

Business Report

for the 131st Term 2015.4.1 – 2016.3.31



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 131st period, ended on 31st March, 2016.

As you well know, in the Japanese economy during this period, although exports and production were sluggish due to the deceleration of emerging economies and other factors, there remained anticipation of a continued moderate recovery in Japan. In addition, advanced economies continued to exhibit firm economic growth and this is expected to positively affect emerging economies, stemming the slowdown in those countries, and leading 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 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, particularly in North America, Mexico, China and Thailand. In addition, in order to ensure our continuing dominance of the market into the future, we have been strengthening basic research and focusing on research and development to create new technology. As a result, our business achievements were as described in the latter part of this report.

In consideration of the steady results achieved during this term and the valued support of our shareholders, the year-end dividend will be nine yen per share.

It is anticipated that the Group will face an environment in which there is a high degree of uncertainty both in Japan and abroad due to the continuation of the slowdown in growth in Asian economies, and the sharp appreciation of the yen following the New Year. However, 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 continuing support.

June, 2016



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, there was a continued mild economic recovery in the U.S. and an improvement in European economies, however the economic slowdown and tough conditions continued in China and Asian emerging countries. In Japan the economy recovered somewhat due to the monetary policy of the Bank of Japan, however the recovery was brought to a halt by factors such as the sharp appreciation of the yen after the New Year and concerns about a downturn in overseas economies, and the situation remains unpredictable.

The business environment faced by the Parker Group was one in which auto production was steady in the U.S. for our key customers in the automotive industry however the situation in this industry in Japan remained difficult. Also, in the steel industry, the oversupply by China continued and the situation was tough.

Against such an economic backdrop, the Parker Group has been actively engaged in meeting the requirements of our customers 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 increasing foreign demand, particularly in North America, Mexico, China and Thailand. In addition, in order to ensure our continuing dominance of the market into the future, we have been strengthening basic research and focusing on research and development to create new technology.

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

Net sales were 109,063 million yen (up 6.4% on the previous period) and operating income was 15,766 million yen (up 6.2% ditto). Ordinary income was 17,921 million yen (up 2.7% ditto) and net income attributable to parent company shareholders was 10,320 million yen (up 3.5% ditto).

The overview by each business segment is as follows.

(Chemicals Business)

Net sales were 43,741 million yen (up 0.9% on the previous period) and operating income was 8,529 million yen (down 0.6% 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 the market was sluggish and income fell. However overseas, in part due to yen depreciation, sales expanded in China and India and results were fairly robust, leading to a rise in income. On the other hand, labor costs rose in Asia and the overall result in this segment was a rise in income and a fall in profit.

(Equipment Business)

Net sales were 22,430 million yen (up 7.8% on the previous period) and operating income was 1,403 million yen (up 33.7% ditto). The equipment business segment manufactures and sells pre-treatment equipment, painting equipment and powder coating equipment, etc. mainly to the transportation machinery industry. In Japan income fell however sales of large equipment were made in China and Indonesia, resulting in record net sales in this segment. Profitability was also robust and this segment achieved a rise in both income and profit.

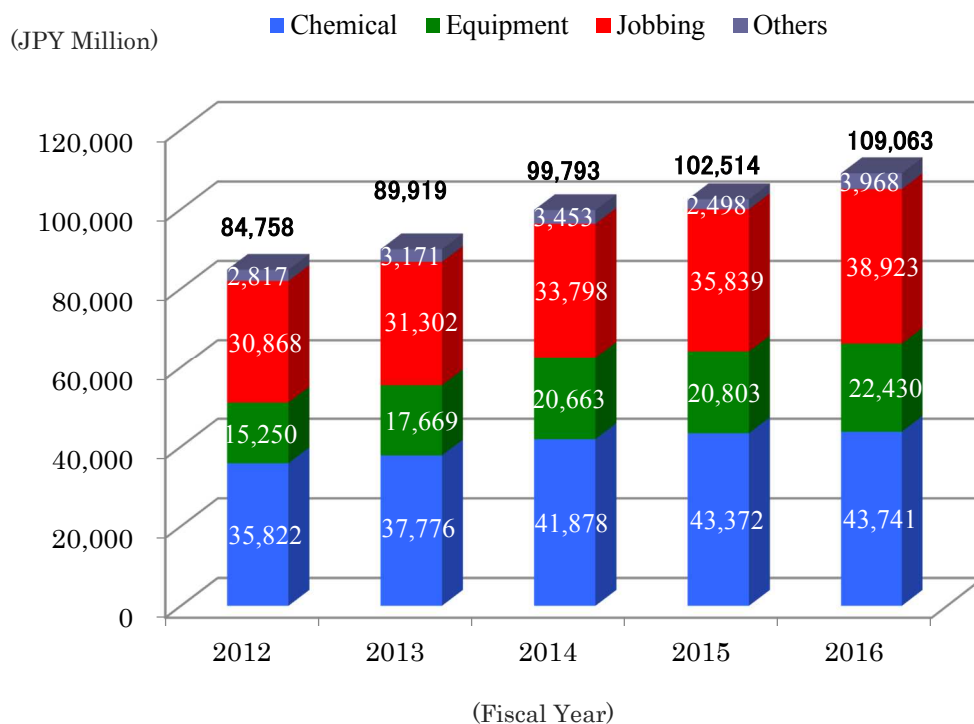
(Jobbing Business)

Net sales were 38,923 million yen (up 8.6% on the previous period) and operating income was 6,977 million yen (up 17.6% ditto). This division provides service modification jobbing services such as heat treatment, rust prevention coating and plating. In the heat treatment jobbing business, overseas, in China sales of heat treatment jobbing services to the automotive parts industry rose significantly and sales were also robust in the U.S. and Vietnam. However in Indonesia automotive output fell and the tough situation continued, and in Japan sales were sluggish due to the shift of manufacturing overseas by automotive parts manufacturers. In the rust prevention jobbing business, business was relatively brisk both in Japan and overseas, resulting in an increase in income and profit in this segment.

(Other Business)

Net sales were 3,968 million yen (up 58.8% on the previous period) and operating income was 269 million yen (up 32.4% ditto). This segment includes our building maintenance business, transportation business and solar power generation business. The building maintenance business was steadfast and in addition, a new consolidated subsidiary engaged in the manufacture and sales of bolts joined our Group, resulting in an increase in income and profit in this segment.

Sales by Business (Consolidated)



Status of Capital Expenditure

Equipment investment in this period totaled 10,539million yen, with the main investments in each business segment as follows.

Main facilities completed in this period:

Jobbing Business:

Parker Kako Co., Ltd.

Construction of building and installation of new equipment for rust prevention jobbing plant .

Jobbing Business:

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

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.

Jobbing Business:

Thai Parkerizing Co., Ltd.

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

Main facilities in progress in this period:

Nihon Parkerizing Co., Ltd.

Construction of new company's own building.

Status of financing

Not applicable.

Issues to face

The Parker Group, based on the solid financial foundation we have built up over the years, will do its utmost to improve the strength of its corporate organization and profitability, tackling the following important issues in order to ensure the continued superiority of the Parker Group in the surface modification market.

- ① We will promote the expansion of the market for high value added products and the development and establishment of a variety of surface modification technologies that are environmentally friendly and conserve energy, as well as technology that meets our customers' requirements for cost savings.
- ② We will aggressively promote cost cutting throughout the organization including areas such as materials procurement and distribution costs.
- ③ We will continue to reorganize Group businesses to improve efficiency in consolidated management, optimize management resources and strengthen financial conditions.
- ④ In addition to ensuring transparency and fairness, we will promote swift decision-making and efficiency in management and work to improve business achievements by responding flexibly to changes in the business environment and markets. Furthermore, we will maintain sound management through strengthening and promoting internal controls and ensuring their effective operation, and promote good corporate governance founded on continuous expansion and development of business operations and increasing corporate value.

Number of Employees

Consolidated : 3,886 persons

Principal Shareholders

Name of Shareholders	Number of Shares Held (Thousands of shares)	Shareholding Ratio (%)
Nippon Life Insurance Company	7,015	5.53
Meiji Yasuda Life Insurance Company	5,578	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.	5,328	4.20
The Chiba Bank, Ltd.	4,765	3.75
Yugen Co., Ltd.	4,708	3.71
The SATOMI Scholarship Foundation	4,633	3.65
Mizuho Bank, Ltd.	4,227	3.33
State Street Bank and Trust Company	3,527	2.78
The Master Trust Bank of Japan, Ltd. (Trust account)	3,472	2.73
Japan Trustee Services Bank, Ltd. (Trust account)	3,250	2.56

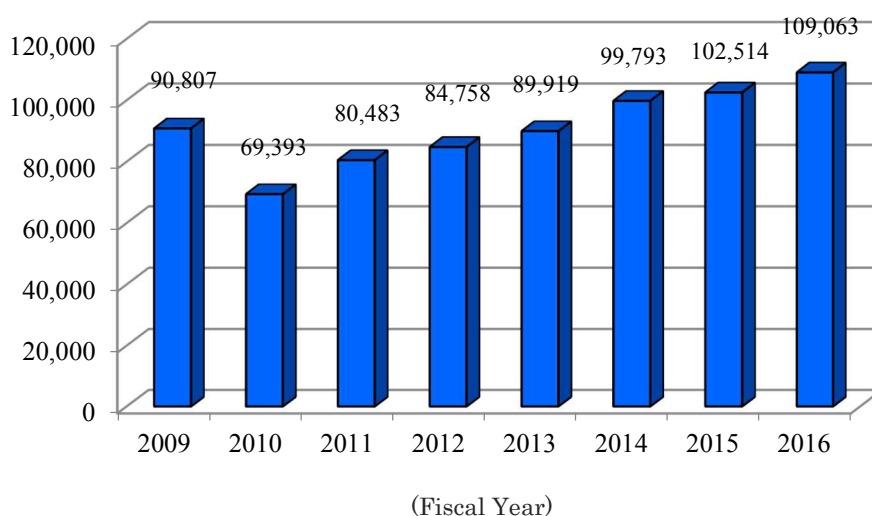
Financial Highlights (Consolidated)

(JPY Million)

	2009	2010	2011	2012	2013	2014	2015	2016
Net sales	90,807	69,393	80,483	84,758	89,919	99,793	102,514	109,063
Ordinary income	9,828	9,055	13,649	12,901	15,179	18,046	17,453	17,921
Net income attributable to parent company shareholders	4,439	4,131	7,454	6,314	8,463	10,142	9,975	10,320
Total liabilities and net assets	111,088	119,101	124,925	130,517	146,739	165,914	187,116	189,377

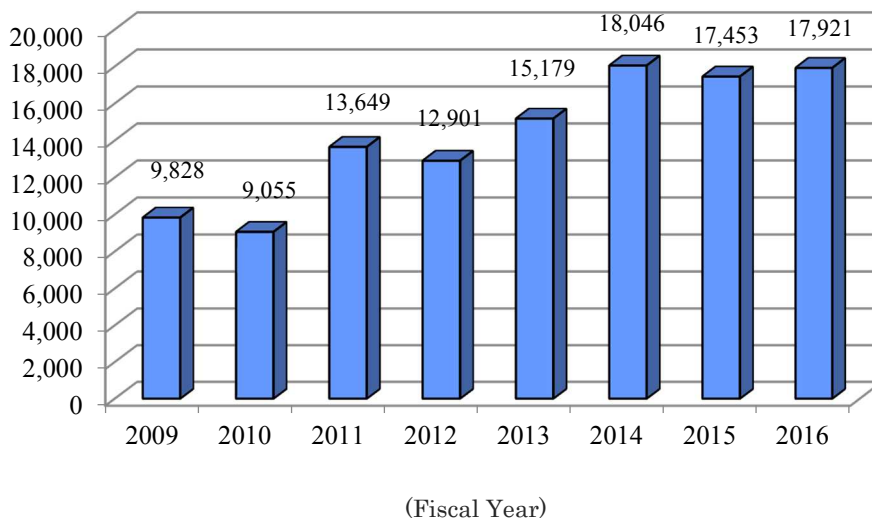
(JPY Million)

Net sales

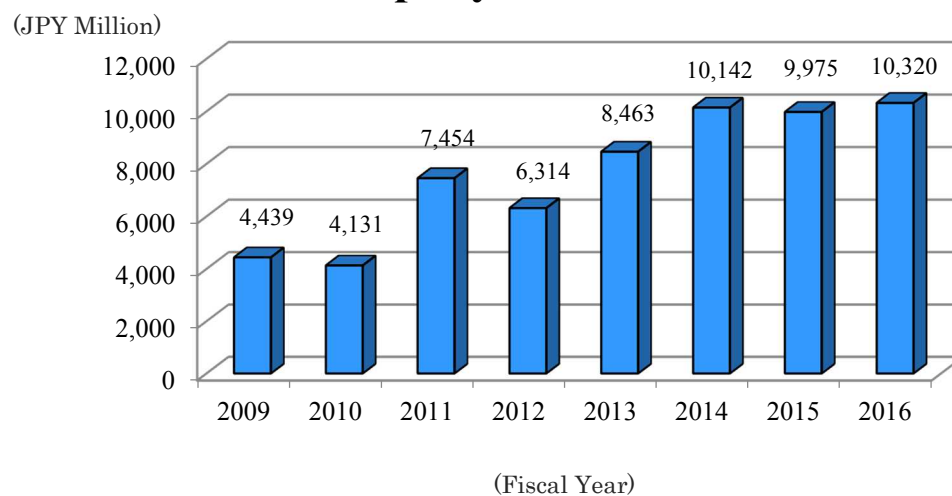


Ordinary income

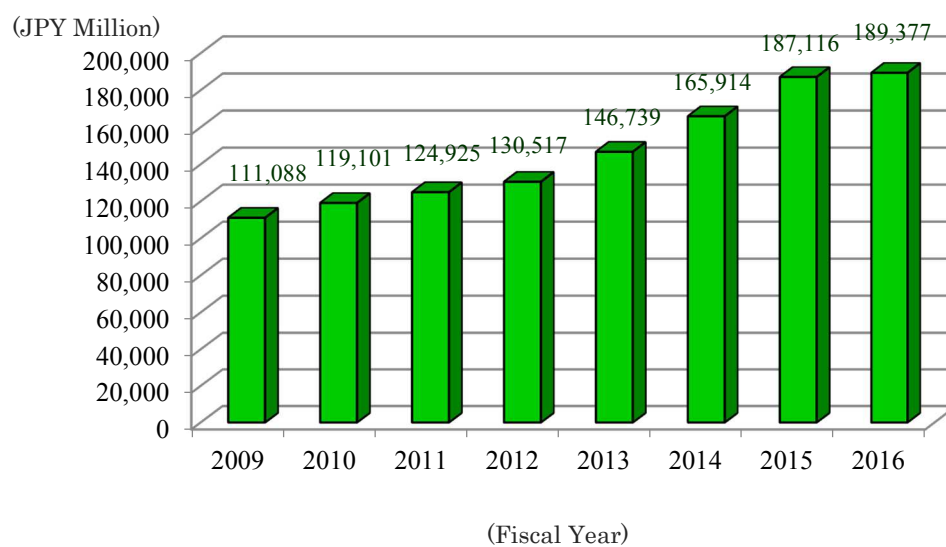
(JPY Million)



Net income attributable to parent company shareholders



Total liabilities and net assets



Consolidated Balance Sheets

	Fiscal year ended March 31	
	2016	2015
	(JPY Million)	
Assets		
Current assets	94,053	89,812
Cash and deposits	44,937	38,835
Notes and accounts receivable-trade	32,822	32,675
Short-term investment securities	3,334	2,090
Inventories	9,271	10,765
Deferred tax assets	1,372	1,425
Others	2,475	4,190
Allowance for doubtful accounts	△158	△169
Fixed assets	95,323	97,303
Tangible assets	54,665	50,911
Buildings and fixtures, net	17,491	16,393
Machinery, equipment and vehicles, net	15,411	12,851
Land	14,994	15,235
Construction in progress	4,567	4,481
Others	2,199	1,949
Intangible assets	1,413	1,616
Goodwill	202	466
Others	1,210	1,149
Investments and other assets	39,244	44,775
Investment in securities	26,703	32,376
Deferred tax assets	1,083	1,088
Others	11,555	11,410
Allowance for doubtful accounts	△98	△99
Total assets	189,377	187,116

	Fiscal year ended March 31	
	2016	2015
Liabilities		
Current liabilities	33,166	32,710
Notes and accounts payable-trade	15,369	15,535
Short-term loans payable	-	144
Current portion of long-term loans payable	752	399
Corporate Income taxes payable	2,416	1,888
Provision for bonuses	2,421	2,345
Others	12,206	12,397
Fixed liabilities	18,320	18,282
Long-term loans payable	2,998	1,854
Provision for director's retirement benefits	904	901
Net defined benefit liability	9,969	9,711
Deferred tax liabilities	2,523	3,938
Others	1,924	1,875
Total liabilities	51,487	50,992
Net assets		
Shareholders' equity	107,220	98,793
Paid-in capital	4,560	4,560
Capital surplus	3,912	3,913
Retained earnings	102,377	93,949
Treasury stock	△3,629	△3,628
Accumulated other comprehensive profit	9,262	15,492
Valuation difference on available-for-sale securities	7,208	10,615
Deferred gains or losses on hedges	2	△3
Foreign currency translation adjustment	2,127	4,910
Remeasurements of defined benefit plans	△76	△29
Non-controlling interests	21,406	21,836
Total net assets	137,890	136,123
Total liabilities and net assets	189,377	187,116

Consolidated Statements of income

	Fiscal year ended March 31	
	2016	2015
	(JPY Million)	
Net sales	109,063	102,514
Cost of sales	68,627	64,779
Gross profit	40,436	37,735
Selling, general and administrative expenses	24,669	22,884
Operating income	15,766	14,850
Non-operating profit	3,025	3,048
Interest income	308	238
Dividends income	555	431
Rent income	355	381
Technical support fee	389	354
Equity in earnings of affiliates	1,012	791
Foreign exchange gains	-	497
Others	405	353
Non-operating expenses	871	445
Interest expenses	53	26
Foreign exchange loss	566	-
Others	251	418
Ordinary income	17,921	17,453
Extraordinary income	152	419
Extraordinary loss	173	384
Income before income taxes	17,900	17,488
Income taxes-current	5,243	5,041
Income taxes-deferred	381	661
Net income	12,275	11,785
Net income attributable to non-controlling interests	1,954	1,809
Net income attributable to parent company shareholders	10,320	9,975