

# Business Report

for the 129th Term 2013.4.1–2014.3.31



**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 129th financial period, ended on 31st March, 2014.

As you well know, while the Japanese economy experienced a worsening of the balance of payments, there were improvements in the export environment due to the yen depreciation and economic recovery in Europe and the U.S. Corporate earnings improved particularly in export-oriented business, leading to signs of improvement in equipment investment and the employment environment, and the economy performed relatively steadily.

Against such a backdrop, the Parker Group has been actively engaged in seeking new customers and providing new technology which matches the needs of our customers, as well as bolstering equipment investment in order to increase production capacity and steadily seize foreign demand and taking other measures 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 two and a half yen per share from the interim dividend.

It is anticipated that our Group will face an environment in which, while there will be a gradual recovery in the Western economies and the Chinese economy is also expected to continue to grow moderately, there remains a high degree of uncertainty for the future. 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, 2014



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 the Chinese economy was sluggish, the European economies, which had been languishing due to the debt problems in Southern Europe, gradually recovered. In addition, the U.S. economy picked up with an expansion in employment and increase in personal consumption. In Japan, while the Japanese economy experienced a worsening of the balance of payments, there were improvements in the export environment due to the yen depreciation and economic recovery in Europe and the U.S. Corporate earnings improved particularly in export oriented business, leading to signs of improvement in equipment investment and the employment environment, and the economy performed relatively steadily.

The business environment faced by the Parker Group is one in which our key customers in the automotive industry experienced a significant improvement in business results due to the effects of the yen depreciation and other factors. However, domestic automotive manufacturing did not grow significantly due to the shift of production bases overseas and in the steel industry also, while there were signs of improvement in crude steel production, there was surplus supply due to increase in blast furnace production at Chinese steel manufacturers, fuelling competition with global manufacturers.

Against such an economic backdrop, while the sense of stagnation in the domestic market for metal surface modification grew, the Parker Group did our best to gain new customers and supply new technology matching customers' requirements, as well as bolstering equipment investment to increase production capacity mainly in North America, China and the ASEAN region to ensure that we steadily take advantage of foreign demand. As a technology-driven company, we aim to create new technology with a view to the future and are pouring our efforts into research and development activities. We have also worked hard to increase corporate value by cutting costs through promoting efficiency in raw materials procurement and constructing solar power plants to make effective use of idle land.

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

Nets sales were 99,793million yen (up 11.0% on the previous period), and operating income was 15,393million yen (up 17.1% ditto). Ordinary income was 18,046million yen (up 18.9% ditto) and pure profit for the period was 10,142million yen (up 19.8% ditto).

The overview by each business segment is as follows.

**(Chemicals Business)**

Nets sales were 41,878million yen (up 10.9% on the previous period) and operating income was 11,632million yen (up 18.7% 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. Domestic chemicals business progressed steadily and overseas business results in Europe, Indonesia, Thailand and China also improved even above the effects of the yen depreciation, leading to an increase in income and profit in this segment.

**(Equipment Business)**

Net sales were 20,663million yen (up 16.9% on the previous period) and operating income was 1,315million yen (up 9.1% ditto). The equipment business segment manufactures and sells pre-treatment equipment, painting equipment and powder coating equipment etc. mainly to the transportation machinery industry. Due to the expansion in demand for equipment overseas from automotive manufacturers, sales increased even further than the last fiscal year which had been robust and exceeded 20,000 million yen for the first time ever in this segment, resulting in an increase in income and profit.

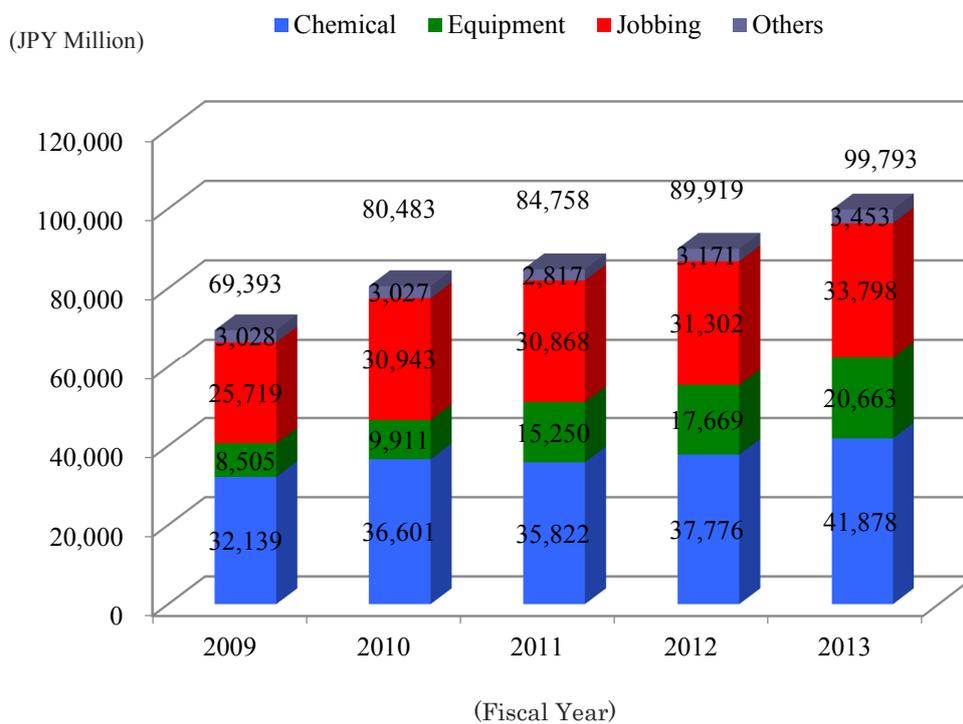
**(Jobbing Business)**

Net sales were 33,798million yen (up 8.0% on the previous period) and operating income was 6,425million yen (up 4.4% ditto). This division provides surface modification jobbing services such as heat treatment, rust prevention coating and plating. The environment was difficult with rising labor costs in Thailand, Indonesia and elsewhere leading to rising income and falling profit. However domestically the jobbing business was relatively steady despite the stagnation in automotive production as the division exerted its utmost efforts to seek new demand, resulting in an increase in income and profit.

**(Other Business)**

Net sales were 3,453million yen (up 8.9% on the previous period) and operating income was 503million yen (up 47.8% ditto). This segment includes our building maintenance, real estate leasing, financial lease and transportation business. Income increased in the building maintenance business and profitability rose in the transportation business leading to an increase in income and profit.

## Sales by Business (Consolidated)



## Status of Capital Expenditure

Equipment investment in this period totaled 7,791million yen, with the main investments in each business segment as follows.

Main facilities completed in this period:

Jobbing Business:

Thai Parkerizing Co., Ltd.

Installation of new equipment in rust prevention coating and 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.

## **Issues to face**

Regarding the economic outlook, while a gradual recovery is anticipated in the European and U.S. economies and China's economy is also expected to continue to expand moderately, a high degree of uncertainty remains in the outlook for the global economy. In Japan the economic cycle is moving in a favorable direction due to the policies of the government and the Bank of Japan, however Japan's current account balance is worsening and further reforms are needed to recover the competitiveness of Japanese businesses which may take time.

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 : 3,536 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
The Master Trust Bank of Japan, Ltd. (Trust account)	2,125	3.35
Mizuho Bank, Ltd.	2,113	3.33
Japan Trustee Services Bank, Ltd. (Trust account)	1,739	2.74
State Street Bank and Trust Company	1,643	2.59

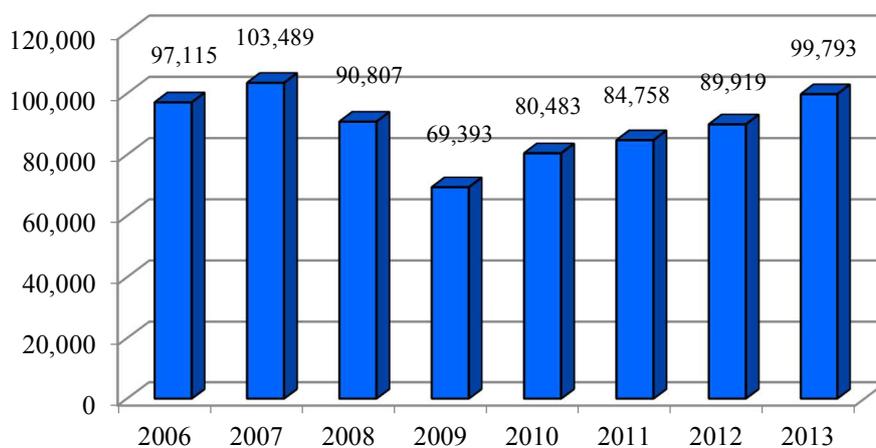
## Financial Highlights (Consolidated)

(JPY Million)

	2006	2007	2008	2009	2010	2011	2012	2013
Net sales	97,115	103,489	90,807	69,393	80,483	84,758	89,919	99,793
Ordinary profit	14,247	15,464	9,828	9,055	13,649	12,901	15,179	18,046
Net profit	6,983	8,088	4,439	4,131	7,454	6,314	8,463	10,142
Total assets	131,348	132,595	111,088	119,101	124,925	130,517	146,739	165,914

### Net sales

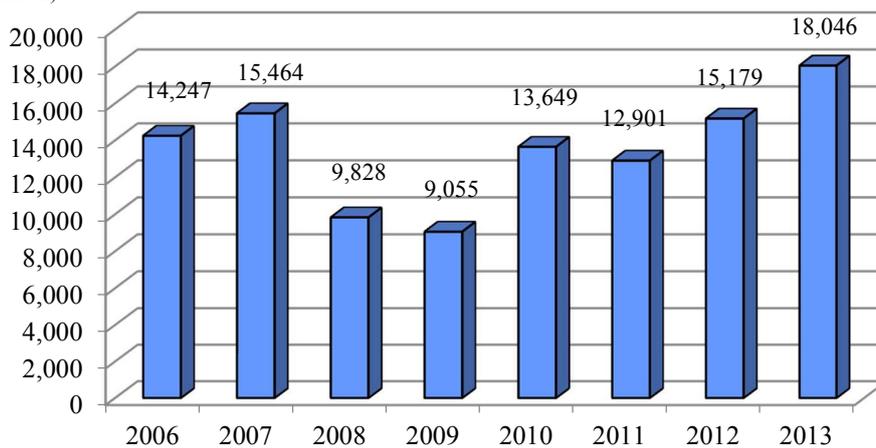
(JPY Million)



(Fiscal Year)

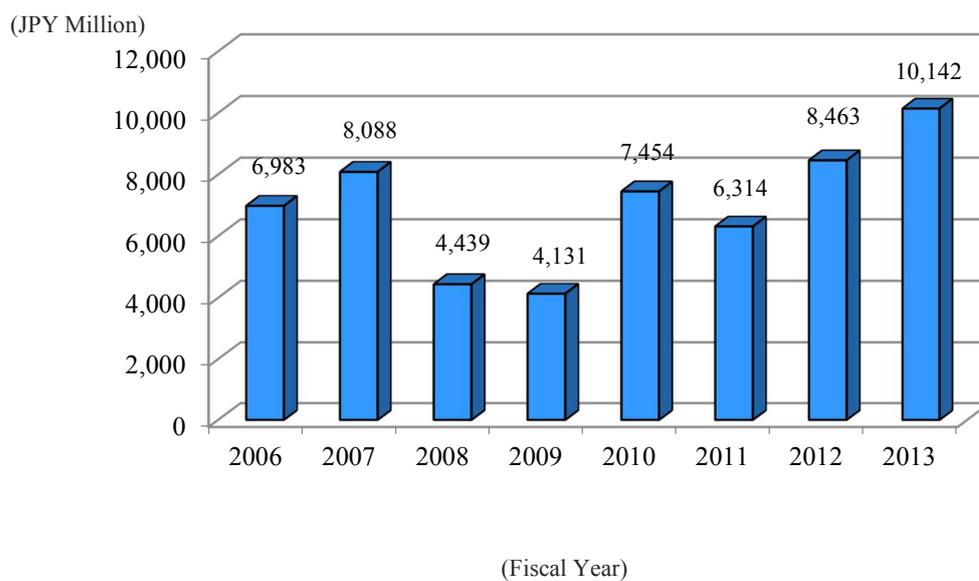
### Ordinary profit

(JPY Million)

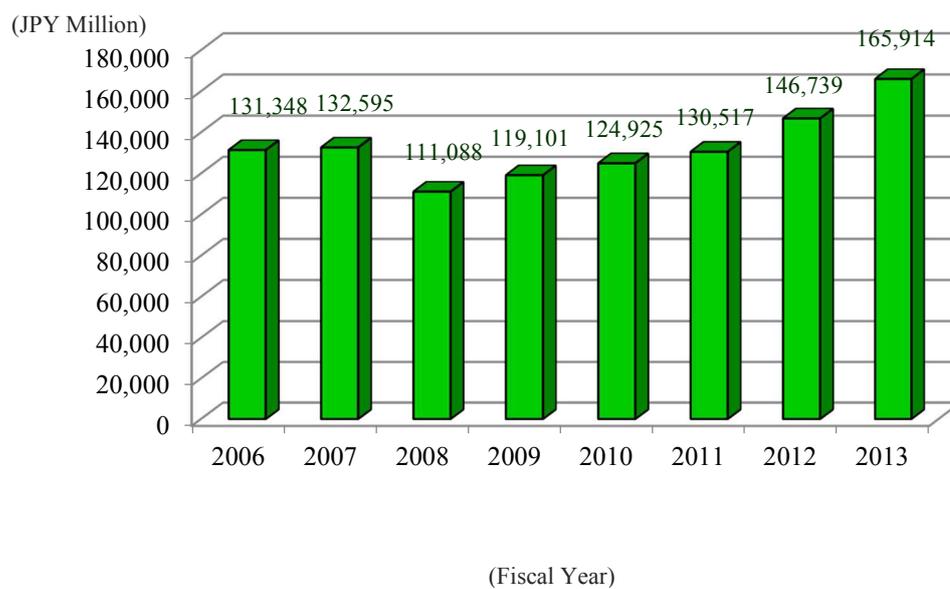


(Fiscal Year)

## Net profit



## Total assets



## Consolidated Balance Sheets

	Fiscal year ended March 31	
	2014	2013
	(JPY Million)	
<b>Assets</b>		
<b>Current assets</b>	<b>86,015</b>	<b>77,062</b>
Cash and deposits	38,005	31,985
Notes and accounts receivable-trade	30,167	28,148
Short-term investment securities	3,649	3,419
Inventories	10,238	9,388
Deferred tax assets	1,456	1,529
Others	2,635	2,725
Allowance for doubtful accounts	△137	△134
<b>Fixed assets</b>	<b>79,899</b>	<b>69,677</b>
<b>Tangible assets</b>	<b>42,772</b>	<b>37,211</b>
Buildings and fixtures, net	13,747	12,184
Machinery, equipment and vehicles, net	10,141	7,702
Land	15,375	15,167
Construction in progress	2,450	1,156
Others, net	1,057	999
<b>Intangible assets</b>	<b>2,697</b>	<b>2,469</b>
Goodwill	689	785
Others	2,008	1,684
<b>Investments and other assets</b>	<b>34,428</b>	<b>29,996</b>
Investment in securities	23,916	20,114
Long-term loans receivable	118	43
Deferred tax assets	1,365	1,373
Others	9,159	8,623
Allowance for doubtful accounts	△131	△157
<b>Total assets</b>	<b>165,914</b>	<b>146,739</b>

	Fiscal year ended March 31	
	2014	2013
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>32,412</b>	<b>31,450</b>
Notes and accounts payable-trade	14,538	13,433
Short-term loans payable	1,680	1,697
Current portion of long-term loans payable	360	1,833
Corporate Income taxes payable	2,759	2,659
Provision for bonuses	2,396	2,203
Provision for loss on retirement of fixed assets	-	255
Others	10,676	9,368
<b>Fixed liabilities</b>	<b>15,829</b>	<b>14,551</b>
Long-term loans payable	2,108	2,090
Provision for retirement benefits	-	9,864
Net defined benefit liability	10,313	-
Provision for directors' retirement benefits	856	999
Deferred tax liabilities	1,424	372
Others	1,127	1,225
<b>Total liabilities</b>	<b>48,241</b>	<b>46,002</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>	<b>91,396</b>	<b>82,921</b>
Paid-in capital	4,560	4,560
Capital surplus	3,913	3,913
Retained earnings	86,546	78,073
Treasury stock	△3,623	△3,625
<b>Accumulated other comprehensive profit</b>	<b>7,247</b>	<b>1,765</b>
Valuation difference on available-for-sale securities	6,203	4,531
Deferred gains or losses on hedges	3	3
Foreign currency translation adjustment	1,176	△2,769
Remeasurements of defined benefit plans	△135	-
<b>Minority interests</b>	<b>19,028</b>	<b>16,050</b>
<b>Total net assets</b>	<b>117,672</b>	<b>100,737</b>
<b>Total liabilities and net assets</b>	<b>165,914</b>	<b>146,739</b>

## Consolidated Statements of income

	Fiscal year ended March 31	
	2014	2013
	(JPY Million)	
<b>Net sales</b>	<b>99,793</b>	<b>89,919</b>
<b>Cost of sales</b>	<b>63,065</b>	<b>57,118</b>
<b>Gross profit</b>	<b>36,728</b>	<b>32,800</b>
<b>Selling, general and administrative expenses</b>	<b>21,335</b>	<b>19,654</b>
<b>Operating income</b>	<b>15,393</b>	<b>13,146</b>
<b>Non-operating profit</b>	<b>2,941</b>	<b>2,391</b>
Interest income	206	161
Dividends income	367	304
Rent income	335	322
Technical support fee	290	286
Equity in earnings of affiliates	931	624
Foreign exchange gains	470	234
Others	339	456
<b>Non-operating expenses</b>	<b>288</b>	<b>358</b>
Interest expenses	73	77
Others	214	280
<b>Ordinary income</b>	<b>18,046</b>	<b>15,179</b>
<b>Extraordinary income</b>	<b>571</b>	<b>641</b>
<b>Extraordinary loss</b>	<b>202</b>	<b>459</b>
<b>Income before income taxes and minority interests</b>	<b>18,415</b>	<b>15,361</b>
Income taxes-current	5,727	5,260
Income taxes-deferred	232	△13
<b>Income before minority interests</b>	<b>12,456</b>	<b>10,115</b>
Minority interests in income	2,313	1,651
<b>Net profit for the period</b>	<b>10,142</b>	<b>8,463</b>