

Business Report

for the 128th Term 2012.4.1 – 2013.3.31



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 128th financial period, ended on 31st March, 2013.

As you well know, there were fears that the recovery of the Japanese economy during this period might slow due to a dampening of exports however the monetary easing instigated by the new government led to yen depreciation and a rallying of the stock market. In addition to a recovery of corporate performance, domestic consumption is also expected to rise and there are increased expectations for an economic recovery despite a degree of uncertainty.

Against such a backdrop, the Parker Group has been actively strengthening our overseas businesses and engaging in forward-looking research and development activities, as well as continuing to do our best to promote cost savings to strengthen our corporate performance and improve profitability. As a result, our business achievements were as described in the later part of this report.

In consideration of the business achievements, the dividend will be fifteen yen per share, which is an increase of five yen per share from the interim dividend.

It is anticipated that our Group will face a fierce economic climate due to the stagnation of the European economy which is dealing with chronic financial problems, and the slowing of economic growth in Asian economies, however, we will do our utmost to improve our business results and satisfy the expectations of our shareholders by promoting the development of new technologies and strengthening our overseas business.

Thank you very much for your unerring support.

June, 2013



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, while there were indications of an upturn in the U.S. economy, fiscal austerity and other factors led to a low rate of growth, and the European economy also remained stagnant overall due to the uncertainty remaining due to financial issues. Growth in the Asian economies was also duller due to decreased exports to the U.S. and was weak overall. On the other hand, in Japan, anticipation of an economic downturn increased with the weaker exports and ending of the eco-car subsidy, however, the financial easing instigated by the new government led to yen depreciation and a rallying of the stock market, and anticipation of the recovery of corporate performance and domestic consumption led to increased expectations for an economic upturn despite a degree of uncertainty.

The business environment faced by the Parker Group is one in which our key customers in the automotive industry faced a difficult situation with overseas automotive manufacturers gaining an edge and anti-Japanese sentiment in China forcing a reduction in manufacturing output. In the steel industry also, the environment was tough as Asian steel manufacturers put up fierce competition.

Against such an economic backdrop, the Parker Group did our best to gain new customers and supply new technology in order to steadily gain a share of the demand in expanding overseas markets, made significant equipment investment particularly in the Asian region and strengthened our overseas businesses, as well as promoted research and development to create new technologies for the future. Furthermore, we strengthened ties within the Group and restructured business, as well as promoting efficiency in supply of raw materials and other cost cutting measures.

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

Net sales were 89,919 million yen (up 6.1% on the previous period), and operating income was 13,146 million yen (up 15.2% ditto). Ordinary income was 15,179 million yen (up 17.7% ditto), and pure profit for the period was 8,463 million yen (up 34.0% ditto) due to factors including gain on sale of investment securities and a lower corporate tax rate.

The overview by each business segment is as follows.

(Chemicals Business)

Net sales were 37,776 million yen (up 5.5% on the previous period) and operating income was 9,801 million yen (up 13.2% 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. Domestically, income fell due to a fall in demand in the latter half of the period however overseas income, particularly in Asia, rose approximately 25% and overall the result was an increase in income and profit.

(Equipment Business)

Net sales were 17,669 million yen (up 15.9% on the previous period) and operating income was 1,206 million yen (up 85.5% ditto). The equipment business segment manufactures and sells pre-treatment equipment, painting equipment and powder coating equipment etc. mainly to the transportation machinery industry. Domestic equipment investment remained stagnant however orders for pre-treatment equipment increased overseas, and the result was an increase in income and profit.

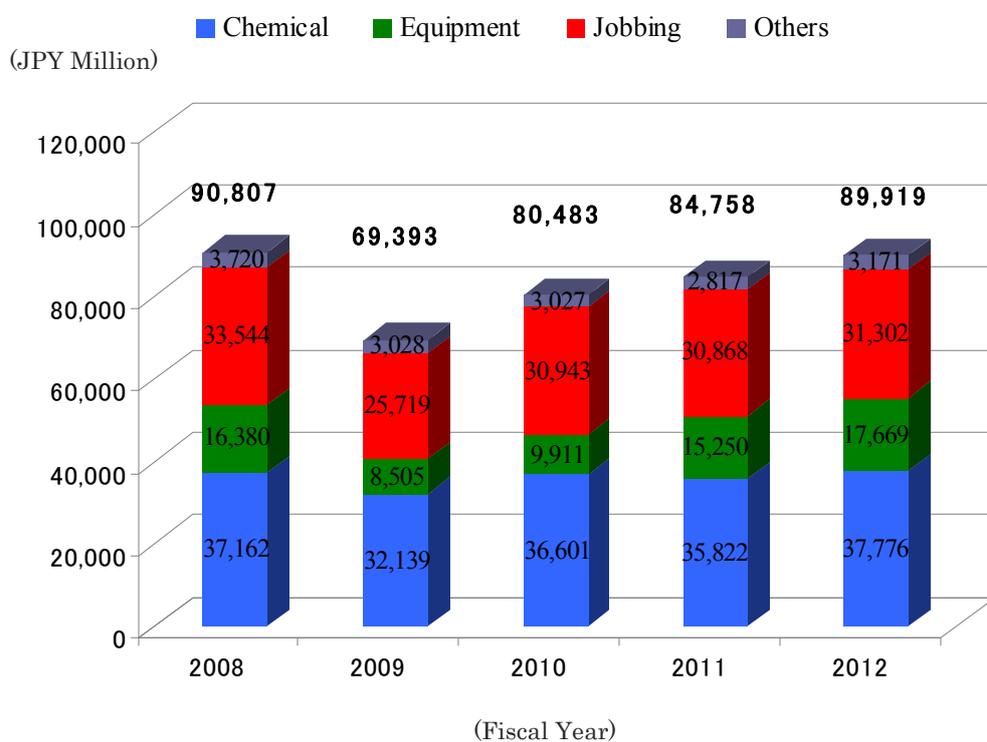
(Jobbing Business)

Net sales were 31,302million yen (up 1.4% on the previous period) and operating income was 6,155 million yen (up 4.5% ditto). This division provides surface modification jobbing services such as heat treatment, rust prevention coating and plating. Domestic jobbing business faces a tough environment due to hollowing out as customers move their manufacturing overseas and domestic auto manufacturing declines, however overseas income for the jobbing business increased significantly in the U.S. in line with the recovery in auto production and also in Asia the jobbing business was robust in Thailand, Indonesia and elsewhere.

(Other Business)

Net sales were 3,171 million yen (up 12.6% on the previous period) and operating income was 340 million yen (up 22.4% ditto). This segment includes our building maintenance, real estate leasing, financial lease and transportation business. Income increased in the building maintenance business and profitability improved slightly in the logistics business, 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 3,431million yen, with the main investments for each business segment as follows.

Main facilities completed in this period:

Chemicals Division:

Thai Parkerizing Co., Ltd.

Installation of new equipment in chemical manufacturing plant.

Jobbing Business:

Thai Parkerizing Co., Ltd.:

Installation of new equipment in rust prevention coating and heat treatment jobbing plant .

Status of financing

Not applicable.

Issues to face

Regarding the economic outlook, it is anticipated that the U.S. and European economies, which are beset by financial difficulties, will remain sluggish, and that a high level of growth cannot be achieved in the export-oriented economies in Asia. Furthermore, with regards to the economic policies of the current government administration, question marks remain with regard to growth strategies and while the yen depreciation will give a boost to competitiveness of export industries, it is believed that a genuine recovery will require a considerable amount of time, and it is anticipated that conditions will continue to be tough.

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 China, Thailand and Indonesia.

Number of Employees

Consolidated : 3,355 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 Chiba Bank, Ltd.	2,382	3.75
The Master Trust Bank of Japan, Ltd. (Trust account)	2,374	3.74
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)	2,003	3.15
Sumitomo Mitsui Banking Corporation	1,556	2.45

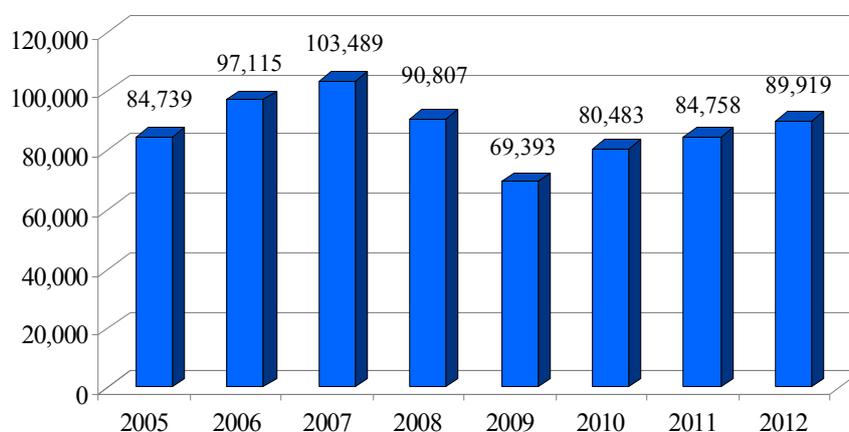
Financial Highlights (Consolidated)

(JPY Million)

	2005	2006	2007	2008	2009	2010	2011	2012
Net sales	84,739	97,115	103,489	90,807	69,393	80,483	84,758	89,919
Ordinary profit	12,705	14,247	15,464	9,828	9,055	13,649	12,901	15,179
Net profit	6,816	6,983	8,088	4,439	4,131	7,454	6,314	8,463
Total assets	122,775	131,348	132,595	111,088	119,101	124,925	130,517	146,739

(JPY Million)

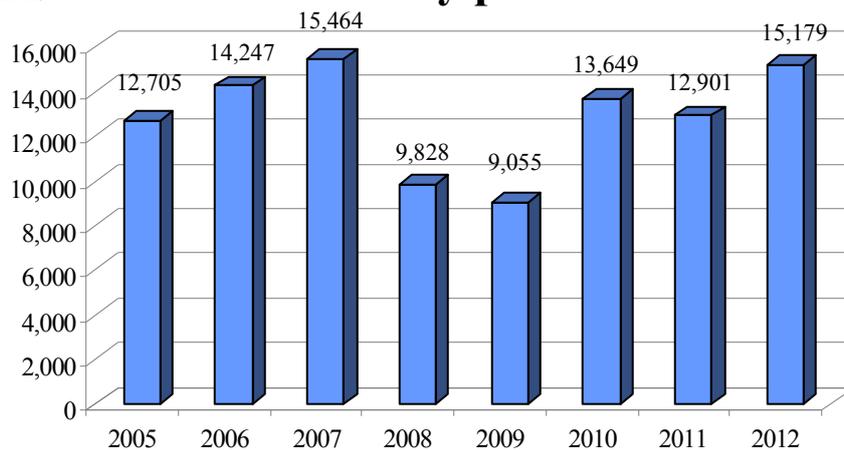
Net sales



(Fiscal Year)

(JPY Million)

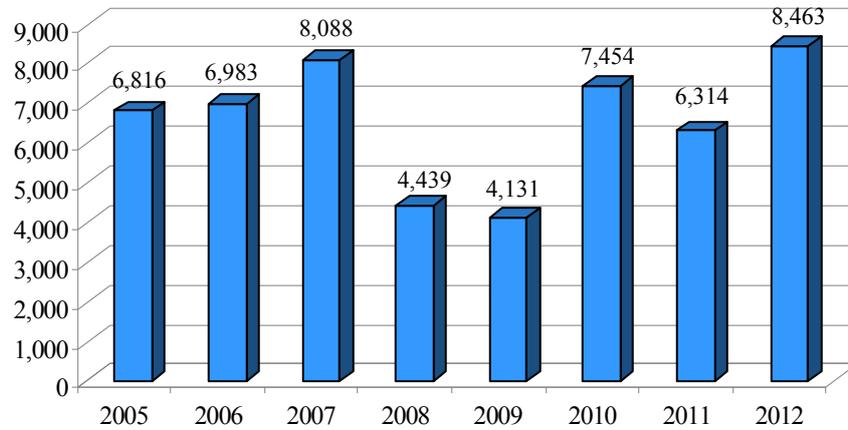
Ordinary profit



(Fiscal Year)

Net profit

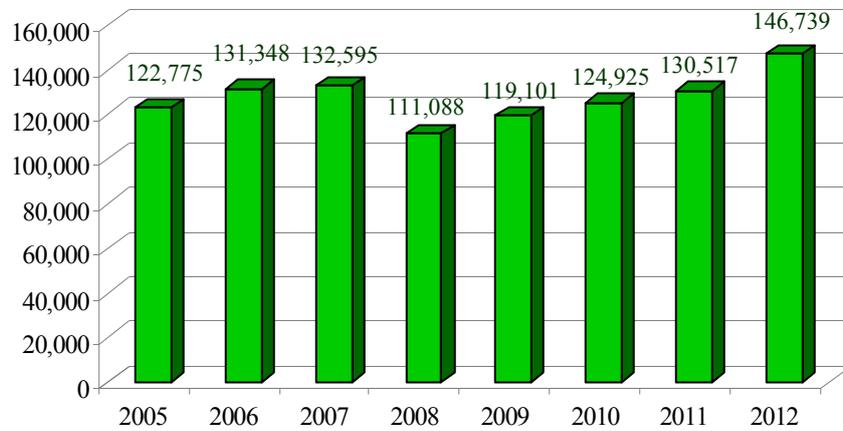
(JPY Million)



(Fiscal Year)

Total assets

(JPY Million)



(Fiscal Year)

Consolidated Balance Sheets

	Fiscal year ended March 31	
	2013	2012
	(JPY Million)	
Assets		
Current assets	77,062	64,679
Cash and deposits	31,985	23,632
Notes and accounts receivable-trade	28,148	27,431
Short-term investment securities	3,419	2,164
Inventories	9,388	7,464
Deferred tax assets	1,529	1,468
Others	2,725	2,655
Allowance for doubtful accounts	△134	△137
Fixed assets	69,677	65,837
Tangible assets	37,211	35,311
Buildings and fixtures, net	12,184	12,004
Machinery, equipment and vehicles, net	7,702	7,045
Land	15,167	14,554
Construction in progress	1,156	747
Others, net	999	958
Intangible assets	2,469	1,846
Goodwill	785	199
Others	1,684	1,647
Investments and other assets	29,996	28,679
Investment in securities	20,114	18,503
Long-term loans receivable	43	248
Deferred tax assets	1,373	2,121
Others	8,623	7,963
Allowance for doubtful accounts	△157	△158
Total assets	146,739	130,517

	Fiscal year ended March 31	
	2013	2012
Liabilities		
Current liabilities	31,450	28,042
Notes and accounts payable-trade	13,433	12,861
Short-term loans payable	1,697	2,731
Current portion of long-term loans payable	1,833	560
Corporate Income taxes payable	2,659	2,202
Provision for bonuses	2,203	2,281
Provision for loss on retirement of noncurrent assets	255	—
Others	9,368	7,406
Fixed liabilities	14,551	15,201
Long-term loans payable	2,090	3,223
Provision for retirement benefits	9,864	9,876
Provision for directors' retirement benefits	999	924
Deferred tax liabilities	372	16
Others	1,225	1,161
Total liabilities	46,002	43,243
Net assets		
Shareholders' equity	82,921	75,676
Paid-in capital	4,560	4,560
Capital surplus	3,913	3,913
Retained earnings	78,073	70,824
Treasury stock	△3,625	△3,622
Accumulated other comprehensive profit	1,765	△2,030
Valuation difference on available-for-sale securities	4,531	3,056
Deferred gains or losses on hedges	3	△34
Foreign currency translation adjustment	△2,769	△5,052
Minority interests	16,050	13,628
Total net assets	100,737	87,273
Total liabilities and net assets	146,739	130,517

Consolidated Statements of income

	Fiscal year ended March 31	
	2013	2012
	(JPY Million)	
Net sales	89,919	84,758
Cost of sales	57,118	53,937
Gross profit	32,800	30,821
Selling, general and administrative expenses	19,654	19,409
Operating income	13,146	11,411
Non-operating profit	2,391	1,998
Interest income	161	133
Dividends income	304	264
Rent income	322	301
Technical support fee	286	318
Equity in earnings of affiliates	624	679
Foreign exchange gains	234	-
Others	456	301
Non-operating expenses	358	509
Interest expenses	77	102
Foreign exchange losses	-	199
Others	280	207
Ordinary income	15,179	12,901
Extraordinary income	641	140
Extraordinary loss	459	589
Income before income taxes and minority interests	15,361	12,452
Income taxes-current	5,260	4,357
Income taxes-deferred	△13	587
Income before minority interests	10,115	7,507
Minority interests in income	1,651	1,193
Net profit for the period	8,463	6,314