

Interim Business Report

for the 132nd Term 2016.4.1 – 2016.9.30

To Our Shareholders

First of all, let us express our sincere appreciation to our shareholders for your continued patronage and support. It is our pleasure to present the interim report for the 132nd period, covering the period from April 1st, 2016 to September 30th, 2016.

During this period in the global economy, while the U.S. economy fared relatively well and the European economies experienced a moderate recovery, momentum slowed in Europe following the Brexit shock and the Asian economies have continued to decelerate. In Japan also, the sense of uncertainty is high and the stock market has been sluggish as the strong yen has slowed the growth of corporate business results, and personal consumption has lacked vigor.

Regarding the business environment for metal surface modifications faced by our Parker Group, while our key customers in the automotive industry have been increasing automotive output in the U.S. and China, output has stalled in Japan. Likewise in the steel industry, as well as the continuing falling of the steel price due to excess production in China flooding the global market, there have been significant restructuring moves in Japan and globally, and the situation remains tough.

In the midst of such a difficult economic environment, our Parker Group has been working to meet the needs of our customers by strengthening the roll-out of environmentally-friendly products and high value-added products, as well as bolstering our production facilities particularly in the U.S., Mexico, China and Thailand to steadily capture the increasing overseas demand. In addition, in order to maintain our market superiority well into the future, we have been focusing our efforts on research and development, particularly the development of surface treatment chemicals for new markets, and strengthening fundamental research.

As a result, our business achievements for this period were as follows.

Net sales were 50,498 million yen (down 2.6% on the corresponding period for the previous year), and operating income was 7,485 million yen (up 2.6% ditto). Ordinary income was 7,734 million yen (down 9.4% ditto) and net income attributable to parent company shareholders was 4,751 million yen (down 6.3% ditto).

The overview by each business segment is as follows.

(Chemicals Business)

Net sales were 21,275 million yen (down 2.8% on the corresponding period for the previous year), and operating income was 4,443 million yen (up 6.4% ditto); with the overall result being an increase in profit despite the decrease in revenue. Profitability improved in Japan due to bolstering of chemical sales to new markets. Revenue fell overseas, in part due to the effects of exchange rates, however the fall in profits was held in check by cost reductions.

(Equipment Business)

Net sales were 7,828 million yen (down 17.5% on the corresponding period for the previous year) and operating income was 260 million yen (down 5.4% ditto). In this interim period, while revenue rose in India, it fell in China, Indonesia and Japan, with the overall result being a fall in both revenue and profit.

(Jobbing Business)

Net sales were 19,407 million yen (up 2.7% on the corresponding period for the previous year) and operating income was 3,279 million yen (down 1.0% ditto). In Japan, demand recovered somewhat despite the effects of the shift overseas of auto parts manufacturing, resulting in an increase in revenue. Overseas, business results contracted due to the effects of exchange rates, however an increase in demand in China, Thailand and the U.S. led to an overall result of an increase in revenue and a decrease in profit.

(Other Business)

Net sales were 1,986 million yen (up 25.5% on the corresponding period for the previous year) and operating income was 136 million yen (up 7.8% ditto). In particular the building maintenance business performed well, and the overall result was an increase in both revenue and profit.

Regarding the interim dividend for this period, a resolution was passed by the Board of Directors on 7th November to pay a dividend of ten yen per share to be paid on the 9th of December, 2016.

Regarding the outlook for the second half of the financial year, while the Japanese economy is exhibiting a moderate recovery, at this point in time the difficulties are being compounded by factors such as the squeezing of corporate profits due to the strong yen. Overseas, the Brexit vote in the U.K. and the deceleration of the Chinese and other Asian economies are sources for continued concern. It is anticipated that overseas business results will continue to be eroded due to the exchange rates, and many uncertainties remain.

Against such an economic backdrop, our Parker Group has formulated a new mid-term management plan with the aim of sustainable growth through three basic policies including enhancing and expanding our business base, promoting innovation in R&D at our technology-driven company and strengthening the structure of the organization.

We look forward to the unerring support of our shareholders.

President & C.O.O.
Kazuichi SATOMI

Consolidated Balance Sheet

	September 30	March 31
	2016	2016
	(JPY Million)	
Assets		
Current assets	92,207	94,053
Cash and deposits	43,878	44,937
Notes and accounts receivable-trade	31,608	32,822
Short-term investment securities	2,850	3,334
Inventories	10,331	9,271
Deferred tax assets	1,312	1,372
Other	2,370	2,475
Allowance for doubtful accounts	△143	△158
Fixed assets	92,259	95,323
Tangible assets	52,708	54,665
Buildings and fixtures, net	16,391	17,491
Machinery, equipment and vehicles, net	14,420	15,411
Land	14,688	14,994
Construction in progress	5,178	4,567
Other	2,029	2,199
Intangible assets	1,158	1,413
Goodwill	88	202
Other	1,070	1,210
Investments and other assets	38,391	39,244
Investment in securities	28,282	26,703
Deferred tax assets	1,071	1,083
Other	9,135	11,555
Allowance for doubtful accounts	△98	△98
Total assets	184,466	189,377

	September 30	March 31
	2016	2016
Liabilities		
Current liabilities	31,210	33,166
Notes and accounts payable-trade	15,601	15,369
Current portion of long-term loans payable	708	752
Corporate income taxes payable	1,783	2,416
Provision for bonuses	2,397	2,421
Other	10,720	12,206
Fixed liabilities	17,265	18,320
Long-term loans payable	2,383	2,998
Provision for directors' retirement benefits	376	904
Net defined benefit liability	10,048	9,969
Deferred tax liabilities	2,297	2,523
Other	2,159	1,924
Total liabilities	48,475	51,487
Net assets		
Shareholders' equity	110,861	107,220
Paid-in capital	4,560	4,560
Capital surplus	4,070	3,912
Retained earnings	105,994	102,377
Treasury stock	△3,763	△3,629
Accumulated other comprehensive profit	4,329	9,262
Valuation difference on available-for-sale securities	6,983	7,208
Deferred gains or losses on hedges	1	2
Foreign currency translation adjustment	△2,583	2,127
Remeasurements of defined benefit plans	△72	△76
Non-controlling interests	20,800	21,406
Total net assets	135,991	137,890
Total liabilities and net assets	184,466	189,377

Consolidated Statements of income

Six months ended September 30

	2016	2015
	(JPY Million)	
Net sales	50,498	51,852
Cost of sales	31,019	32,567
Gross profit	19,478	19,284
Selling, general and administrative expenses	11,993	11,987
Operating income	7,485	7,297
Non-operating profit	1,460	1,474
Interest income	114	131
Dividends income	308	345
Rent income	177	187
Technical support fee	177	199
Equity in earnings of affiliates	436	412
Other	246	197
Non-operating expenses	1,211	238
Interest expenses	33	11
Foreign exchange losses	1,071	80
Other	106	147
Ordinary income	7,734	8,532
Extraordinary income	3	63
Extraordinary loss	64	102
Income before income taxes	7,672	8,493
Income taxes	2,246	2,474
Net income	5,425	6,019
Net income attributable to non-controlling interests	673	946
Net income attributable to parent company shareholders	4,751	5,073