

# Business Report

for the 127th Term 2011.4.1–2012.3.31



**NIHON PARKERIZING CO.,LTD.**

## To Our Shareholders

First of all, thank you very much for your continued patronage. We are very glad to be able to present our annual report for the 127<sup>th</sup> financial period, ended on 31st March, 2012.

As you are well aware, the economy in Japan during this period improved little by little due to reconstruction demand and recovery of production which had decreased after the Great East Japan Earthquake. However, it did not become a full-fledged economic recovery as, in addition to the appreciation of the yen and the higher oil prices, Japan experienced electricity shortages throughout the summer.

Against such a backdrop, in addition to strengthening our overseas bases and pursuing research and development with an eye to the future, the Parker Group actively sought ways to reduce costs, strengthen our business organization and improve profitability. As a result, our business achievements were as described in the later part of this report.

Regarding the dividend, our priority is a consistent and stable dividend payment, and this will be ten Japanese yen per share, which is the same as the interim dividend.

The environment surrounding the Parker Group is one in which we anticipate a stagnation of the European and U.S. economies due to the increasingly serious debt problems in Europe and an increase in competition in the Asian markets. However, we will do our utmost to continually build on our business achievements in response to the expectations of our shareholders, by promoting the development of new technologies as well as strengthening our business development overseas.

Thank you very much for your unerring support.

June 2012



Shun ONO



Kazuichi SATOMI

## **Parker Group Outlook**

### **Business progress and results**

Looking at the global economy during this period, the European economy overall tended towards stagnation due to the nervousness of financial markets resulting from the worsening of European debt problems. The Asian economies were comparatively steadfast however lower exports to Europe and the U.S. dampened economic growth rates.

In Japan, the economy exhibited a significant slump following the Great East Japan Earthquake, however, from the middle of the period economic activity picked up gradually due to reconstruction demand and recovery of production that had been stalled due to the disasters. However, in addition to the appreciation of the yen and the higher oil prices, there was a shortage of electricity in the summer and all these factors contributed to very tough conditions for business.

The business environment faced by the Parker Group was a tough one as the automotive industry, which is one of our main customers, grappled with the effects on production of both the Great East Japan Earthquake and the devastating floods in Thailand. Furthermore, in the steel industry as well, Japanese steel manufacturers faced intense competition from Asian steel manufacturers, creating difficulties for our customers in maintaining their superior edge in the market.

Against such a fierce economic backdrop, in addition to working hard to gain new customers and supply new technologies overseas to ensure that we steadily capture the increasing demand in expanding overseas markets, the Parker Group worked to strengthen our overseas business by promoting equipment investment particularly in Asia. We also focused on research and development to create new technologies with a view to the future. Furthermore, we actively sought to promote cost cutting in a variety of ways, by seeking efficiency in procurement of raw materials as well as strengthening the ties among our Group members and reorganizing our business.

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

Net sales were 84,758 million yen (up 5.3% on the previous period) and operating income was 11,411 million yen (down 7.4% ditto). Ordinary income was 12,901 million yen (down 5.5% ditto) and pure profit for the period was 6,314 million yen (down 15.3% ditto).

The overview by each business segment is as follows.

**(Chemicals Business)**

Net sales were 35,822 million yen (down 2.1% on the previous period) and operating income was 8,659 million yen (down 9.8% 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 material. During this period, income fell both within Japan and overseas, and the prices of raw materials continued to rise, increasing manufacturing costs and overall creating a tough environment.

**(Equipment Business)**

Net sales were 15,250 million yen (up 53.9% on the previous period) and operating income was 650 million yen (up 54.4% ditto). Our equipment business segment manufactures and sells pre-treatment equipment, painting equipment and powder coating equipment etc. mainly to the transportation machinery industry. While domestic orders for pre-treatment equipment remained stagnant, demand from overseas recovered, particularly from Asia, and profitability improved particularly in terms of income, recovering almost to the levels seen prior to the financial crisis.

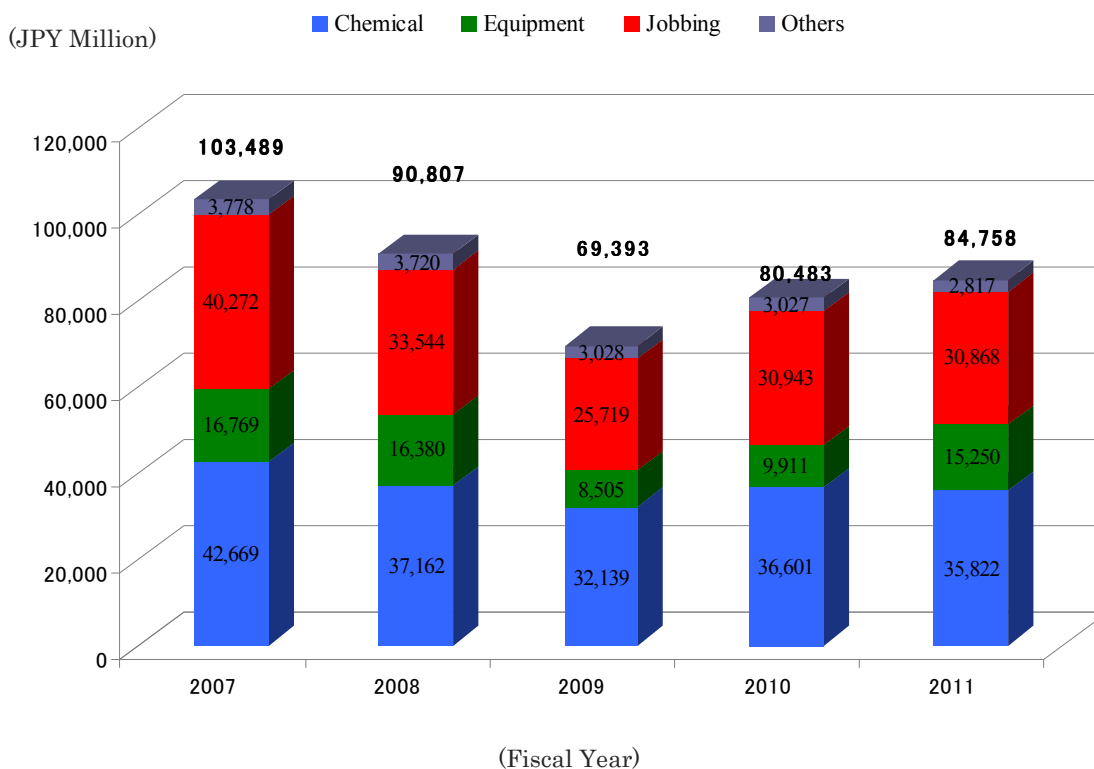
**(Jobbing Business)**

Net sales were 30,868 million yen (down 0.2% on the previous period) and operating income was 5,887 million yen (down 5.7% ditto). This division provides surface modification jobbing services such as heat treatment, rust prevention coating and plating. Domestic jobbing business is suffered by reduced income and profit due to the Great East Japan Earthquake and also due to customers moving manufacturing bases to overseas. Looking overseas, the jobbing business picked up in the U.S., however, the jobbing business in Asia was weak due to the effects of the floods in Thailand and also rising labor costs.

**(Other Business)**

Net sales were 2,817 million yen (down 7.0% on the previous period) and operating income was 278 million yen (down 31.9% ditto). This segment includes our building maintenance, real estate leasing, financial lease and transportation businesses. The building maintenance business is suffered by reduced income while at the same time profitability in the logistics business declined and led to lower income and profits.

## Sales by Business (Consolidated)



## Status of Capital Expenditure

Equipment investment in this period totaled 4,599 million yen, with the main investments for each business segment as follows.

Main facilities completed in this period:

Chemicals Division:

Nihon Parkerizing (India) Pvt. Ltd.

New chemical manufacturing plant.

Jobbing Business:

Thai Parkerizing Co., Ltd.:

Construction of new building and installation of equipment at rust preventive and heat treatment jobbing plant.

## **Status of financing**

Not applicable.

## **Issues to face**

Regarding the economic outlook, it is anticipated that the European and U.S. economies will remain sluggish and therefore a high level of economic growth cannot be expected from the various economies of Asia which are highly dependent on exports to the West. In addition, there is significant concern regarding the impact of financial instability in Europe on the global economy. Furthermore, in Japan, reconstruction demand after the Great East Japan Earthquake, and the employment and wage environment have recovered moderately and lead to anticipation of a positive economic growth in the short term, however, increasing competition with Asian countries and the entrenched yen appreciation is dampening exports and leads to a shift overseas of Japanese manufacturing bases, and it is tough environment for corporations maintaining a base within Japan.

Against such a difficult backdrop, the Parker Group, under its motto of “back to the basics”, will pursue the development of surface modification technologies which cannot be beaten in terms of its innovation and originality, as well as actively promote equipment investment to strengthen manufacturing in Japan and overseas. We are urgently working on refurbishing our business base in the Indian market where particularly strong growth is anticipated, as well as actively investing management resources on expanding business in Thailand, Indonesia and China.

## **Number of Employees**

Consolidated	:	3,219 persons
Nihon Parkerizing alone	:	802 persons

## Principal Shareholders

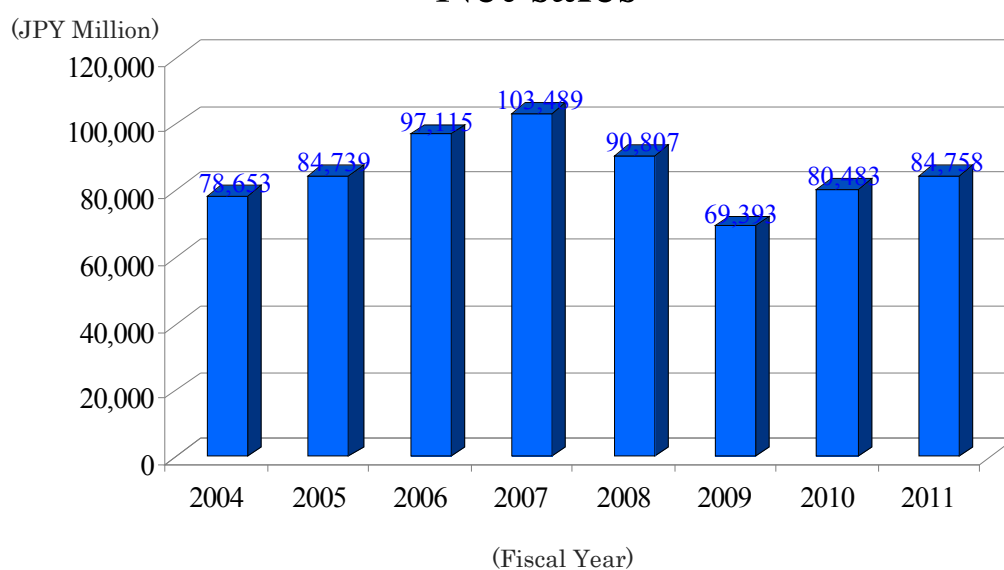
Name of Shareholders	Number of Shares Held (Thousands of shares)	Shareholding Ratio (%)
Nippon Life Insurance Company	3,596	5.67
Meiji Yasuda Life Insurance Company	2,789	4.39
Trust & Custody Services Bank, Ltd. as trustee for Nippon Steel Corporation Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	2,664	4.20
The Master Trust Bank of Japan, Ltd. (Trust account)	2,612	4.11
Japan Trustee Services Bank, Ltd. (Trust account)	2,587	4.07
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
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	1,702	2.68

## Financial Highlights (Consolidated)

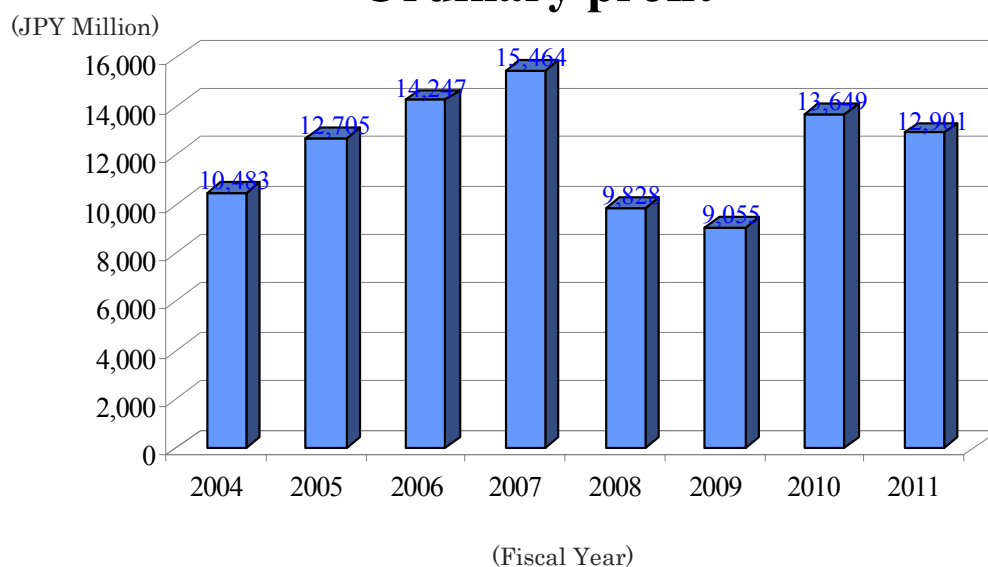
(JPY Million)

	2004	2005	2006	2007	2008	2009	2010	2011
Net sales	78,653	84,739	97,115	103,489	90,807	69,393	80,483	84,758
Ordinary profit	10,483	12,705	14,247	15,464	9,828	9,055	13,649	12,901
Net profit	5,341	6,816	6,983	8,088	4,439	4,131	7,454	6,314
Total assets	104,244	122,775	131,348	132,595	111,088	119,101	124,925	130,517

### Net sales

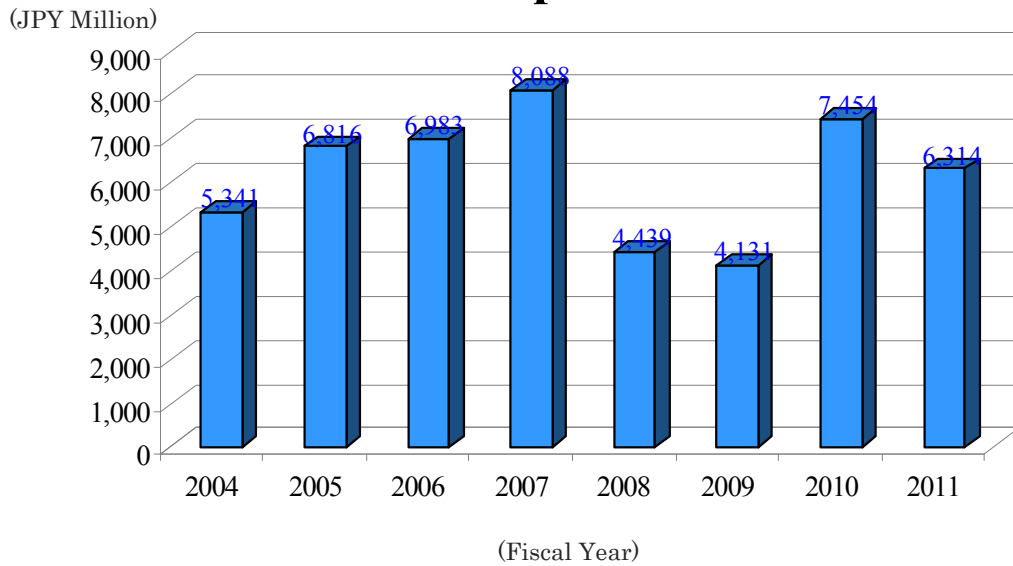


### Ordinary profit

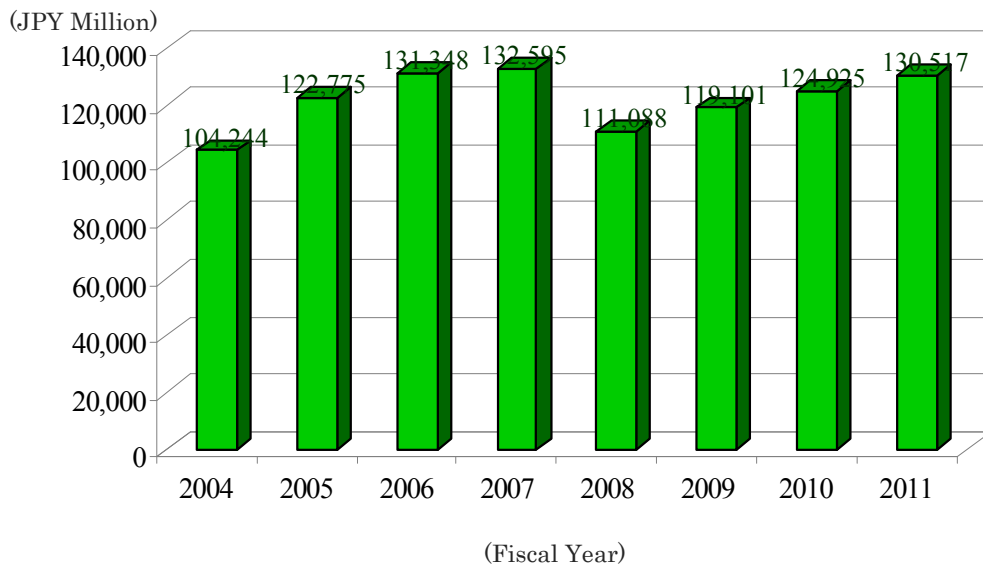




## Net profit



## Total assets



## Consolidated Balance Sheets

	Fiscal year ended March 31	
	2012	2011
	(JPY Million)	
<b>Assets</b>		
<b>Current assets</b>	<b>64,679</b>	<b>61,590</b>
Cash and deposits	23,632	25,683
Notes and accounts receivable-trade	27,431	25,035
Inventories	7,464	6,726
Deferred tax assets	1,468	1,583
Others	4,820	2,670
Allowance for doubtful accounts	△137	△108
<b>Fixed assets</b>	<b>65,837</b>	<b>63,335</b>
<b>Tangible assets</b>	<b>35,311</b>	<b>35,304</b>
Buildings and fixtures, net	12,004	11,904
Machinery, equipment and vehicles, net	7,045	6,331
Land	14,554	14,545
Construction in progress	747	1,346
Others, net	958	1,177
<b>Intangible assets</b>	<b>1,846</b>	<b>1,866</b>
Goodwill	199	296
Other	1,647	1,570
<b>Investments and other assets</b>	<b>28,679</b>	<b>26,164</b>
Investments in securities	18,503	18,231
Long-term loans receivable	248	28
Deferred tax assets	2,121	2,851
Others	7,963	5,233
Allowance for doubtful accounts	△158	△180
<b>Total assets</b>	<b>130,517</b>	<b>124,925</b>

**Liabilities**

<b>Current liabilities</b>	<b>28,042</b>	<b>28,821</b>
Notes and accounts payable-trade	12,861	11,992
Short-term loans payable	2,731	3,268
Current portion of long-term loans payable	560	556
Corporate Income taxes payable	2,202	2,981
Provision for bonuses	2,281	2,316
Provision for loss on disaster	—	238
Others	7,406	7,467

<b>Fixed liabilities</b>	<b>15,201</b>	<b>14,800</b>
Long-term loans payable	3,223	3,138
Provision for retirement benefits	9,876	9,538
Provision for directors' retirement benefits	924	941
Others	1,177	1,183

---

<b>Total liabilities</b>	<b>43,243</b>	<b>43,622</b>
--------------------------	---------------	---------------

---

**Net assets**

<b>Shareholders' equity</b>	<b>75,676</b>	<b>70,362</b>
Paid-in capital	4,560	4,560
Capital surplus	3,913	3,913
Retained earnings	70,824	65,508
Treasury stock	△3,622	△3,619

<b>Accumulated other comprehensive profit</b>	<b>△2,030</b>	<b>△1,929</b>
Valuation difference on available-for-sale securities	3,056	2,163
Deferred gains or losses on hedges	△34	△50
Foreign currency translation adjustment	△5,052	△4,041

<b>Minority interests</b>	<b>13,628</b>	<b>12,869</b>
---------------------------	---------------	---------------

---

<b>Total net assets</b>	<b>87,273</b>	<b>81,303</b>
-------------------------	---------------	---------------

---

<b>Total liabilities and net assets</b>	<b>130,517</b>	<b>124,925</b>
---	----------------	----------------

---

## Consolidated Statements of income

	Fiscal year ended March 31	
	2012	2011
	(JPY Million)	
<b>Net sales</b>	<b>84,758</b>	<b>80,483</b>
<b>Cost of sales</b>	<b>53,937</b>	<b>49,094</b>
<b>Gross profit</b>	<b>30,821</b>	<b>31,389</b>
<b>Selling, general and administrative expenses</b>	<b>19,409</b>	<b>19,061</b>
<b>Operating income</b>	<b>11,411</b>	<b>12,327</b>
<b>Non-operating profit</b>	<b>1,998</b>	<b>1,999</b>
Interest income	133	79
Dividends income	264	243
Rent income	301	320
Technical support fee	318	271
Equity in earnings of affiliates	679	724
Other	301	358
<b>Non-operating expenses</b>	<b>509</b>	<b>677</b>
Interest expenses	102	135
Foreign exchange losses	199	357
Other	207	184
<b>Ordinary income</b>	<b>12,901</b>	<b>13,649</b>
<b>Extraordinary income</b>	<b>140</b>	<b>34</b>
<b>Extraordinary loss</b>	<b>589</b>	<b>408</b>
<b>Income before income taxes and minority interests</b>	<b>12,452</b>	<b>13,275</b>
Income taxes-current	4,357	4,906
Income taxes-deferred	587	△422
<b>Income before minority interests</b>	<b>7,507</b>	<b>8,791</b>
Minority interests in income	1,193	1,336
<b>Net profit for the period</b>	<b>6,314</b>	<b>7,454</b>