

# Business Report



**NIHON PARKERIZING CO.,LTD.**

## To Our Shareholders

Thank you very much for your continued support. We are pleased to present our Annual Report for the 133<sup>rd</sup> period, ended on March 31<sup>st</sup>, 2018.

As you know, although there was a degree of uncertainty in this period in the Japanese economy including uncertainty over policy trends in the U.S., the economy has exhibited moderate recovery with improvements in employment and profitability.

Against such an economic backdrop, as we entered the second year of the second three-year Mid-term Management Plan, all members of the Parker Group, under the slogan of *aiming to be the leading global company in the field of surface modifications, maintaining our technical superiority in the market of surface modifications for a wide variety of substrates*, 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”. As a result, our business achievements for this period were as described in the latter part of this report.

In consideration of the steady results achieved during this term and our dividend policy, the ordinary year-end dividend will be eleven yen per share, and to express appreciation to our shareholders on the 90<sup>th</sup> anniversary since the company’s establishment, a commemorative dividend of two yen per share will be added to make the total year-end dividend thirteen yen per share.

While corporate profits have continued to improve in Japan and the economy is expected to continue to improve, the environment faced by our group is one which remains unpredictable due to geopolitical risks and increased uncertainty in overseas economies stemming from trade issues. The Parker Group positions this year, which marks the 90<sup>th</sup> anniversary of our founding, as an important year, and as we head towards our centenary we will pursue further growth and the creation of new business bases, as well as improving management efficiency Group-wide, investing in equipment and promoting global quality initiatives, as we aim for sustainable growth well into the future.

We look forward to the continuing support of our shareholders.

June 2018



Kazuichi SATOMI  
Chairman & C.E.O.



Kentaro Sato  
President & C.O.O.

## Parker Group Outlook

### (1) Business progress and results

While uncertainties remained including the direction of U.S. policy and geopolitical risks in East Asia, overall the global economy fared well due to a steady performance by the U.S. economy and a comeback in China and other Asian economies. Furthermore, the Japanese economy exhibited moderate recovery due to an improved employment environment, a recovery in personal consumption and improved corporate profits.

The business environment faced by the Parker Group was one in which our key customers in the automotive industry saw a continued recovery in domestic auto manufacturing as well as steady growth overseas, resulting in steady growth overall. In the steel industry which is another key business area, against a backdrop of improvement in the demand and supply environment, demand for steel grew overseas as well as in Japan where demand was strong for steel for use in the automotive and industrial machinery industries.

Against such a backdrop, as we entered the second year of the second three-year Mid-term Management Plan, all members of the Parker Group, under the slogan of *aiming to be the leading global company in the field of surface modifications, maintaining our technical superiority in the market of surface modifications for a wide variety of substrates*, 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”.

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

Net sales were 114,840 million yen (up 4.8% on the previous period), and operating income was 17,984 million yen (up 6.2% ditto). Ordinary income was 20,750 million yen (up 10.5% ditto) and net income attributable to parent company shareholders was 12,721 million yen (up 4.0% ditto).

The overview by each business segment is as follows.

#### (Chemicals Business)

Net sales were 45,599 million yen (up 5.2% on the previous period), and operating income was 9,465 million yen (up 5.5% 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. In Japan in the latter half of the fiscal year, profitability fell due to rises in the prices of raw materials, however demand was robust overseas in Thailand, India, China and elsewhere, and overall both income and profit rose in this segment.

#### (Equipment Business)

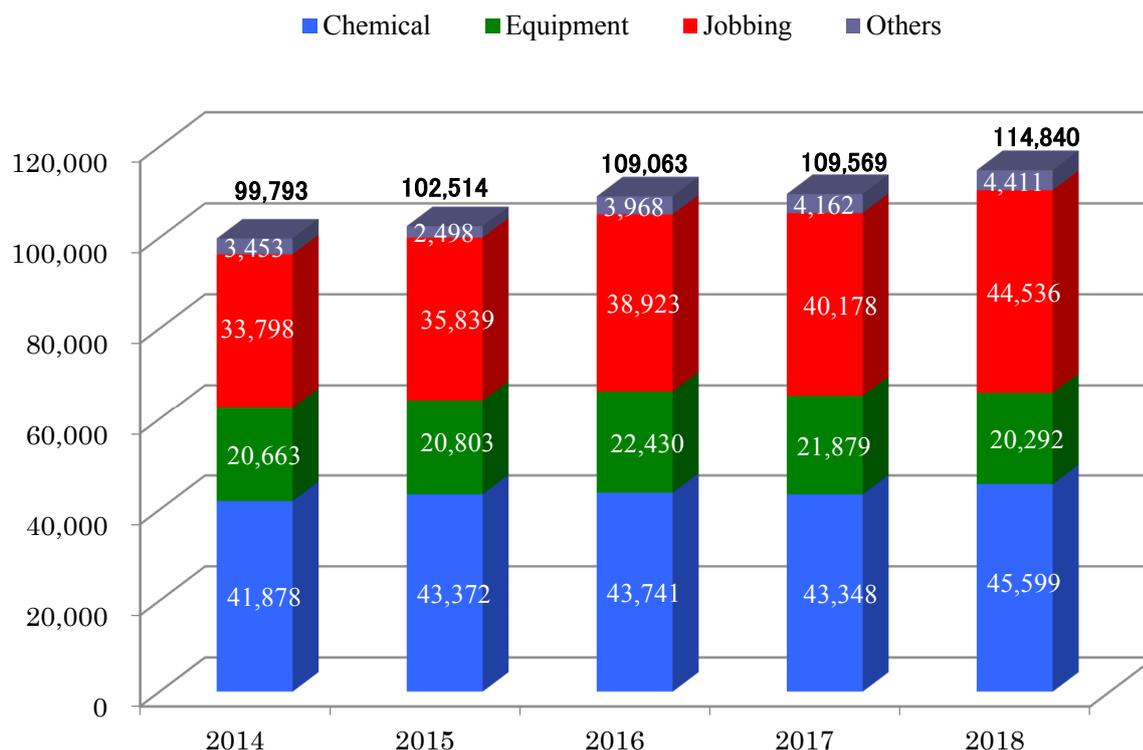
Net sales were 20,292 million yen (down 7.3% on the previous period), and operating income was 856 million yen (down 45.8% ditto). The equipment business segment manufactures and sells pre-treatment equipment, painting equipment and powder coating equipment, etc. mainly to the transportation machinery industry. Demand for equipment rose among automotive manufacturers in China however in Japan the fall in income was significant, and the overall result was a fall in income. In addition, due to increased competition for orders, profits fell in this segment.

(Jobbing Business)

Net sales were 44,536 million yen (up 10.8% on the previous year), and operating income was 8,682 million yen (up 18.4% ditto). This division provides surface modification jobbing services such as heat treatment, rust prevention coating and plating. In Japan, demand for jobbing services recovered in the auto parts industry and sales were robust particularly for heat treatment services. Overseas, income rose significantly in Thailand and China, and in the latter half of the fiscal year full operations started up at the new factory in Mexico, and as a result, both income and profits rose in this segment.

(Other)

Net sales were 4,411 million yen (up 6.0% on the previous period) and operating income was 188 million yen (down 34.5% ditto). This segment includes our building maintenance business, transportation business and solar power generation business. The building maintenance business was stagnant, resulting in a fall in profits.



(2) Status of capital expenditure

Equipment Investment in this period totaled 8,668 million yen, with the main investments in each segment as follows.

Main facilities completed in this period:

Nihon Parkerizing Co., Ltd.

## Construction of new building

Chemicals Business:

Dae Han Parkerizing Co., Ltd.

Construction of new factory for manufacture of chemicals

Parker Surface Technologies (Shanghai) Co., Ltd.

Construction of new factory for manufacture of chemicals

Jobbing Business:

Parker Trutec, Inc.

Expansion of equipment for rust preventive jobbing and heat treatment jobbing factories

### (3) Status of funds procurement

Not applicable

### (4) Issues to face

The Parker Group is now entering the second year of its second three year Mid-term Management Plan, and will be tackling the following important issues in order to ensure the sustained growth of the business. Our aim is to be the leading global company in the field of surface modifications, maintaining our technical superiority in the market of surface modification for a wide array of substrates.

#### (1) Enhancing and expanding our business base

Strengthening collaboration between Group companies in Japan and overseas, maintaining and expanding existing businesses, daring to take up challenges in the global market, developing new markets and creating a new business model.

#### (2) Technology-driven company

Expanding the market for high value-added products and advancing the development of differentiated technology, as well as improving efficiency of the research and development organization and contributing to a variety of industrial fields with innovations based on our core technology.

#### (3) Strengthening the structure of the organization

Cutting costs by promoting cost reduction throughout the organization, as well as building a global quality control system, developing human resources and enhancing corporate governance to strengthen the structure of the organization.

### Number of Employees

Consolidated : 4,222 persons

## Principal Shareholders

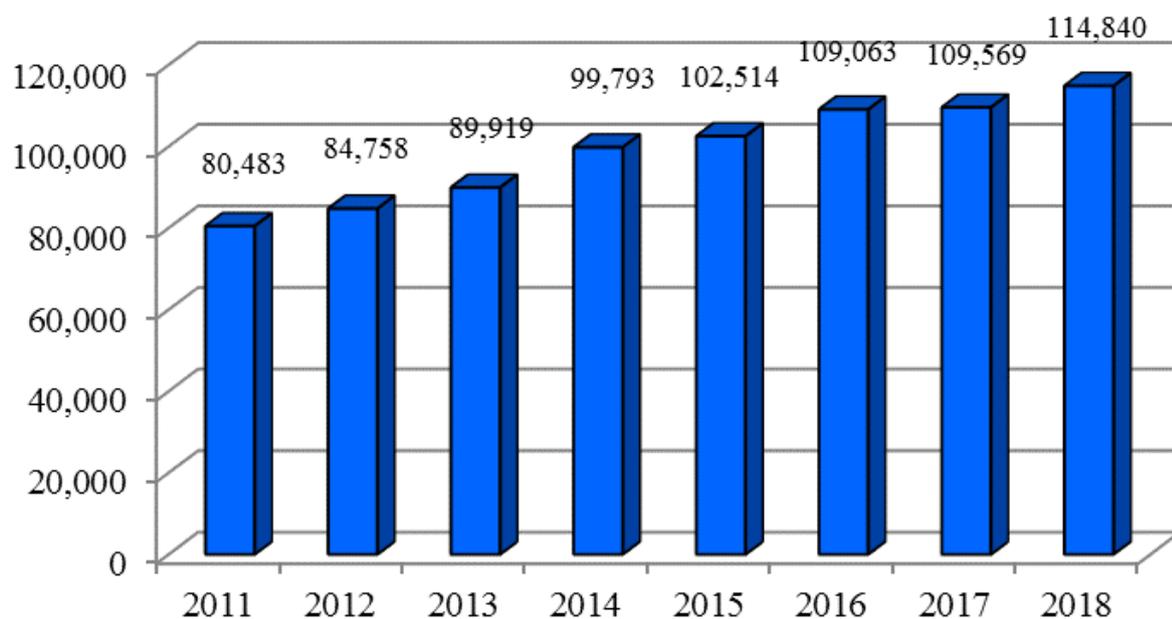
Name of Shareholders	Number of Shares Held (Thousands of shares)	Shareholding Ratio (%)
Nippon Life Insurance Company	7,015	5.64
Meiji Yasuda Life Insurance Company	5,578	4.48
The Chiba Bank, Ltd.	4,765	3.83
The Master Trust Bank of Japan, Ltd. (Trust account)	4,749	3.81
Yugen Co., Ltd.	4,708	3.78
The SATOMI Scholarship Foundation	4,633	3.72
Mizuho Bank, Ltd.	4,227	3.39
State Street Bank and Trust Company	3,823	3.07
Japan Trustee Services Bank, Ltd. (Trust account)	3,500	2.81
Sumitomo Mitsui Banking Corporation	3,113	2.50

## Financial Highlights (Consolidated)

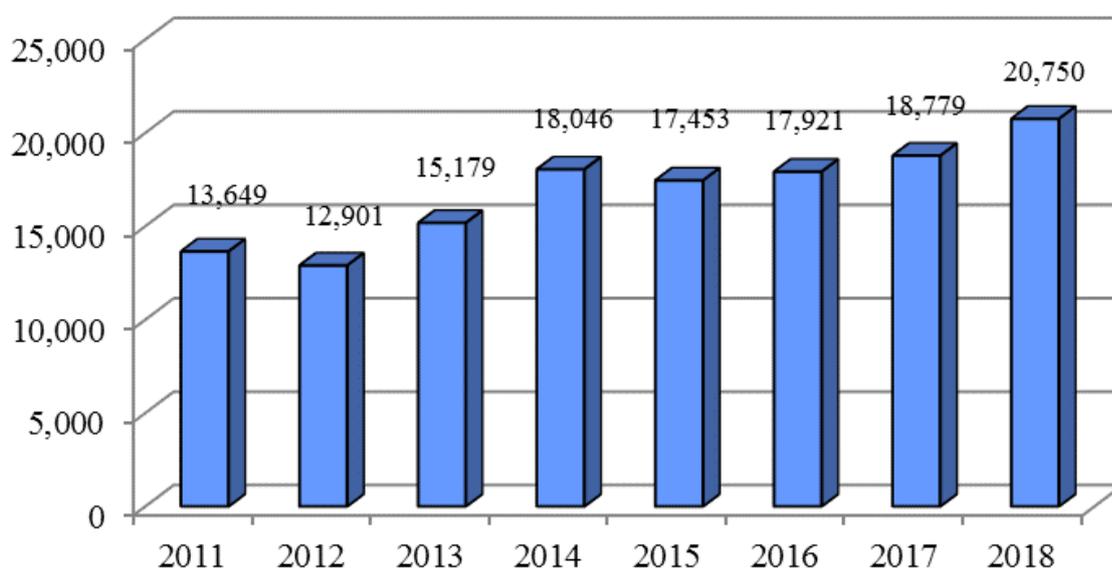
(JPY million)

	2011	2012	2013	2014	2015	2016	2017	2018
Net sales	80,483	84,758	89,919	99,793	102,514	109,063	109,569	114,840
Ordinary income	13,649	12,901	15,179	18,046	17,453	17,921	18,779	20,750
Net income attributable to parent company	7,454	6,314	8,463	10,142	9,975	10,320	12,228	12,721
Total liabilities and net assets	124,925	130,517	146,739	165,914	187,116	189,377	197,260	220,886

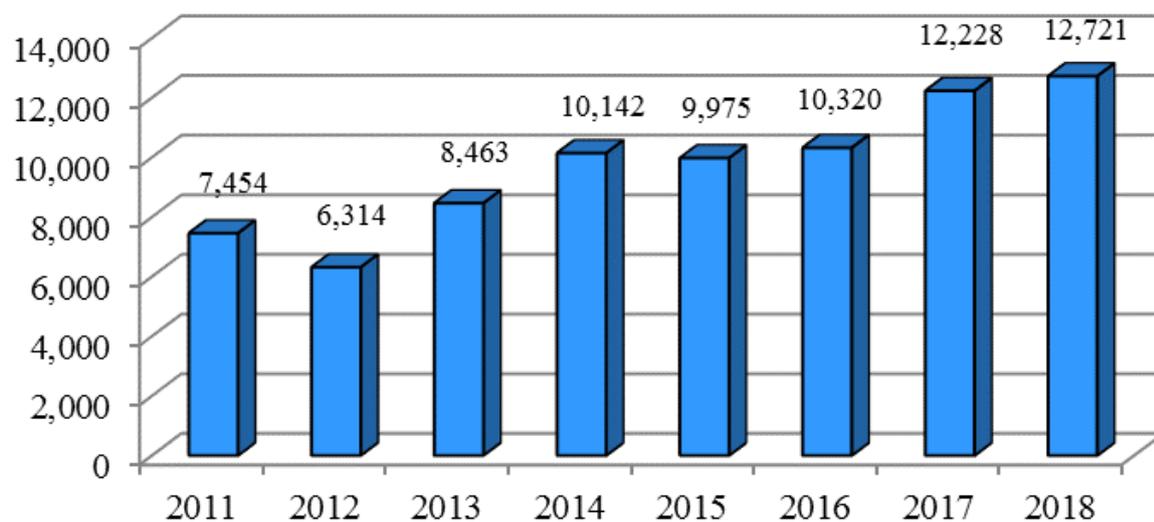
### Net sales



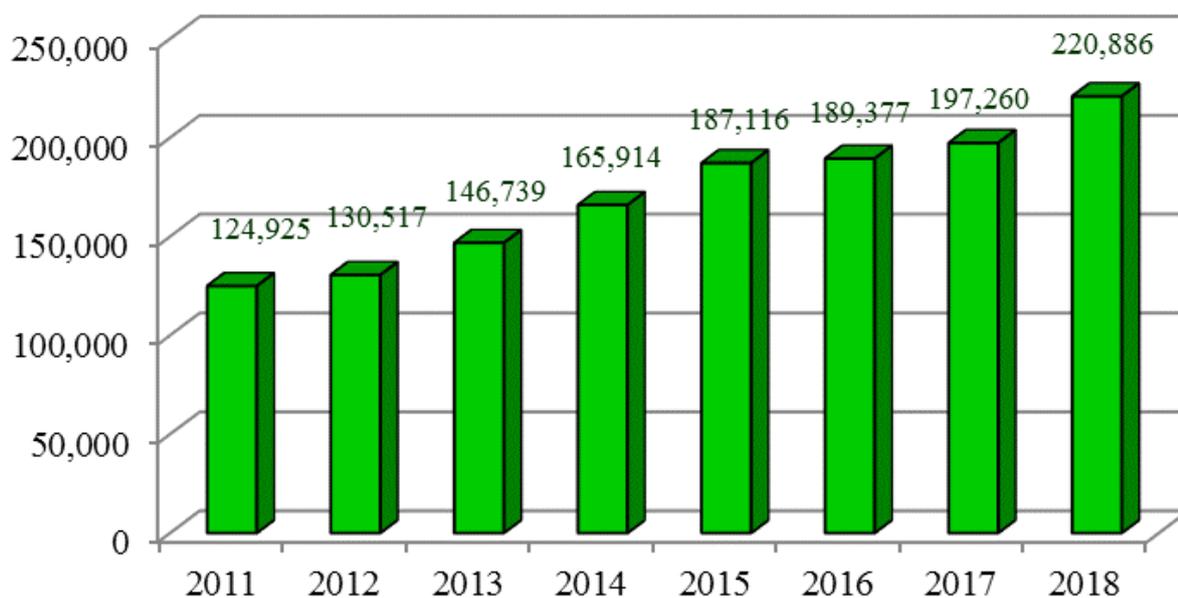
### Ordinary income



## Net income attributable to parent company shareholders



## Total liabilities and net assets



## Consolidated Balance Sheets

Fiscal year ended March 31

**2018**                      **2017**

(JPY Million)

### Assets

<b>Current assets</b>	<b>111,331</b>	<b>97,021</b>
Cash and deposits	55,673	45,400
Notes and accounts receivable-trade	39,980	35,879
Short-term investment securities	1,632	3,195
Inventories	9,230	8,933
Deferred tax assets	1,409	1,578
Others	3,572	2,189
Allowance for doubtful accounts	△167	△155
<b>Fixed assets</b>	<b>109,554</b>	<b>100,238</b>
<b>Tangible assets</b>	<b>59,897</b>	<b>55,792</b>
Buildings and fixtures, net	20,443	17,559
Machinery, equipment and vehicles, net	16,621	15,660
Land	16,139	15,235
Construction in progress	4,615	4,210
Others	2,077	2,176
<b>Intangible assets</b>	<b>1,390</b>	<b>1,186</b>
Others	1,390	1,186
<b>Investments and other assets</b>	<b>48,265</b>	<b>43,260</b>
Investment in securities	37,397	32,376
Deferred tax assets	993	995
Others	9,970	9,776
Allowance for doubtful accounts	△96	△98

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<b>Total assets</b>	<b>220,886</b>	<b>197,260</b>
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Fiscal year ended March 31

	2018	2017
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>39,896</b>	<b>33,562</b>
Notes and accounts payable-trade	21,201	17,817
Current portion of long-term loans payable	1,271	831
Corporate Income taxes payable	2,474	2,965
Provision for bonuses	2,578	2,564
Others	12,180	9,382
<b>Fixed liabilities</b>	<b>17,773</b>	<b>17,196</b>
Long-term loans payable	1,601	2,374
Net defined benefit liability	9,491	9,107
Deferred tax liabilities	5,163	3,772
Others	1,476	1,941
<b>Total liabilities</b>	<b>57,630</b>	<b>50,758</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>	<b>123,762</b>	<b>113,291</b>
Paid-in capital	4,560	4,560
Capital surplus	4,286	4,070
Retained earnings	122,455	102,207
Treasury stock	Δ7,539	Δ7,546
<b>Accumulated other comprehensive profit</b>	<b>14,589</b>	<b>10,006</b>
Valuation difference on available-for-sale securities	12,943	9,439
Deferred gains or losses on hedges	3	3
Foreign currency translation adjustment	1,693	643
Remeasurements of defined benefit plans	Δ50	Δ79
<b>Non-controlling interests</b>	<b>24,902</b>	<b>23,204</b>
<b>Total net assets</b>	<b>163,255</b>	<b>146,502</b>
<b>Total liabilities and net assets</b>	<b>220,886</b>	<b>197,260</b>

**ncome**

## Consolidated Statements of income

Fiscal year ended March 31

	2018	2017
	(JPY Million)	
<b>Net sales</b>	<b>114,840</b>	<b>109,569</b>
<b>Cost of sales</b>	<b>71,642</b>	<b>68,293</b>
<b>Gross profit</b>	<b>43,197</b>	<b>41,275</b>
<b>Selling, general and administrative expenses</b>	<b>25,213</b>	<b>24,341</b>
<b>Operating income</b>	<b>17,984</b>	<b>16,934</b>
<b>Non-operating profit</b>	<b>3,193</b>	<b>2,905</b>
Interest income	321	306
Dividends income	571	543
Rent income	420	348
Technical support fee	456	379
Equity in earnings of affiliates	1,036	819
Others	386	507
<b>Non-operating expenses</b>	<b>427</b>	<b>1,060</b>
Interest expenses	64	55
Foreign exchange loss	20	661
Others	341	343
<b>Ordinary income</b>	<b>20,750</b>	<b>18,779</b>
<b>Extraordinary income</b>	<b>279</b>	<b>1,359</b>
<b>Extraordinary loss</b>	<b>289</b>	<b>345</b>
<b>Income before income taxes</b>	<b>20,740</b>	<b>19,793</b>
Income taxes-current	5,394	5,498
Income taxes-deferred	172	173
<b>Net income</b>	<b>15,172</b>	<b>14,121</b>
Net income attributable to non-controlling interests	2,451	1,893
<b>Net income attributable to parent company shareholders</b>	<b>12,721</b>	<b>12,228</b>