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Notice of the Formulation of Our “Progressive Plan 2013” Medium-term Management Plan

ESPEC CORP. announced today the formulation of its “Progressive Plan 2013” medium-term management plan covering fiscal 2011 ending March 31, 2012 through fiscal 2013 ending March 31, 2014. This plan had originally been scheduled for announcement at the beginning of May 2011, but was postponed due to the Great East Japan Earthquake of March 11 and a sharp appreciation in the yen’s exchange rate that followed.

The Company has now finished revising the plan, which is summarized below.

Description

In the wake of the bankruptcy of Lehman Brothers, the ESPEC Group rallied around a theme of “re-emphasizing the environmental testing business” to restructure operations and rationalize business under an executive management that was redirected to play defense. The Company is now prepared to move forward because, in its own judgment, the defensive initiatives from those efforts finished gaining traction in the year ended March 31, 2011.

The basic policy ESPEC will adopt under Progressive Plan 2013 views acceleration of the so-called “green innovation” movement as a prime business opportunity for reorienting executive management to play offence and pursue progressive tactics in business development. The plan will come into effect during fiscal 2011.

1. Basic Policy for the Medium Term

Green Innovation is a Prime Business Opportunity for Reorienting Our Executive Management to Play Offense

Realizing green innovation, or technological innovation to create and expand alternative energy, reduce CO₂ emissions and transition to a low-carbon society, has been a policy priority for nations in Europe, North America and Asia in recent years. They are working to accelerate development in this area. Furthermore, we perceive the development of new technology and increase in capital investment in green innovation as a prime mover that will lead to higher demand for our products. ESPEC’s executive management has resolved to aggressively seize this outstanding business opportunity.

2. Targets for Consolidated Revenues and Earnings

	Fiscal 2011	Fiscal 2012	Fiscal 2013
Net Sales	¥millions Over 31,500	¥millions Over 35,000	¥millions Over 40,000
Operating Income	Over 1,300	Over 2,500	Over 3,200
Operating Income Ratio	Over 4%	Over 7%	Over 8%

(Reference) Consolidated financial results for fiscal 2010:

Net sales ¥29,600million Operating income ¥1,400million (Operating income ratio 4.7%)

3. Medium-term Management Policies

Policy 1: Accelerate growth in the green technology market

Policy 2: Expand overseas business operations primarily in China and Asia

Policy 3: Cultivate Japanese markets in more depth to enhance profitability

Policy 4: Speed up management and business activities with function and process reforms

Policy 5: Nurture professional talent and empower employees with a sense of purpose and achievement by conducting management in step with the times and carrying out systemic reforms

4. Main Business Schemes Under the Medium-term Plan

(1) Accelerate growth in the green technology market

The first growth strategy under the plan is to expand business in the green technology market.

For ESPEC, the green technology market is comprised of the technology markets relating to rechargeable batteries, solar batteries and power semiconductors. This green technology market is at the growth and development stage, with solutions gradually being found for technological bottlenecks. This process will generate various needs and expanding business opportunities for ESPEC. Specific measures include the following.

- 1) ESPEC will bring together its core technologies effectively for the commercialization of highly original and unique industrial equipment and systems.
- 2) ESPEC will introduce evaluation equipment addressing advanced needs in the development and evaluation of green technology. The Company will also propose products that preempt customer needs in the manufacturing process and inspection field.
- 3) In these ways, ESPEC will raise its name recognition, invest in R&D and expand its business in the green technology market.

(2) Expand overseas business operations primarily in China and Asia

The second growth strategy under the plan is to expand overseas business operations, with China and Asia as the key markets. ESPEC will also take initiatives to strengthen manufacturing overseas as a measure for countering the yen's abrupt appreciation.

Specific initiatives include the following.

- 1) ESPEC will implement a new round of technology transfers to its overseas Group companies with manufacturing bases in China, the U.S. and South Korea. At the same time, the Company will integrate strategies and strengthen its R&D and manufacturing capabilities as a group.
- 2) Products addressing the needs of customers overseas will basically be developed in Japan for deployment at overseas Group companies.
- 3) ESPEC will establish a multidimensional product line combining cost-competitive

products from overseas Group companies with high-quality products from Japan that address new needs for reliability, precision performance and environmental specifications*¹. In parallel, the Company will also strengthen its sales capability and capture demand for the various industrial and testing needs that exist in the Asian market.

- 4) ESPEC will enhance the collaboration in sales and service among its Group companies in support of the global development of its customers.

(3) Cultivate Japanese markets in more depth to enhance profitability

Although the market for environmental testing in Japan has matured, it can nevertheless be capitalized as the bedrock to the Company's earnings base in supporting growth strategies over the next 10 years. Specific actions in this area include the following.

- 1) ESPEC will apply "high performance with high environmental specifications"*² as a shared concept in promoting model changes for its major products. In this way, the Company will strengthen its product competitiveness and stimulate replacement demand among customers.
- 2) ESPEC will apply the concept of "external customization and internal standardization" to enhance its capabilities for customizing products. In this way, the Company will capture new needs in fields such as green technology.
The Group will build a product design and manufacturing structure that will enable it to meet customers' custom specification needs by combining standardized modules. In this way, the Company will respond more quickly to the needs of its customers and at a lower cost.
- 3) ESPEC will develop a new menu for commissioned testing and after-sales services to enhance its capability as a solutions provider. The Company will combine this with its product hardware to raise its value to customers. Furthermore, the Group will build a lineup of network-capable instruments and equipment to promote the systemization of its products.
- 4) ESPEC will take advantage of the benefit of having merged three Group companies into one in substantially improving its sales and service efficiencies. At the same time, the Group will strengthen its customer contacts with the aim of bolstering its capabilities for gathering information on customer needs. These competencies will be fed back to substantially raise sales productivity and enhance flexibility for responding to customers to stimulate replacement demand.

*1: In the Chinese and Asian markets, ESPEC will provide high-end products to Japanese, European and North American companies operating in the region, as well as cost-competitive products to the local Chinese and Asian companies. In this way the Company will build a product line comprised of both high-quality and cost competitive product offerings.

*2: ESPEC will stimulate replacement demand among customers by introducing eco-products that offer high performance, as well as high environmental specifications for reducing power consumption and other burdens on the environment.

*3. As part of a sweeping initiative to reform the corporate structure and rationalize management to help recover earnings, ESPEC CORP. merged with two consolidated subsidiaries; namely, ESPEC ENGINEERING CORP. and ESPEC TEST CENTER CORP.

(ESPEC ENGINEERING was engaged in the aftermarket servicing and engineering of the ESPEC Group's products, while ESPEC TEST CENTER was engaged in commissioned tests and the rental of products, among other business lines)

Note: It should be noted that the above financial forecasts were compiled based on the management's reasonable assessment of the information available at the time of the compilation, and may change due to factors that may arise in the future.