

# Business Report

## To Our Shareholders

Thank you very much for your continued support. It is our pleasure to present our annual report for the 132<sup>nd</sup> period, ended on March 31<sup>st</sup>, 2017.

As you well know, the domestic economy during this period maintained a moderate recovery, despite the effects of economic fluctuations due to deceleration of emerging economies and uncertainty in overseas affairs.

Against such a backdrop, the Parker Group has been working to provide high value added technology which will provide high quality at a low cost and increase the satisfaction of our customers, as well as strengthening our overseas businesses by bolstering our production facilities particularly in the U.S., Mexico, China and Thailand, based on the second Mid-term Management Plan which was started in this period. In addition, we have been focusing on research and development initiatives, enhancing our fundamental research in order to create core technologies that will ensure that we retain our leading position in the market well into the future. As a result, our business achievements for this period were as described in the latter part of this report.

In consideration of the steady results achieved during this term and the valued support of our shareholders, the year-end dividend will be ten yen per share.

While employment and incomes have continued to improve in Japan and the economy is expected to continue to pick up, the environment faced by our group is one which remains unpredictable due to concerns over the slowing of the Chinese economy and policy trends in the U.S. The Parker Group will soon enter the second year of our second three year Mid-term Management Plan. This plan aims for 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 continuing support of our shareholders.

June 2017



Chairman & C.E.O.  
Shun ONO



President & C.O.O.  
Kazuichi SATOMI

## **Parker Group Outlook**

### **Business progress and results**

There was a continued moderate recovery in the global economy during this period, however in addition to the slowdown in the economies of China and emerging nations in Asia, many elements of uncertainty remain following the Brexit vote and change of administration in the U.S. In Japan the economy continued to recover with improvement in employment and incomes, however due to increased uncertainty as to the future of overseas economies, the exchange rates tended to fluctuate sharply in short periods of time and the situation was relatively unstable.

The business environment faced by the Parker Group was one in which our key customers in the automotive industry saw an increase in auto production in Japan coupled with steady growth in the U.S. and China, resulting in steady growth overall. In the steel industry, while there were signs of recovery in demand for steel in Japan and overseas, the situation remained tough due to the effects of excess supply of steel in Asia and increasing costs of raw materials, particularly coking coal.

Against such a backdrop, the Parker Group has been working to provide high value added technology which will provide high quality at a low cost and increase the satisfaction of our customers as well as strengthening our overseas businesses by bolstering our production facilities particularly in the U.S., Mexico, China and Thailand, based on the second Mid-term management plan which was started in this period. In addition, we have been focusing on research and development initiatives, enhancing our fundamental research in order to create core technologies that will ensure that we retain our leading position in the market well into the future.

As a result of these efforts, our consolidated business achievements were as follows.

Net sales were 109,569 million yen (up 0.5% on the previous period), and operating income was 16,934 million yen (up 7.4% ditto). Ordinary income was 18,779 million yen (up 4.8% ditto) and net income attributable to parent company shareholders was 12,228 million yen (up 18.5% ditto).

The overview by each business segment is as follows.

(Chemicals Business)

Net sales were 43,348 million yen (down 0.9% on the previous period), and operating income was 8,973 million yen (up 5.2% ditto). Our chemicals division manufactures and sells chemicals to form conversion coating on the surface of metals and other substrates to improve their functionality by improving corrosion resistance, wear resistance, lubricity and other performances, thereby adding value to the substrate materials. In Japan, business

achievements were steady due to the recovery in auto production and improvement in steel exports. Overseas, sales increased on a local currency basis, and our achievements were relatively steady, however income fell due to the effect of exchange rates. In Japan and overseas, profitability rose due to an increase in demand for high value added products and robust sales of chemicals in new markets, and overall results were a fall in income and a rise in profit in this segment.

(Equipment Business)

Net sales were 21,879 million yen (down 2.5% on the previous period), and operating income was 1,580 million yen (up 12.6% ditto). The equipment business segment manufactures and sells pre-treatment equipment, painting equipment and powder coating equipment, etc. mainly to the transportation machinery industry. In Japan income rose however overseas income fell. Profit rose due to progress in cost cutting, and overall income fell while profit rose in this segment.

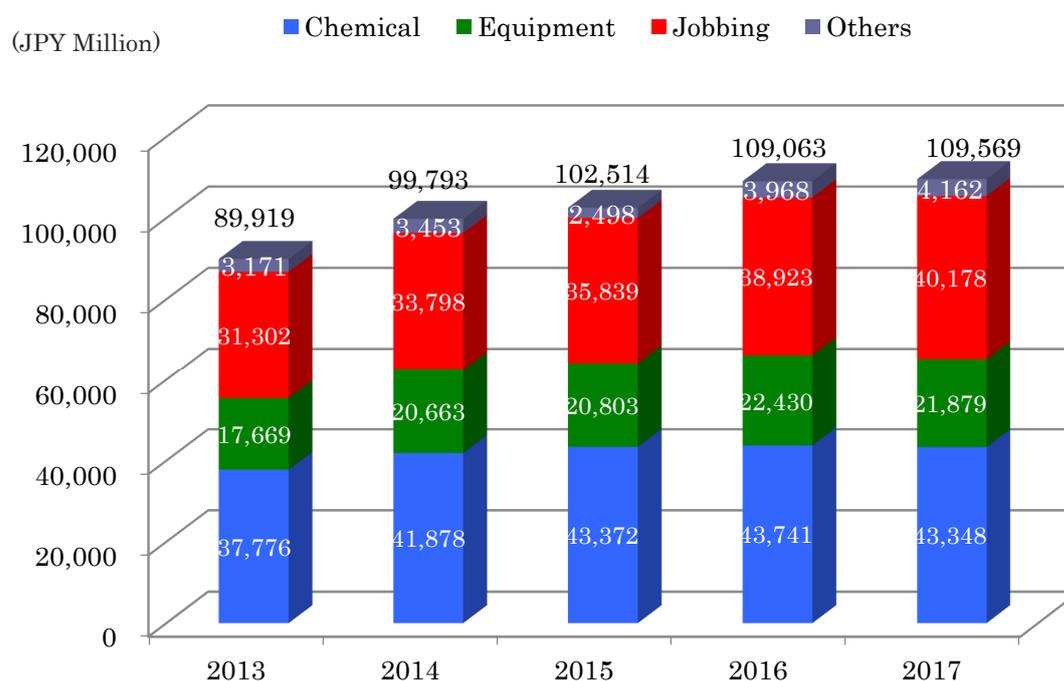
(Jobbing Business)

Net sales were 40,178 million yen (up 3.2% on the previous year), and operating income was 7,335 million yen (up 5.1% ditto). This division provides service modification jobbing services such as heat treatment, rust prevention coating and plating. In Japan demand for jobbing of automotive parts increased, and overall there was a rise in both income and profit in this segment.

(Other)

Net sales were 4,162 million yen (up 4.9% on the previous period) and operating income was 288 million yen (up 6.9% ditto). This segment is mainly focused on domestic business which is not directly affected by exchange rates, and includes our building maintenance business, transportation business and solar power generation business. The transportation business was robust, and overall both income and profit rose in this segment.

## Sales by Business (Consolidated)



## Status of capital expenditure

Equipment Investment in this period totaled 7,933 million yen, with the main investments in each segment as follows.

Main facilities completed in this period:

Jobbing Business:

Hamamatsu Netsushori Kogyo

Construction of building and new equipment for heat treatment jobbing plant.

Jobbing Business:

Parker Trutec Mexicana S.A. de C. V.

Construction of building and new equipment for heat treatment jobbing plant.

Jobbing Business:

Thai Parkerizing Co., Ltd.

New equipment for rust prevention and heat treatment jobbing plants

Main facilities in progress in this period:

Nihon Parkerizing Co., Ltd.  
Construction of new building

Jobbing Business:

Parker Trutec Inc.

New equipment for rust prevention and heat treatment jobbing plants

Chemicals Business:

Parker Surface Technologies (Shanghai) Co., Ltd.

Construction of new chemicals manufacturing plant

### **Issues to face**

The Parker Group is now entering the second year of its second three year Mid-term Management Plan, and will be tackling the following important issues in order to ensure the sustained growth of the business. Our aim is to be the leading global company in the field of surface modifications, maintaining our technical superiority in the market of surface modification for a wide array of substrates.

(1) Enhancing and expanding our business base

Strengthening collaboration between Group companies in Japan and overseas, maintaining and expanding existing businesses, daring to take up challenges in the global market, developing new markets and creating a new business model.

(2) Technology-driven company

Expanding the market for high value-added products and advancing the development of differentiated technology, as well as improving efficiency of the research and development organization and contributing to a variety of industrial fields with innovations based on our core technology.

(3) Strengthening the structure of the organization

Cutting costs by promoting cost reduction throughout the organization, as well as building a global quality control system, developing human resources and enhancing corporate governance to strengthen the structure of the organization.

### **Number of Employees**

Consolidated : 4,022 persons

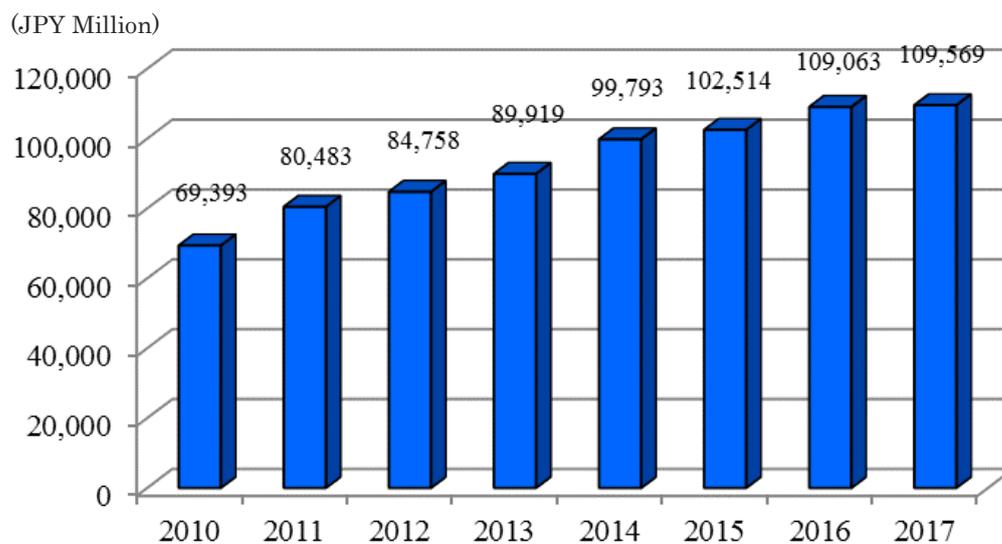
## Principal Shareholders

| Name of Shareholders                                 | Number of Shares Held<br>(Thousands of shares) | Shareholding Ratio (%) |
|--|--|------------------------|
| Nippon Life Insurance Company                        | 7,015  | 5.64                   |
| Meiji Yasuda Life Insurance Company                  | 5,578  | 4.48                   |
| The Chiba Bank, Ltd.                                 | 4,765  | 3.83                   |
| Yugen Co., Ltd.                                      | 4,708  | 3.78                   |
| The SATOMI Scholarship Foundation                    | 4,633  | 3.72                   |
| Mizuho Bank, Ltd.                                    | 4,227  | 3.39                   |
| State Street Bank and Trust Company                  | 3,895  | 3.13                   |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 3,882  | 3.12                   |
| Japan Trustee Services Bank,Ltd.(Trust account)      | 3,376  | 2.71                   |
| Sumitomo Mitsui Banking Corporation                  | 3,113  | 2.50                   |

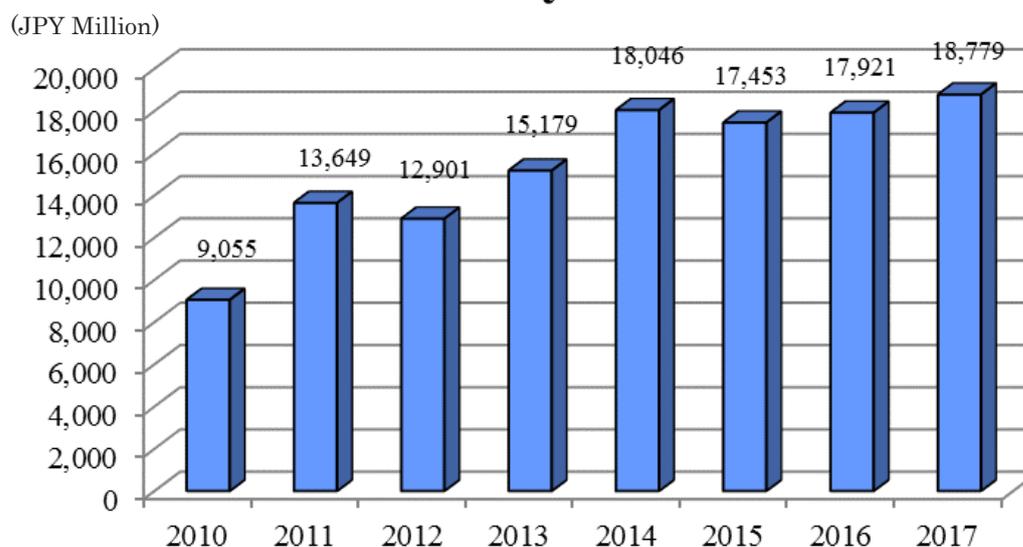
## Financial Highlights (Consolidated)

|   | 2010          | 2011    | 2012    | 2013    | 2014    | 2015    | 2016    | 2017    |
|---|---------------|---------|---------|---------|---------|---------|---------|---------|
|   | (JPY million) |         |         |         |         |         |         |         |
| Net sales                                 | 69,393        | 80,483  | 84,758  | 89,919  | 99,793  | 102,514 | 109,063 | 109,569 |
| Ordinary income                           | 9,055         | 13,649  | 12,901  | 15,179  | 18,046  | 17,453  | 17,921  | 18,779  |
| Net income attributable to parent company | 4,131         | 7,454   | 6,314   | 8,463   | 10,142  | 9,975   | 10,320  | 12,228  |
| Total liabilities and net assets          | 119,101       | 124,925 | 130,517 | 146,739 | 165,914 | 187,116 | 189,377 | 197,260 |

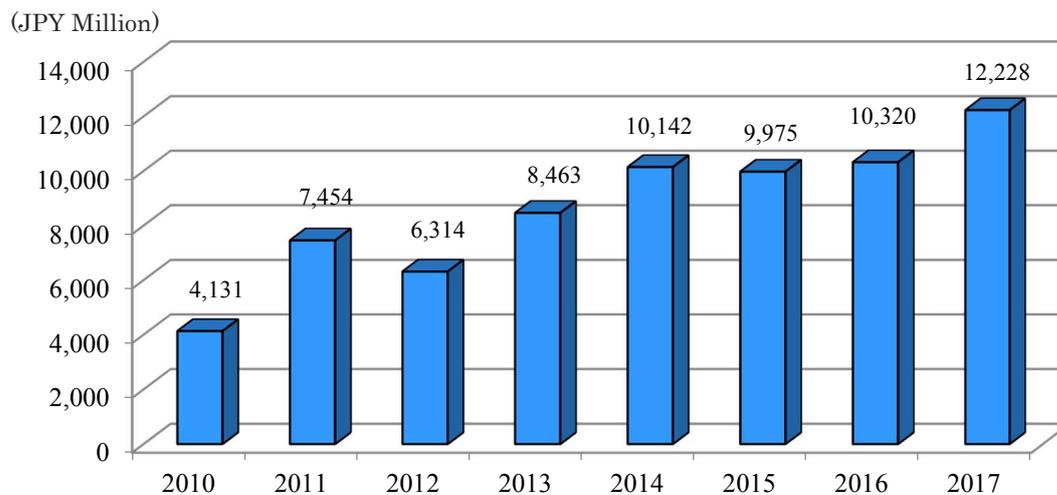
### Net sales



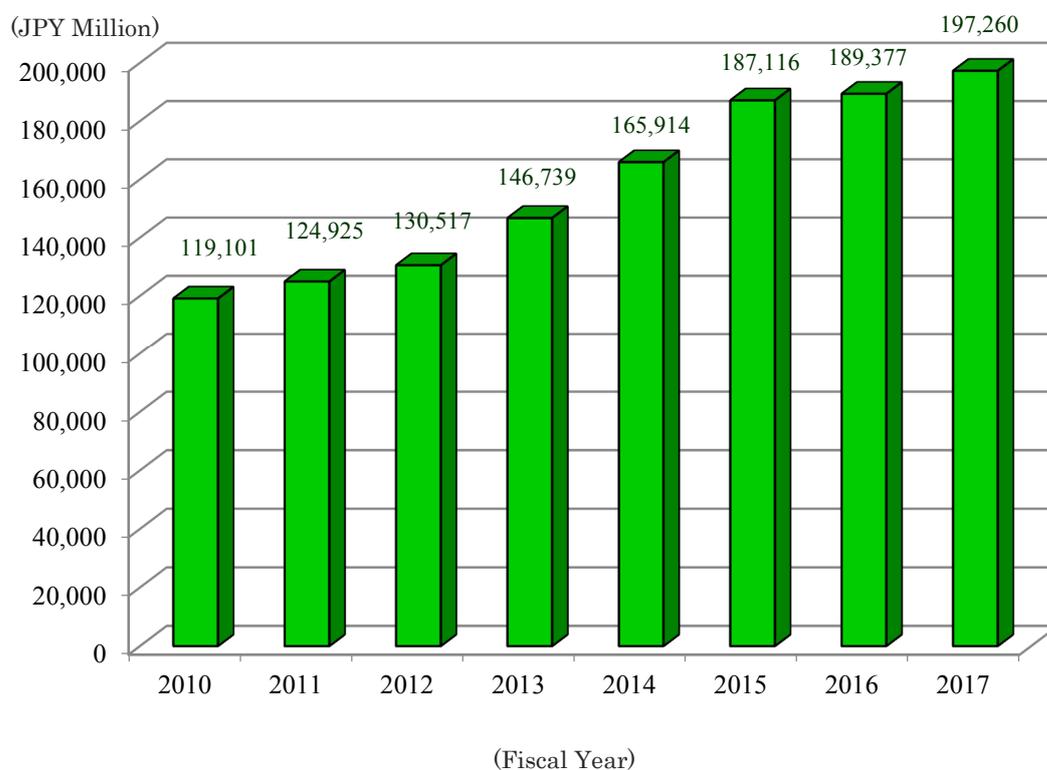
### Ordinary income



## Net income attributable to parent company shareholders



## Total liabilities and net assets



## Consolidated Balance Sheets

|  | Fiscal year ended March 31 |                |
|--|----------------------------|----------------|
|  | 2017                       | 2016           |
|  | (JPY Million)              |                |
| <b>Assets</b>                          |                            |                |
| <b>Current assets</b>                  | <b>97,021</b>              | <b>94,053</b>  |
| Cash and deposits                      | 45,400                     | 44,937         |
| Notes and accounts receivable-trade    | 35,879                     | 32,822         |
| Short-term investment securities       | 3,195                      | 3,334          |
| Inventories                            | 8,933                      | 9,271          |
| Deferred tax assets                    | 1,578                      | 1,372          |
| Others                                 | 2,189                      | 2,475          |
| Allowance for doubtful accounts        | △155                       | △158           |
| <b>Fixed assets</b>                    | <b>100,238</b>             | <b>95,323</b>  |
| <b>Tangible assets</b>                 | <b>55,792</b>              | <b>54,665</b>  |
| Buildings and fixtures, net            | 17,559                     | 17,491         |
| Machinery, equipment and vehicles, net | 16,186                     | 15,411         |
| Land                                   | 15,660                     | 14,994         |
| Construction in progress               | 4,210                      | 4,567          |
| Others                                 | 2,176                      | 2,199          |
| <b>Intangible assets</b>               | <b>1,186</b>               | <b>1,413</b>   |
| Goodwill                               | —                          | 202            |
| Others                                 | 1,186                      | 1,210          |
| <b>Investments and other assets</b>    | <b>43,260</b>              | <b>39,244</b>  |
| Investment in securities               | 32,586                     | 26,703         |
| Deferred tax assets                    | 995                        | 1,083          |
| Others                                 | 9,776                      | 11,555         |
| Allowance for doubtful accounts        | △98                        | △98            |
| <b>Total assets</b>                    | <b>197,260</b>             | <b>189,377</b> |

|   | Fiscal year ended March 31 |                |
|---|----------------------------|----------------|
|   | 2017                       | 2016           |
| <b>Liabilities</b>                                    |                            |                |
| <b>Current liabilities</b>                            | <b>33,562</b>              | <b>33,166</b>  |
| Notes and accounts payable-trade                      | 17,817                     | 15,369         |
| Current portion of long-term loans payable            | 831                        | 752            |
| Corporate Income taxes payable                        | 2,965                      | 2,416          |
| Provision for bonuses                                 | 2,564                      | 2,421          |
| Others  | 9,382                      | 12,206         |
| <b>Fixed liabilities</b>                              | <b>17,196</b>              | <b>18,320</b>  |
| Long-term loans payable                               | 2,374                      | 2,998          |
| Net defined benefit liability                         | 9,107                      | 9,969          |
| Deferred tax liabilities                              | 3,772                      | 2,523          |
| Others  | 1,941                      | 1,924          |
| <b>Total liabilities</b>                              | <b>50,758</b>              | <b>51,487</b>  |
| <b>Net assets</b>                                     |                            |                |
| <b>Shareholders' equity</b>                           | <b>113,291</b>             | <b>107,220</b> |
| Paid-in capital                                       | 4,560                      | 4,560          |
| Capital surplus                                       | 4,070                      | 3,912          |
| Retained earnings                                     | 102,207                    | 102,377        |
| Treasury stock  | △7,546                     | △3,629         |
| <b>Accumulated other comprehensive profit</b>         | <b>10,006</b>              | <b>9,262</b>   |
| Valuation difference on available-for-sale securities | 9,439                      | 7,208          |
| Deferred gains or losses on hedges                    | 3                          | 2              |
| Foreign currency translation adjustment               | 643                        | 2,127          |
| Remeasurements of defined benefit plans               | △79                        | △76            |
| <b>Non-controlling interests</b>                      | <b>23,204</b>              | <b>21,406</b>  |
| <b>Total net assets</b>                               | <b>146,502</b>             | <b>137,890</b> |
| <b>Total liabilities and net assets</b>               | <b>197,260</b>             | <b>189,377</b> |

## Consolidated Statements of income

|   | Fiscal year ended March 31 |                |
|---|----------------------------|----------------|
|   | 2017                       | 2016           |
|   | (JPY Million)              |                |
| <b>Net sales</b>  | <b>109,569</b>             | <b>109,063</b> |
| <b>Cost of sales</b>  | <b>68,293</b>              | <b>68,627</b>  |
| <b>Gross profit</b>   | <b>41,275</b>              | <b>40,436</b>  |
| <b>Selling, general and administrative expenses</b>           | <b>24,341</b>              | <b>24,669</b>  |
| <b>Operating income</b>                                       | <b>16,934</b>              | <b>15,766</b>  |
| <b>Non-operating profit</b>                                   | <b>2,905</b>               | <b>3,025</b>   |
| Interest income   | 306                        | 308            |
| Dividends income  | 543                        | 555            |
| Rent income   | 348                        | 355            |
| Technical support fee   | 379                        | 389            |
| Equity in earnings of affiliates                              | 819                        | 1,012          |
| Others  | 507                        | 405            |
| <b>Non-operating expenses</b>                                 | <b>1,060</b>               | <b>871</b>     |
| Interest expenses   | 55                         | 53             |
| Foreign exchange loss   | 661                        | 566            |
| Others  | 343                        | 251            |
| <b>Ordinary income</b>  | <b>18,779</b>              | <b>17,921</b>  |
| <b>Extraordinary income</b>                                   | <b>1,359</b>               | <b>152</b>     |
| <b>Extraordinary loss</b>                                     | <b>345</b>                 | <b>173</b>     |
| <b>Income before income taxes</b>                             | <b>19,793</b>              | <b>17,900</b>  |
| Income taxes-current  | 5,498                      | 5,243          |
| Income taxes-deferred   | 173                        | 381            |
| <b>Net income</b>   | <b>14,121</b>              | <b>12,275</b>  |
| Net income attributable to non-controlling interests          | 1,893                      | 1,954          |
| <b>Net income attributable to parent company shareholders</b> | <b>12,228</b>              | <b>10,320</b>  |