

# Business Report

for the 130th Term 2014.4.1 – 2015.3.31



**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 130th period, ended on 31st March, 2015.

As you well know, in the Japanese economy during this period, continued improvement was made in employment and wages and the effects of the declining crude oil price and various government policies resulted in anticipation of a continued moderate recovery. In addition, recovery in overseas economies led by the advanced economies and the resulting improvement in exports led to heightened expectations for an economic recovery in Japan.

Against such a backdrop, the Parker Group has been actively engaged in meeting the requirements of our customers in the increasingly sluggish domestic metal surface treatment modification market by supplying high value added technology which will lead to high quality and low cost, as well as investing in production equipment to steadily take advantage of increased foreign demand. In addition, the Parker Group has focused on research and development with the aim of creating new technologies to strengthen our corporate performance and improve profitability. As a result, our business achievements were as described in the latter part of this report.

In consideration of the business achievements, the dividend will be fifteen yen per share, which is the same as the interim dividend.

It is anticipated that our Group will face an environment in which there is a high degree of uncertainty both in Japan and abroad due to the risk of a downturn in the economies of China and Europe and the financial problem faced by Greece, as well as the risk of a bubble after a lengthy period of quantitative easing. In addition to the development of surface modification technologies unsurpassed in innovation and originality, we will continue to actively promote equipment investment to increase our production capacity and do our utmost to improve our business achievements to meet the expectations of our valued shareholders.

Thank you very much for your unerring support.

June, 2015



Chairman & C.E.O .  
**Shun ONO**



President & C.O.O.  
**Kazuichi SATOMI**

## **Parker Group Outlook**

### **Business progress and results**

In the global economy during this period, the U.S. dollar remained strong amidst anticipation of an increase in interest rates and Japanese and European stock prices which got off to a slow start recovered somewhat with the introduction of quantitative easing. In the domestic economy, corporate profits improved with the continuing weak yen, and expectations for an economic recovery increased.

The business environment faced by the Parker Group is one in which our key customers in the automotive industry adjusted inventories due to slower growth in domestic sales, keeping domestic auto production at a low level. Also in the steel industry, while demand for steel improved, the excess supply due to increase in blast furnace production at Chinese steel manufacturers fuelled competition in this industry.

Against such an economic backdrop, while the sense of stagnation in the domestic market for surface modification grew, the Parker Group worked hard to provide high valued added technology to meet our customers' needs for high quality and low cost, as well as bolstering equipment investment to increase production capacity particularly in North America, Mexico, China and Thailand to ensure that we steadily take advantage of increased foreign demand. Furthermore, we have been pouring our efforts into research and development aiming to create new technology to make sure we maintain our position as market leader into the future. We have also worked hard to increase corporate value by such measures as constructing solar power plants to make effective use of idle land.

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

Net sales were 102,514 million yen (up 2.7% on the previous period), and operating income was 14,850 million yen (down 3.5% ditto). Ordinary income was 17,453 million yen (down 3.3% ditto) and pure profit for the period was 9,975million yen (down 1.6% ditto).

The overview by each business segment is as follows.

**(Chemicals Business)**

Net sales were 43,372 million yen (up 3.6% on the previous period) and operating income was 11,484 million yen (down 1.3% 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. The domestic chemicals business was stagnant however an expansion in sales in China, Korea and India led to an increase in income in this segment however, the increase in materials costs due to the weak yen and a slowdown in automotive production in Thailand, a key overseas market, resulted in a fall in profit in this segment.

**(Equipment Business)**

Net sales were 20,803 million yen (up 0.7% on the previous period) and operating income was 1,063 million yen (down 19.1% ditto). The equipment business segment manufactures and sells pre-treatment equipment, painting equipment and powder coating equipment, etc. mainly to the transportation machinery industry. Overseas income fell however domestically income rose, exceeding the 20,000 million mark as it did the previous year. However, there was stiff competition to gain orders, resulting in the increased income accompanied by a fall in profit in the segment.

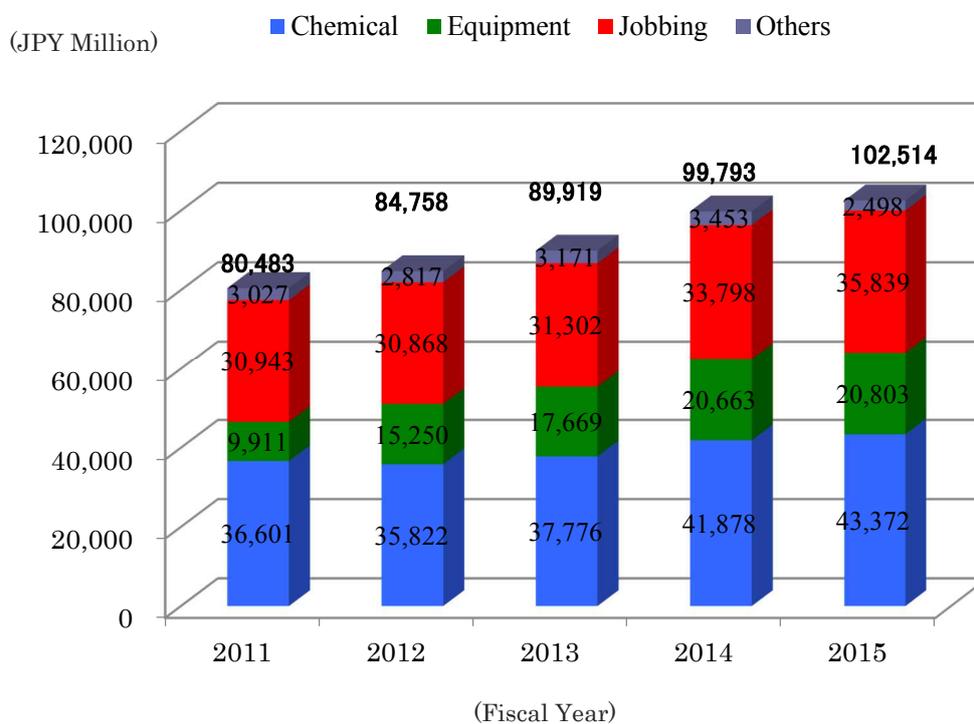
**(Jobbing Business)**

Net sales were 35,839 million yen (up 6.0% on the previous period) and operating income was 6,607 million yen (up 2.8% ditto). This division provides service modification jobbing services such as heat treatment, rust prevention coating and plating. In the domestic jobbing business, the heat treatment jobbing business faced a tough environment as this was affected by the shifting of production overseas by auto parts manufacturers, however the rust proof jobbing fared relatively well. Overseas, the key market of Thailand was sluggish, and in Indonesia labor costs rose, leading to a fall in profit in the tough environment. However the jobbing business in China and Vietnam was steadfast, resulting in an increase in both income and profit in this segment.

**(Other Business)**

Net sales were 2,498 million yen (down 27.7% on the previous period) and operating income was 203 million yen (down 59.6% ditto). This segment includes our building maintenance and transportation business, etc. Income and profit in this segment fell as one consolidated subsidiary relevant to this segment became an affiliated company accounted for by the equity method.

## Sales by Business (Consolidated)



## Status of Capital Expenditure

Equipment investment in this period totaled 10,020million yen, with the main investments in each business segment as follows.

Main facilities completed in this period:

Jobbing Business:

Parker Trutec, Inc.

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

Jobbing Business:

Foshan Parker Surface Modification Co., Ltd.

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

Main facilities in progress in this period:

Jobbing Business:

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

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

**Status of financing**

Not applicable.

**Issues to face**

Regarding the economic outlook, it is anticipated that the economic expansion in advanced countries will be a driving force in the global economy however overall there is a lack of vigor. While the decline in the crude oil price has helped in expanding the economies of countries reliant on crude oil imports, it has struck a blow to resource-rich countries. The Japanese economy is seen to be gradually brightening with an improved employment environment and continued weak yen, however uncertainty remains both in Japan and abroad due to the risk of a downturn in the economies of China and Europe and the financial problem faced by Greece, as well as the risk of a bubble after a lengthy period of quantitative easing.

Against such a difficult backdrop, in order to secure its position as leader in the surface modifications market, 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. Furthermore, in order to strengthen corporate performance and profitability, the Parker Group will promote cost reduction activities throughout the whole business, improve efficiency in consolidated business and actively promote equipment investment to increase production capacity.

**Number of Employees**

Consolidated : 3,796 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 & Sumitomo Metal Corporation Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	2,664	4.20
The Chiba Bank, Ltd.	2,382	3.75
Yugen Co., Ltd.	2,354	3.71
The SATOMI Scholarship Foundation	2,316	3.65
Mizuho Bank, Ltd.	2,113	3.33
Northern Trust Co.(AVFC) Re 15PCT Treaty Account	1,960	3.09
The Master Trust Bank of Japan, Ltd. (Trust account)	1,858	2.93
State Street Bank and Trust Company	1,581	2.49

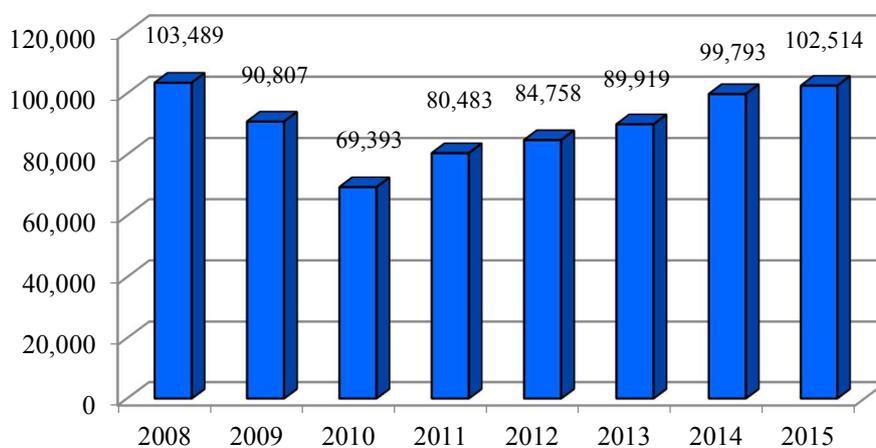
## Financial Highlights (Consolidated)

(JPY Million)

	2008	2009	2010	2011	2012	2013	2014	2015
Net sales	103,489	90,807	69,393	80,483	84,758	89,919	99,793	102,514
Ordinary profit	15,464	9,828	9,055	13,649	12,901	15,179	18,046	17,453
Net profit	8,088	4,439	4,131	7,454	6,314	8,463	10,142	9,975
Total assets	132,595	111,088	119,101	124,925	130,517	146,739	165,914	187,116

(JPY Million)

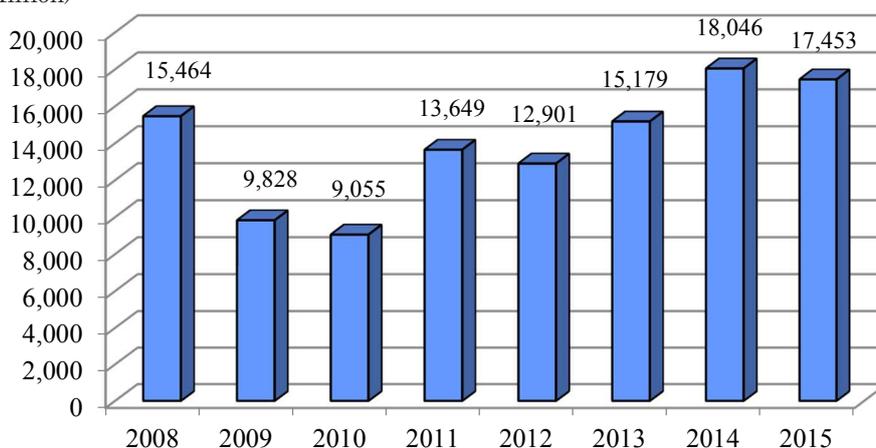
### Net sales



(Fiscal Year)

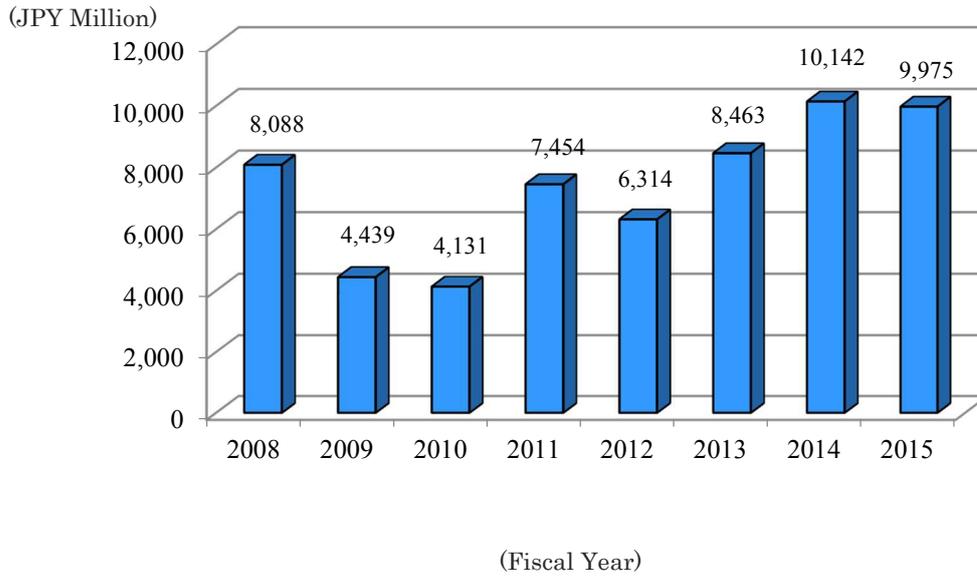
### Ordinary profit

(JPY Million)

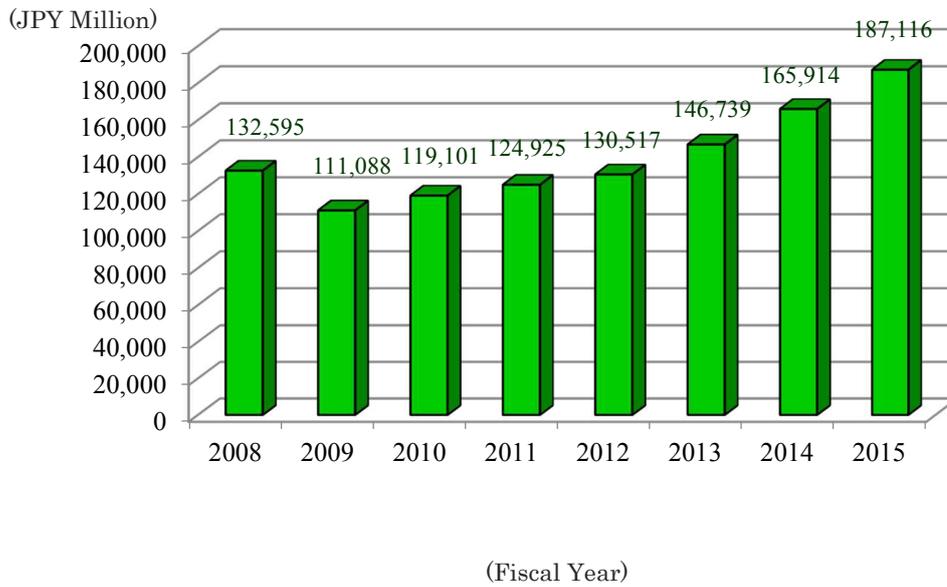


(Fiscal Year)

## Net profit



## Total assets



## Consolidated Balance Sheets

	Fiscal year ended March 31	
	2015	2014
	(JPY Million)	
<b>Assets</b>		
<b>Current assets</b>	<b>89,812</b>	<b>86,015</b>
Cash and deposits	38,835	38,005
Notes and accounts receivable-trade	32,675	30,167
Short-term investment securities	2,090	3,649
Inventories	10,765	10,238
Deferred tax assets	1,425	1,456
Others	4,190	2,635
Allowance for doubtful accounts	△169	△137
<b>Fixed assets</b>	<b>97,303</b>	<b>79,899</b>
<b>Tangible assets</b>	<b>50,911</b>	<b>42,772</b>
Buildings and fixtures, net	16,393	13,747
Machinery, equipment and vehicles, net	12,851	10,141
Land	15,235	15,375
Construction in progress	4,481	2,450
Others	1,949	1,057
<b>Intangible assets</b>	<b>1,616</b>	<b>2,697</b>
Goodwill	466	689
Others	1,149	2,008
<b>Investments and other assets</b>	<b>44,775</b>	<b>34,428</b>
Investment in securities	32,376	23,916
Long-term loans receivable	250	118
Deferred tax assets	1,088	1,365
Others	11,159	9,159
Allowance for doubtful accounts	△99	△131
<b>Total assets</b>	<b>187,116</b>	<b>165,914</b>

	Fiscal year ended March 31	
	2015	2014
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>32,710</b>	<b>32,412</b>
Notes and accounts payable-trade	15,535	14,538
Short-term loans payable	144	1,680
Current portion of long-term loans payable	399	360
Corporate Income taxes payable	1,888	2,759
Provision for bonuses	2,345	2,396
Others	12,397	10,676
<b>Fixed liabilities</b>	<b>18,282</b>	<b>15,829</b>
Long-term loans payable	1,854	2,108
Provision for directors' retirement benefits	901	856
Provision for retirement benefits	9,711	10,313
Deferred tax liabilities	3,938	1,424
Others	1,875	1,127
<b>Total liabilities</b>	<b>50,992</b>	<b>48,241</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>	<b>98,793</b>	<b>91,396</b>
Paid-in capital	4,560	4,560
Capital surplus	3,913	3,913
Retained earnings	93,949	86,546
Treasury stock	△3,628	△3,623
<b>Accumulated other comprehensive profit</b>	<b>15,492</b>	<b>7,247</b>
Valuation difference on available-for-sale securities	10,615	6,203
Deferred gains or losses on hedges	△3	3
Foreign currency translation adjustment	4,910	1,176
Remeasurements of defined benefit plans	△29	△135
<b>Minority interests</b>	<b>21,836</b>	<b>19,028</b>
<b>Total net assets</b>	<b>136,123</b>	<b>117,672</b>
<b>Total liabilities and net assets</b>	<b>187,116</b>	<b>165,914</b>

## Consolidated Statements of income

	Fiscal year ended March 31	
	2015	2014
	(JPY Million)	
<b>Net sales</b>	<b>102,514</b>	<b>99,793</b>
<b>Cost of sales</b>	<b>64,779</b>	<b>63,065</b>
<b>Gross profit</b>	<b>37,735</b>	<b>36,728</b>
<b>Selling, general and administrative expenses</b>	<b>22,884</b>	<b>21,335</b>
<b>Operating income</b>	<b>14,850</b>	<b>15,393</b>
<b>Non-operating profit</b>	<b>3,048</b>	<b>2,941</b>
Interest income	238	206
Dividends income	431	367
Rent income	381	335
Technical support fee	354	290
Equity in earnings of affiliates	791	931
Foreign exchange gains	497	470
Others	353	339
<b>Non-operating expenses</b>	<b>445</b>	<b>288</b>
Interest expenses	26	73
Compensation expenses	164	9
Others	254	205
<b>Ordinary income</b>	<b>17,453</b>	<b>18,046</b>
<b>Extraordinary income</b>	<b>419</b>	<b>571</b>
<b>Extraordinary loss</b>	<b>384</b>	<b>202</b>
<b>Income before income taxes and minority interests</b>	<b>17,488</b>	<b>18,415</b>
Income taxes-current	5,041	5,727
Income taxes-deferred	661	232
<b>Income before minority interests</b>	<b>11,785</b>	<b>12,456</b>
Minority interests in income	1,809	2,313
<b>Net profit for the period</b>	<b>9,975</b>	<b>10,142</b>