

A decorative graphic consisting of several overlapping, wavy bands of blue and light blue, creating a sense of movement and depth. The bands are layered, with the topmost being a vibrant blue and the bottommost being a very light blue, almost white. The waves flow from the top left towards the bottom right.

Interim Business Report

for the 133rd Term 2017.4.1 - 2017.9.30

To Our Shareholders

Thank you very much for your continued support. It is our pleasure to present our mid-term report for the 133rd period, April 1st to September 30th, 2017.

In the global economy in this period, the U.S. economy sustained a moderate expansion, however many elements of uncertainty remained including the direction of emerging economies in Asia and policy trends in the U.S. Furthermore, in the Japanese economy, we saw improvements in corporate profits and employment and the economy continued to recover gradually.

The business environment for metal surface modifications faced by our Group was one in which our key customers in the automotive industry experienced a recovery in domestic auto production and the automotive business was robust both in Japan and overseas. In addition, in the steel industry, exports of steel from China fell and a strong demand for steel in Japan in the lead-up to the Tokyo Olympics resulted in robust demand in the steel industry.

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 entered its second year 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 mid-term period were as described in the latter part of this report.

Net sales were 53,466 million yen (up 5.9% on the same period in the previous year), and operating income was 8,663 million yen (up 15.7% ditto). Ordinary income was 10,392 million yen (up 34.4% ditto) and net income attributable to parent company shareholders was 6,370 million yen (up 34.1% ditto).

The overview by each business segment is as follows.

(Chemicals Business)

Net sales were 22,389 million yen (up 5.2% on the same period in the previous year), and operating income was 4,594 million yen (up 3.4% ditto). In Japan, business achievements were steady due to the recovery in auto production and increased demand for steel for the construction industry. Overseas, sales expanded in China, India and other parts of Asia. Due to a fall in profitability in Japan, the growth in operating income was weak, however overall results were a rise in both income and profit in this segment.

(Equipment Business)

Net sales were 6,951 million yen (down 11.2% on the same period in the previous year), and operating income was 363 million yen (up 39.9% ditto). Equipment investment by our

customers was sluggish both domestically and overseas, resulting in a fall income. However, our overseas businesses saw an improvement in profitability and while operating income was in the red in the first quarter, it switched to black, and overall results were a fall income and a rise in profit in this segment.

(Jobbing Business)

Net sales were 21,642 million yen (up 11.5% on the same period in the previous year), and operating income was 4,194 million yen (up 27.9% ditto). In Japan, demand for jobbing treatments rose for automotive parts, construction equipment and hydraulic parts, resulting in robust sales figures. In addition, income rose in all of the regions overseas where we conduct business. While depreciation costs rose due to equipment investment made to meet the expanded demand, profitability was robust, resulting in a rise in both income and profit in this segment.

(Other)

Income rose and profit fell in this segment, as net sales were 2,482 million yen (up 25.0% on the same period in the previous year) and operating income was 105 million yen (down 22.5% ditto).

The mid-term dividend for this period will be ten year per share to be paid on 8th December, in accordance with the resolution of the meeting of the Board of Directors held on 6th November.

Regarding the outlook for the second half of the year, it is anticipated that Japan's economy will continue to recover moderately due to the improvement in corporate profits and employment. However, the business environment remains far from reassuring in the economies overseas due to uncertainty in the direction of the emerging economies in Asia and the policy trends in the U.S.

In such an economic environment, the Parker Group 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.

President and C.O.O.
Kentaro Sato

Consolidated Balance Sheet

	September 30	March 31
	2017	2017
	(JPY Million)	
Assets		
Current assets	99,216	97,021
Cash and deposits	46,295	45,400
Notes and accounts receivable-trade	36,415	35,879
Short-term investment securities	3,033	3,195
Inventories	9,077	8,933
Deferred tax assets	1,614	1,578
Other	2,934	2,189
Allowance for doubtful accounts	△154	△155
Fixed assets	106,547	100,238
Tangible assets	56,756	55,792
Buildings and fixtures, net	19,882	17,559
Machinery, equipment and vehicles, net	15,774	16,186
Land	15,697	15,660
Construction in progress	3,339	4,210
Other	2,063	2,176
Intangible assets	1,291	1,186
Investments and other assets	48,499	43,260
Investment in securities	38,161	32,586
Deferred tax assets	963	995
Other	9,470	9,776
Allowance for doubtful accounts	△96	△98
Total assets	205,763	197,260

	September 30	March 31
	2017	2017
Liabilities		
Current liabilities	31,378	33,562
Notes and accounts payable-trade	16,230	17,817
Current portion of long-term loans payable	853	831
Corporate income taxes payable	2,212	2,965
Provision for bonuses	2,522	2,564
Other	9,559	9,382
Fixed liabilities	18,540	17,196
Long-term loans payable	2,004	2,374
Net defined benefit liability	9,284	9,107
Deferred tax liabilities	5,457	3,772
Other	1,794	1,941
Total liabilities	49,919	50,758
Net assets		
Shareholders' equity	118,654	113,291
Paid-in capital	4,560	4,560
Capital surplus	4,291	4,070
Retained earnings	117,340	112,207
Treasury stock	△7,538	△7,546
Accumulated other comprehensive profit	13,660	10,006
Valuation difference on available-for-sale securities	13,435	9,439
Deferred gains or losses on hedges	4	3
Foreign currency translation adjustment	292	643
Remeasurements of defined benefit plans	△70	△79
Non-controlling interests	23,529	23,204
Total net assets	155,844	146,502
Total liabilities and net assets	205,763	197,260

Consolidated Statements of income

Six months ended September 30

	2017	2016
	(JPY Million)	
Net sales	53,466	50,498
Cost of sales	32,356	31,019
Gross profit	21,109	19,478
Selling, general and administrative expenses	12,446	11,993
Operating income	8,663	7,485
Non-operating profit	1,879	1,460
Interest income	108	114
Dividends income	326	308
Rent income	196	177
Technical support fee	222	177
Equity in earnings of affiliates	539	436
Foreign exchange gains	265	—
Other	220	246
Non-operating expenses	149	1,211
Interest expenses	15	33
Foreign exchange losses	—	1,071
Other	133	106
Ordinary income	10,392	7,734
Extraordinary income	86	3
Extraordinary loss	102	64
Income before income taxes	10,376	7,672
Income taxes	2,799	2,246
Net income	7,577	5,425
Net income attributable to non-controlling interests	1,207	673
Net income attributable to parent company shareholders	6,370	4,751