



# Interim Business Report

for the 134th Term 2018.4.1—2018.9.30

## To Our Shareholders

Thank you very much for your continued support. We are pleased to present our mid-term report for the 134<sup>th</sup> period (April 1, 2018 to September 30, 2018).

In this period the Japanese economy experienced a moderate recovery with an improvement in employment and an increase in capital expenditure. Furthermore, overseas economies experienced moderate recoveries, with the U.S. in particular experiencing a steady economic recovery. However, uncertainties remain in the direction of the economic recovery due to trade friction between the U.S. and China and other factors.

The business environment for metal surface modifications faced by our Group was one in which our key customers in the automotive industry experienced stagnant auto production in Japan, and dampened growth in China and other markets overseas. In the steel industry, demand for steel in Japan and overseas has been steady.

Against such an economic backdrop, as we entered the final year of our second three year Mid-term Management Plan, all members of the Parker Group have worked together on the three priority targets of “enhancing and expanding the business base,” promoting innovation in R&D as a “technology-driven company” and “strengthening the structure of the organization.” We have been actively taking up the challenge to further cultivate existing fields and enter new business fields, as well as enhancing our global quality improvement initiatives and development organization in order to provide our customers with swift and accurate service and high quality products to increase customer satisfaction.

As a result, our consolidated business achievements for this period were as follows. Net sales were 59,987 million yen (up 12.2% on the same period in the previous year), and operating income was 8,196 million yen (down 5.4% ditto). Ordinary income was 10,045 million yen (down 3.3% ditto) and net income attributable to parent company shareholders 6,013 million yen (down 5.6% ditto).

The overview by each business segment is as follows.

(Chemicals Business)

Net sales were 23,328 million yen (up 4.2% on the same period in the previous year), and operating income was 3,964 million yen (down 13.7% ditto). In Japan, income rose due to an increase in the number of consolidated subsidiaries and sales of metal surface treatment chemicals were robust in Thailand. However, profitability was affected by the rise in the prices of raw materials and also the costs of merging with a subsidiary in an absorption-type merger in Japan, and overall income rose while profit fell in this segment.

(Equipment Business)

Net sales were 11,584 million yen (up 66.6% on the same period in the previous year), and operating income was 409 million yen (up 12.7% ditto). In China, while income rose significantly, profitability fell. However, overall there was an increase in both income and profit in this segment.

(Jobbing Business)

Net sales were 22,712 million yen (up 4.9% on the same period in the previous year), and operating income was 4,309 million yen (up 2.7% ditto). In Japan, due to increased demand for jobbing of automotive parts, sales of rust preventive and heat treatment jobbing were robust and income rose. Overseas, the new factory started up successfully in Mexico from the latter half of the previous period, and while temporary expenses were incurred in the U.S. and China due to equipment refurbishments, the overall result in this segment was an increase in both income and profit.

(Other)

Income and profit fell in this segment as net sales were 2,362 million yen (down 4.8% on the same period in the previous year) and operating income was 104 million yen (down 0.8% ditto).

The interim dividend for this period will be 11 (eleven) yen per share to be paid on 10<sup>th</sup> December, in accordance with the resolution of the meeting of the Board of Directors held on 5<sup>th</sup> November.

Regarding the outlook for the second half of the period, while we anticipate that the Japanese economy will continue to experience a moderate recovery, the business environment remains far from reassuring as there is a degree of uncertainty in the global economy due to trade friction and concerns for the slowdown of emerging economies.

Against such an economic backdrop, 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
	<b>2018</b>	<b>2018</b>
	(JPY Million)	
<b>Assets</b>		
<b>Current assets</b>	<b>110,628</b>	<b>109,921</b>
Cash and deposits	55,422	55,673
Notes and accounts receivable-trade	38,437	39,980
Short-term investment securities	1,200	1,632
Inventories	11,112	9,230
Other	4,618	3,572
Allowance for doubtful accounts	△163	△167
<b>Fixed assets</b>	<b>109,459</b>	<b>110,066</b>
<b>Tangible assets</b>	<b>60,198</b>	<b>59,897</b>
Buildings and fixtures, net	21,202	20,443
Machinery, equipment and vehicles, net	16,104	16,621
Land	16,076	16,139
Construction in progress	4,816	4,615
Other	1,999	2,077
<b>Intangible assets</b>	<b>1,406</b>	<b>1,390</b>
<b>Investments and other assets</b>	<b>47,854</b>	<b>48,777</b>
Investment in securities	37,198	37,397
Deferred tax assets	1,281	1,505
Other	9,470	9,970
Allowance for doubtful accounts	△96	△96
<b>Total assets</b>	<b>220,088</b>	<b>219,988</b>

	September 30	March 31
	<b>2018</b>	<b>2018</b>
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>38,500</b>	<b>39,895</b>
Notes and accounts payable-trade	20,825	21,201
Short-term loans payable	104	190
Current portion of long-term loans payable	1,010	1,271
Corporate income taxes payable	2,335	2,474
Provision for bonuses	2,547	2,578
Other	11,675	12,179
<b>Fixed liabilities</b>	<b>15,858</b>	<b>16,836</b>
Long-term loans payable	1,324	1,601
Net defined benefit liability	9,536	9,491
Deferred tax liabilities	3,777	4,266
Other	1,220	1,476
<b>Total liabilities</b>	<b>54,358</b>	<b>56,732</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>	<b>128,177</b>	<b>123,762</b>
Paid-in capital	4,560	4,560
Capital surplus	4,286	4,286
Retained earnings	126,860	122,455
Treasury stock	Δ7,530	Δ7,539
<b>Accumulated other comprehensive profit</b>	<b>12,134</b>	<b>14,589</b>
Valuation difference on available-for-sale securities	12,341	12,943
Deferred gains or losses on hedges	4	3
Foreign currency translation adjustment	Δ169	1,693
Remeasurements of defined benefit plans	Δ42	Δ50
<b>Non-controlling interests</b>	<b>25,418</b>	<b>24,902</b>
<b>Total net assets</b>	<b>165,729</b>	<b>163,255</b>
<b>Total liabilities and net assets</b>	<b>220,088</b>	<b>219,988</b>

## Consolidated Statements of income

Six months ended September 30

	<b>2018</b>	<b>2017</b>
	(JPY Million)	
<b>Net sales</b>	<b>59,987</b>	<b>53,466</b>
<b>Cost of sales</b>	<b>38,602</b>	<b>32,356</b>
<b>Gross profit</b>	<b>21,385</b>	<b>21,109</b>
<b>Selling, general and administrative expenses</b>	<b>13,188</b>	<b>12,446</b>
<b>Operating income</b>	<b>8,196</b>	<b>8,663</b>
<b>Non-operating profit</b>	<b>2,098</b>	<b>1,879</b>
Interest income	111	108
Dividends income	387	326
Rent income	236	196
Technical support fee	247	222
Equity in earnings of affiliates	560	539
Foreign exchange gains	144	265
Other	411	220
<b>Non-operating expenses</b>	<b>249</b>	<b>149</b>
Interest expenses	27	15
Other	222	133
<b>Ordinary income</b>	<b>10,045</b>	<b>10,392</b>
<b>Extraordinary income</b>	<b>34</b>	<b>86</b>
<b>Extraordinary loss</b>	<b>87</b>	<b>102</b>
<b>Income before income taxes</b>	<b>9,992</b>	<b>10,376</b>
Income taxes	2,708	2,799
<b>Net income</b>	<b>7,284</b>	<b>7,577</b>
Net income attributable to non-controlling interests	1,271	1,207
<b>Net income attributable to parent company shareholders</b>	<b>6,013</b>	<b>6,370</b>