



# Business Report

for the 126th Term 2010.4.1 – 2011.3.31



**NIHON PARKERIZING CO.,LTD.**

## To Our Shareholders

To our shareholders we extend our sincere appreciation for your continued support and patronage. Also, we would like to take a moment to express our deepest sympathy to all those affected by the Great East Japan Earthquake.

We are pleased to present our Annual Report for 2011. As you well know, during this period, the economy in Japan was slowly recovering, however, due to the effects of the Great East Japan Earthquake in March this year, the economy subsequently deteriorated significantly.

Against such a backdrop, the Parker Group focused our efforts on strengthening our overseas business and research and development with a view to the future, as well as actively engaging in cost saving measures, strengthening our corporate structure and improving profitability. As a result, we were able to achieve the business results which you will find listed in this report.

Regarding the end of term dividend for this term, in consideration of the importance of stability and continuity, the dividend will be ten yen per share which is the same as for the interim dividend.

We anticipate that the environment which the Parker Group must face will continue to be challenging due the effects of the recent disaster and concerns regarding rises in resource prices among other factors however, we will put our utmost effort into promoting the development of new technology as well as expanding our overseas business to improve our business achievements and meet the expectations of our shareholders.

We look forward to the continued support and patronage of our Shareholders. Thank you very much.

June, 2011



Chairman & C.E.O .  
Shun ONO



President & C.O.O.  
Kazuichi SATOMI

## **Parker Group Outlook**

### **Business progress and achievements**

Overall in the global economy during this period growth was steady, with China and India maintaining high growth rates, Asian economies also remaining firm and Europe and North America gradually showing increasing signs of recovery. However, in Japan, while the economy grew slowly in fits and starts, economic activity was adversely affected as a result of the Great East Japan Earthquake which struck on the 11<sup>th</sup> of March, and the economy cooled significantly after the disaster.

In the business environment faced by our Parker Group, domestic production fell in the automotive industry, which is our main customer, and also in the steel industry we did not see any significant growth in exports. Furthermore, oil and other resource prices continued to rise, creating a severe business environment.

In such a challenging economic environment, in order to ensure that we capture the increasing demand in expanding overseas markets, the Parker Group is working to strengthen our overseas operations by gaining new customers and supplying new technology, as well as pouring effort into research and development to create new technologies with a view to the future. In addition to this, we also actively sought to improve efficiency of raw materials supply and reduce costs. Also, as our Sendai factory was affected by the Great East Japan Earthquake, with tsunami damage to the building, facilities and commissioned work, we have done our utmost to restore the factory.

As a result of our efforts, our consolidated business results for the period were as follows.

Net sales were 80,483 million yen (up 16% on previous period) and operating income was 12,327 million yen (up 63.1%). Ordinary profit was 13,649 million yen (up 50.7%) and net profit for the period was 7,454 million yen (up 80.4%).

Progress and achievements for each business segment are as follows.

#### **(Chemicals Business)**

Net sales were 36,601 million yen (up 13.9% on the previous period) while operating profit was 9,594 million yen (up 30.5%). The Chemicals Business Division focuses on the manufacture and sale of chemicals which increase the added value of substrates through the formation of conversion coatings which are designed to improve the corrosion resistance, wear resistance, lubricity and other functions of the surfaces of metals and other materials. Net sales for this period remained at the same level throughout the year and recovered to

approximately 85% of the pre-global financial crisis level. While domestic sales increased by 10.2%, sales in Asia grew 28.5%.

**(Equipment Business)**

Net sales were 9,911 million yen (up 16.5% on the previous period), while operating profit was 421 million (up 58.0%). The Engineering Division manufactures and sells pre-treatment equipment, painting equipment and powder coating equipment primarily to the automotive industry. While domestic orders for pre-treatment equipment remained sluggish, overseas demand, mainly in Asia, picked up in the latter half of the period and profitability also improved, resulting in increases in income and profit.

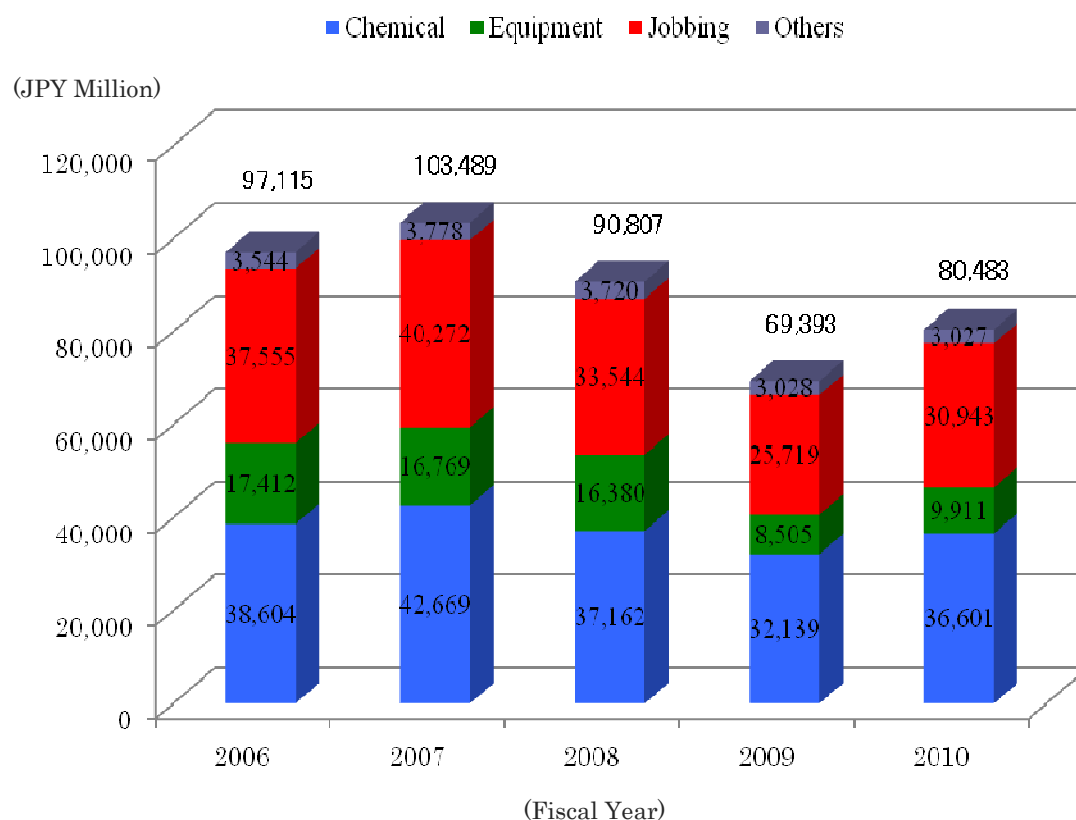
**(Jobbing Business)**

Net sales were 30,943 million yen (up 20.3% on the previous period), and operating profit was 6,240 million yen (up 73.8%). The Jobbing Division supplies surface treatment jobbing services such as heat treatment, rust proofing and plating processing. Demand for heat treatment jobbing, the recovery of which had been lagging, improved as demand picked up for automotive parts and machine parts, resulting in increases in income and profit. Furthermore, as with the chemicals business, while domestic sales in the jobbing business rose 14.5%, sales in Asia rose by a high 43.6%.

**(Other Business)**

Net sales were almost the same as for the previous period, at 3,027 million yen, while operating profit was 408 million yen (up 36.4%). This division manages our building maintenance business, real estate lease business, lease business and transport business. Real estate lease income fell slightly however profitability of the building maintenance business and transport business improved resulting in increased profit.

## Sales by Business (Consolidated)



## Status of Capital Expenditure

Equipment investment in this period totaled 3,324 million yen, with the main investments for each business segment as follows.

Main facilities completed in this period:

Jobbing Business:

Thai Parkerizing Co., Ltd.:

Construction of building for rust proofing and heat treatment jobbing, installation of new equipment and expansion of facilities.

## **Issues to face**

In addition to the direct damage of the Great East Japan Earthquake, interruptions in supply chains, electricity supply shortages and the nuclear disaster all adversely affected corporate manufacturing activities, and the domestic economic environment deteriorated sharply subsequent to the disaster. The route to solutions to the various problems remains unclear, and the situation remains unpredictable. Furthermore, there are concerns surrounding the resurgence of the high yen and continued rises in resource prices, and we anticipate that the business environment to be faced by our Parker Group will continue to be a challenging one.

In such a challenging economic environment, the Parker Group will, in accordance with our slogan of “Back to the Basics”, promote the development of surface modification technology which cannot be beaten in terms of innovation and creativity, as well as actively engaging in equipment and facilities investment overseas in order to strengthen our business in expanding overseas markets. In particular, establishment of our infrastructure in the market in India is an urgent priority, and we are focusing on the efficient injection of management resources.

## **Number of Employees**

Consolidated	:	3,110 persons
Nihon Parkerizing alone	:	807 persons

## Principal Shareholders

Name of Shareholders	Number of Shares Held (Thousands of shares)	Shareholding Ratio (%)
Nippon Life Insurance Company	3,596	5.66
Meiji Yasuda Life Insurance Company	2,789	4.39
The Master Trust Bank of Japan, Ltd. (Trust account)	2,705	4.26
Trust & Custody Services Bank, Ltd. as trustee for Nippon Steel Corporation Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	2,664	4.19
The Chiba Bank, Ltd.	2,382	3.75
Yugen Co., Ltd.	2,354	3.71
The SATOMI Scholarship Foundation	2,316	3.65
Asahi Chiyoda Holding Co., Ltd.	2,292	3.61
Japan Trustee Services Bank, Ltd. (Trust account)	1,873	2.95
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	1,780	2.80

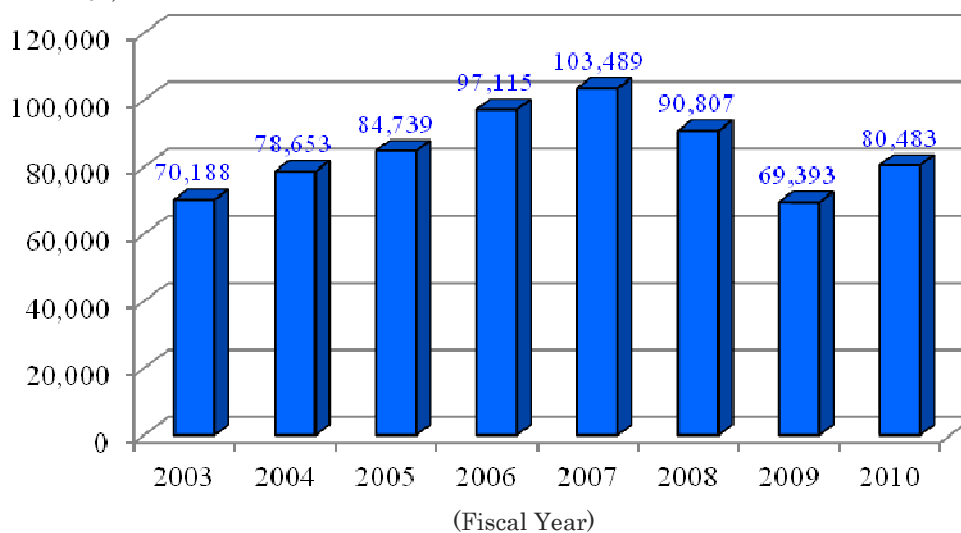
## Financial Highlights (Consolidated)

(JPY Million)

	2003	2004	2005	2006	2007	2008	2009	2010
Net sales	70,188	78,653	84,739	97,115	103,489	90,807	69,393	80,483
Ordinary profit	7,226	10,483	12,705	14,247	15,464	9,828	9,055	13,649
Net profit	3,091	5,341	6,816	6,983	8,088	4,439	4,131	7,454
Total assets	101,014	104,244	122,775	131,348	132,595	111,088	119,101	124,925

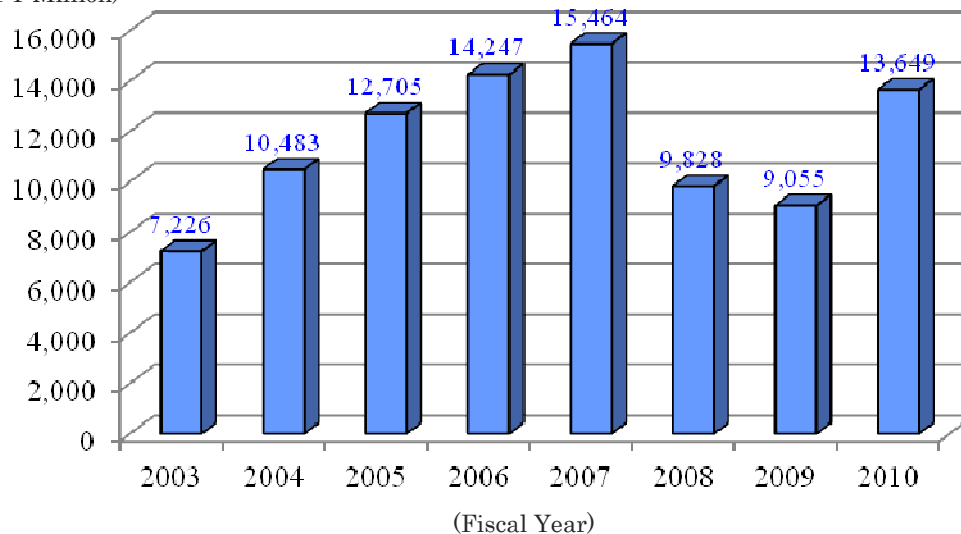
### Net sales

(JPY Million)



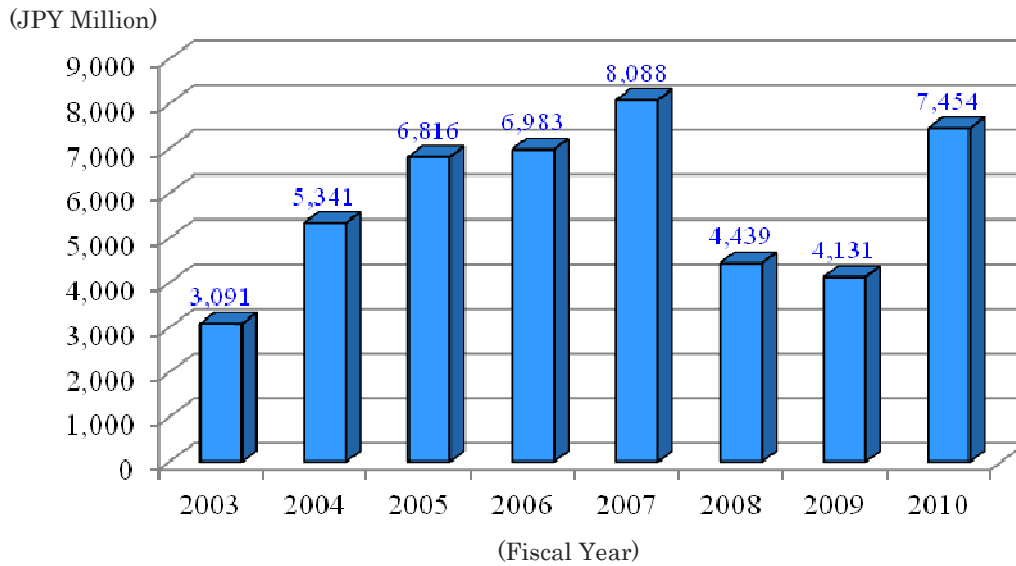
### Ordinary profit

(JPY Million)

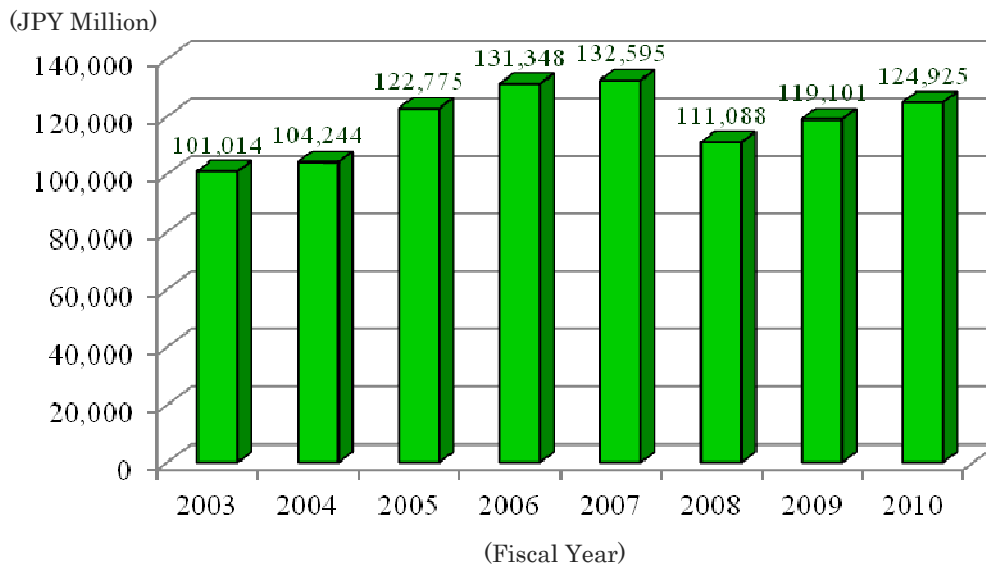




## Net profit



## Total assets



## Consolidated Balance Sheets

	Fiscal year ended March 31	
	2011	2010
	(JPY Million)	
<b>Assets</b>		
<b>Current assets</b>	<b>61,590</b>	<b>55,909</b>
Cash and deposits	25,683	23,496
Notes and accounts receivable-trade	25,035	24,621
Inventories	6,726	5,596
Deferred tax assets	1,583	1,233
Others	2,670	1,011
Allowance for doubtful accounts	△108	△49
<b>Fixed assets</b>	<b>63,335</b>	<b>63,191</b>
<b>Tangible assets</b>	<b>35,304</b>	<b>36,142</b>
Buildings and fixtures, net	11,904	12,178
Machinery, equipment and vehicles, net	6,331	6,677
Land	14,545	14,398
Construction in progress	1,346	1,720
Other, net	1,177	1,168
<b>Intangible assets</b>	<b>1,866</b>	<b>1,842</b>
Goodwill	296	81
Others	1,570	1,760
<b>Investments and other assets</b>	<b>26,164</b>	<b>25,206</b>
Investment in securities	18,231	18,545
Long-term loans receivable	28	33
Deferred tax assets	2,851	2,379
Others	5,233	4,515
Allowance for doubtful accounts	△180	△267
<b>Total assets</b>	<b>124,925</b>	<b>119,101</b>

**Liabilities**

<b>Current liabilities</b>	<b>28,821</b>	<b>28,894</b>
Notes and accounts payable-trade	11,992	11,822
Short-term loans payable	3,268	5,488
Current portion of long-term loans payable	556	2,603
Corporate income taxes payable	2,981	1,992
Provision for bonuses	2,316	2,018
Provision for loss on disaster	238	—
Others	7,467	4,968

<b>Fixed liabilities</b>	<b>14,800</b>	<b>14,072</b>
Long-term loans payable	3,138	2,337
Provision for retirement benefits	9,538	9,358
Provision for directors' retirement benefits	941	877
Others	1,183	1,499

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<b>Total liabilities</b>	<b>43,622</b>	<b>42,967</b>
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**Net assets**

<b>Shareholders' equity</b>	<b>70,362</b>	<b>64,075</b>
Paid-in capital	4,560	4,560
Capital surplus	3,913	3,913
Retained earnings	65,508	59,214
Treasury stock	△3,619	△3,611

<b>Accumulated other comprehensive profit</b>	<b>△1,929</b>	<b>△170</b>
Valuation difference on available-for-sale securities	2,163	2,680
Deferred gains or losses on hedges	△50	△25
Foreign currency translation adjustment	△4,041	△2,825

<b>Minority interests</b>	<b>12,869</b>	<b>12,227</b>
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<b>Total net assets</b>	<b>81,303</b>	<b>76,133</b>
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<b>Total liabilities and net assets</b>	<b>124,925</b>	<b>119,101</b>
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## Consolidated Statements of income

	Fiscal year ended March 31	
	2011	2010
	(JPY Million)	
Net sales	80,483	69,393
Cost of sales	49,094	44,252
<b>Gross profit</b>	<b>31,389</b>	<b>25,141</b>
Selling, general and administrative expenses	19,061	17,580
<b>Operating income</b>	<b>12,327</b>	<b>7,560</b>
<b>Non-operating profit</b>	<b>1,999</b>	<b>1,992</b>
Interest income	79	80
Dividends income	243	247
Rent income	320	325
Technical support fee	271	152
Equity in earnings of affiliates	724	462
Foreign exchange gains	—	159
Other	358	493
<b>Non-operating expenses</b>	<b>677</b>	<b>426</b>
Interest expenses	135	150
Foreign exchange losses	357	—
Other	184	276
<b>Ordinary profit</b>	<b>13,649</b>	<b>9,055</b>
<b>Extraordinary profit</b>	<b>34</b>	<b>44</b>
<b>Extraordinary loss</b>	<b>408</b>	<b>885</b>
<b>Income before income taxes and minority interests</b>	<b>13,275</b>	<b>8,215</b>
Income taxes-current	4,906	3,132
Income taxes-deferred	△422	70
<b>Income before minority interests</b>	<b>8,791</b>	<b>—</b>
Minority interests in income	1,336	880
<b>Net profit for the period</b>	<b>7,454</b>	<b>4,131</b>