
Number of treasury stocks held by Company	731,430 shares	731,793 shares
Number of treasury stocks held by the Trust	183,800 shares	183,800 shares

(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)

(Accounting estimate)

As a result of the impacts of the COVID-19 pandemic, requests for self-restraint regarding movement and travel restrictions continue to impose unavoidable limitations on the ESPEC Group's operating activities.

Consequently, accounting decisions are being made with the assumption that circumstances will gradually normalize from the next consolidated fiscal year.

As the impact of COVID-19 on economic activities remains highly uncertain, a change to the abovementioned assumptions may affect the Company's financial condition and business results in the future.

(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 and semiconductor equipment. The Service Business is engaged in after-sales service and engineering and commissioned tests and facility rentals. The Other Business is involved with environmental preservation and plant production systems.

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 (from April 1, 2019 to March 31, 2020)

(Millions of 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	34,341	6,272	1,829	42,443	—	42,443
(2) Internal sales or transfers between Segments	19	186	1	208	(208)	—
Total	34,361	6,459	1,831	42,652	(208)	42,443
Segment income	3,041	646	49	3,737	4	3,742
Segment assets	31,647	5,676	1,853	39,177	18,283	57,461
Other						
Depreciation expenses	610	269	12	891	—	891
Amortization of goodwill	63	—	—	63	—	63
Increases in property, plant and equipment and intangible assets	930	495	42	1,468	1,202	2,671

* 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 ¥18,386 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 profit stated in the consolidated statements of income.

This consolidated fiscal year (from April 1, 2020 to March 31, 2021)

(Millions of 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	30,649	5,778	2,239	38,668	—	38,668
(2) Internal sales or transfers between segments	19	284	1	305	(305)	—
Total	30,669	6,063	2,241	38,973	(305)	38,668
Segment Income	2,062	446	60	2,569	3	2,572
Segment Assets	34,772	5,797	1,034	41,604	17,003	58,607
Other						
Depreciation expenses	758	263	19	1,041	—	1,041
Amortization of goodwill	62	—	—	62	—	62
Increases in property, plant and equipment and intangible assets	796	274	7	1,078	101	1,179

* 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 ¥17,186 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 profit stated in the consolidated statements of income.

Related Information

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

1.Information by product and service

(Millions of yen)

	Equipment Business	Service Business	Other Business	Total
Sales to third parties	34,341	6,272	1,829	42,443

2.Information by region

(1) Net sales

(Millions of yen)

Japan	U.S.	China	Others in Asia	Others	Total
23,791	4,291	7,005	4,511	2,844	42,443

(2) Property, plant and equipment

(Millions of yen)

Japan	U.S.	China	Others in Asia	Total
9,365	1,480	656	128	11,631

This consolidated fiscal year (from April 1, 2020 to March 31, 2021)

1.Information by product and service

(Millions of yen)

	Equipment Business	Service Business	Other Business	Total
Sales to third parties	30,649	5,778	2,239	38,668

2.Information by region

(1) Net sales

(Millions of yen)

Japan	U.S.	China	Others in Asia	Others	Total
20,823	3,452	7,320	4,831	2,240	38,668

(2) Property, plant and equipment

(Millions of yen)

Japan	U.S.	China	Others in Asia	Others	Total
9,184	1,641	1,337	202	2	12,368

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

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

No items to report

This consolidated fiscal year (from April 1, 2020 to March 31, 2021)

(Millions of yen)

	Equipment Business	Service Business	Other Business	Corporate and elimination	Total
Impairment losses	—	—	—	1	1

Information on amortization of goodwill and unamortized balance by reportable segment

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

(Millions of yen)

	Equipment Business	Service Business	Other Business	Corporate and elimination	Total
Amortization	63	—	—	—	63
Unamortized balance	382	—	—	—	382

This consolidated fiscal year (from April 1, 2020 to March 31, 2021)

(Millions of yen)

	Equipment Business	Service Business	Other Business	Corporate and elimination	Total
Amortization	62	—	—	—	62
Unamortized balance	324	—	—	—	324

Information on gain on negative goodwill by reportable segment

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

No items to report

This consolidated fiscal year (from April 1, 2020 to March 31, 2021)

No items to report

(Per-Share Information)

FY2019 (from April 1, 2019 to March 31, 2020)		FY2020 (from April 1, 2020 to March 31, 2021)	
	Yen		Yen
Net assets per share	1,868.77	Net assets per share	1,967.34
Net income per share	123.26	Net income per share	85.79
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 set up by the Board Benefit Trust (BBT) are recognized as treasury stock in the Company's consolidated financial statements. Accordingly, the number of common shares used to calculate the amount of net assets per share in the consolidated fiscal year under review was calculated after deducting the relevant number of those shares. For the purpose of calculating net assets per share, the number of treasury shares at term end that was deducted was 183,800 in the previous fiscal year and 183,800 in the fiscal year under review.

Note: The basis of calculation for net income per share is as follows

	FY2019 (from April 1, 2019 to March 31, 2020)	FY2020 (from April 1, 2020 to March 31, 2021)
Net income per share		
Profit attributable to owners of parent (Millions of yen)	2,818	1,961
Net income available to minority interests (Millions of yen)	—	—
Profit attributable to owners of parent available to common shares (Millions of yen)	2,818	1,961
Weighted-average number of common shares outstanding for the period (Thousand Shares)	22,864	22,865
Dilutive shares omitted from the calculation of diluted net income per share, due to absence of a dilution effect.	—	—

* The Company's shares set up by the Board Benefit Trust (BBT) are recognized as treasury stock in the Company's consolidated financial statements. Accordingly, the number of common shares used to calculate the amount of net assets per share in the consolidated fiscal year under review was calculated after deducting the relevant number of those shares. For the purpose of calculating net income per share, the average number of treasury shares during the term that was deducted was 185,900 in the previous fiscal year and 183,800 in the fiscal year under review.

(Material Subsequent Events)

At a Board of Directors meeting held on March 9, 2021, it was resolved that the Company would acquire 80% of the issued shares of a company to be newly established (hereafter, ESPEC THERMAL TECH SYSTEM CORP. (planned)) through a company split in order for AMEFREC Co., Ltd. to succeed the manufacturing headquarters business, and that the newly established company would become a consolidated subsidiary of the Company. On April 12, 2021, the Company concluded a share transfer agreement with AMEFREC Co., Ltd.

(1) Outline of the corporate merger

1) Name and business description of the acquisition company

Name of the acquisition company (planned): ESPEC THERMAL TECH SYSTEM CORP.

Business description: Manufacture and sales of precision chillers and air conditioners, environmental testing equipment, and customized products (chillers and air conditioners)

2) Main reason for the corporate merger

By having ESPEC THERMAL TECH SYSTEM CORP. (planned), which possesses precision liquid temperature-control technologies and advanced customization technologies, join the Group, the aims are to expand business areas and further increase the added value provided by existing business areas.

3) Date of corporate merger (planned): July 20, 2021 (deemed acquisition date: July 1, 2021)

4) Legal form of corporate merger: Acquisition of shares

5) Company name after the corporate merger: No change.

6) Percentage of voting rights to be acquired: 80%

7) Main grounds for determining the acquisition company

The Company will acquire the shares in consideration of cash.

(2) Breakdown of the acquisition costs and types of compensation (planned)

<u>Compensation for the acquisition</u>	<u>Cash</u>	<u>¥1,280 million</u>
Acquisition cost		¥1,280 million

(3) Descriptions and amounts of the main acquisition-related costs

Not confirmed at the current time.

(4) Amount of goodwill generated, causes of generation, and amortization method and period

Not confirmed at the current time.

(5) Amounts of assets received and liabilities assumed on the day of the corporate merger and descriptions of the main items

Not confirmed at the current time.

(6) Effects on the consolidated results forecasts

The Company is currently investigating the effects of this acquisition on the fiscal 2021 consolidated results forecasts, and will disclose its findings when calculations are possible.