

# Interim Business Report

for the 127th Term 2011.4.1 – 2011.9.30



**NIHON PARKERIZING CO.,LTD.**

## To Our Shareholders

Thank you very much for your continuing support and patronage. I am pleased to present an interim report of our business achievements for the 127<sup>th</sup> accounting period, that is, 1<sup>st</sup> April to 30<sup>th</sup> September, 2011.

During this period, the sovereign risk became more apparent in Europe, exacerbating uncertainty in the financial markets and leading to concerns of an economic slowdown not only in the Euro zone but on a global scale. At the same time, in the Japanese economy, gradual progress was made in recovering from the damage of the Great East Japan earthquake, however, the uncertainty in the European and U.S. economy as well as the extended period of yen appreciation adversely affected exports, and the income and employment environment failed to improve, blunting the speed of recovery.

Regarding the business environment of the metal surface modification the Parker Group faced, our main customers, who are in the automotive industry, were forced to reduce manufacturing due to parts supply problems after the Great East Japan Earthquake however, they made rapid progress in recovering their manufacturing systems, leading to an uptake in domestic automotive manufacture. However, uncertainty over the future has led to concerns for this sustainability, and the worsened flood damage in Thailand, a major overseas manufacturing base, has led to a string of shutdowns of operations among our customers, which will inevitably lead to a shrinkage of business activities.

Against such a harsh business environment, the Parker Group has sought to create new highly competitive technologies and strengthen our market commercialization of these products, as well as continuous cost reduction. As a result, we have achieved the following consolidated results for this period.

Net sales were 37,999 million yen (down 1.8% on the same period of the previous year), and operating income was 5,064 million yen (down 13.5% on the same period of the previous year). Ordinary profit was 5,879 million yen (down 9.1% on the same period of the previous year) and interim net profit was 3,176 million yen (down 9.1% on the same period of the previous year).

Progress and achievements for each business segment are as follows.

### (Chemicals Business)

Net sales were 17,537 million yen (down 4.9% on the same period of the previous year) and operating income was 4,149 million yen (down 14.6% on the same period of the previous year). The effects of the great earthquake in Japan were also felt by Japanese transplants throughout Asia and in addition to the temporary fall in business results both within Japan and overseas, overall raw material costs remained high, resulting in a reduction in our income and profits.

(Equipment Business)

Nets sales were 4,527 million yen (up 36.4% on the same period of the previous year) and operating income was 74 million yen (compared with 171 million yen in the red in the same period in the previous year). Demand from customers in the automotive industry in Indonesia and China increased, indicating that the business had taken off from the bottom and was on the rise, however, domestic equipment investment remained stagnant and the environment continued to be harsh.

(Jobbing Business)

Net sales were 14,746 million yen (down 4.8% on the same period of the previous year) and operating income was 2,735 million yen (down 14.6% on the same period of the previous year). In the first half of this period, directly after the great earthquake, domestic demand for surface modification treatments decreased and profitability went down, with income and profits dropping, however in the latter half of the period these recovered to the same level of the previous year.

(Other Business)

Net sales were 1,187 million yen (down 17.6% on the same period of the previous year) and operating income was 106 million yen (down 43.3% on the same period of the previous year). Profitability in the transportation business did not improve and income and profits fell down.

The interim dividend for this period was decided in a resolution of the Board of Directors held on 7<sup>th</sup> November which granted a dividend of ten yen per share, to be paid from 9<sup>th</sup> December, 2011.

As to the outlook for the latter half fiscal year, the Japanese economy is exhibiting signs of recovery however the slowdown in the European and U.S. economies, which are plagued by the financial crisis, and the appreciation of the yen which reached unprecedented highs, have both impacted exports which are the pillar of our economic recovery. Furthermore, there has been no fundamental resolution of the accident at the Fukushima nuclear power plant and power shortage and it is possible that the economy may return to a downward trend at any time. Moreover, there is the concern that prices of raw materials may rise again due to competition for resources, rendering it difficult to foresee our future business performance.

Against such a harsh economic environment, the Parker Group will be endeavoring to develop surface modification technology which is unsurpassed in its innovation and originality, under its slogan of “Back to the Basics”. We will actively promote investment at our overseas affiliates to strengthen our business development in expanding overseas markets and do our utmost to strengthen our corporate structure and profitability.

We look forward to your continuing cooperation and support.

President and C.O.O.

Kazuichi SATOMI

## Consolidated Balance Sheet

	September 30	March 31
	<b>2011</b>	<b>2011</b>
	(JPY Million)	
<b>Assets</b>		
<b>Current assets</b>	<b>63,752</b>	<b>61,590</b>
Cash and deposits	24,649	25,683
Notes and accounts receivable-trade	25,347	25,035
Merchandise and finished goods	1,771	1,687
Work in process	4,128	1,715
Raw materials and supplies	3,514	3,323
Others	4,466	4,253
Allowance for doubtful accounts	△125	△108
<b>Fixed assets</b>	<b>64,243</b>	<b>63,335</b>
<b>Tangible assets</b>	<b>36,078</b>	<b>35,304</b>
Buildings and fixtures, net	11,848	11,904
Land	14,639	14,545
Others, net	9,589	8,854
<b>Intangible assets</b>	<b>1,850</b>	<b>1,866</b>
<b>Investments and other assets</b>	<b>26,314</b>	<b>26,164</b>
Investment in securities	17,649	18,231
Others	8,845	8,112
Allowance for doubtful accounts	△180	△180
<b>Total assets</b>	<b>127,995</b>	<b>124,925</b>

**Liabilities**

<b>Current liabilities</b>	<b>28,964</b>	<b>28,821</b>
Notes and accounts payable-trade	12,161	11,992
Short-term loans payable	3,128	3,268
Current portion of long-term loans payable	473	556
Corporate Income taxes payable	1,864	2,981
Provision for bonuses	2,118	2,316
Others	9,217	7,706
<b>Fixed liabilities</b>		<b>15,326</b>
Long-term loans payable	3,522	3,138
Provision for retirement benefits	9,702	9,538
Others	2,101	2,124
<b>Total liabilities</b>	<b>44,291</b>	<b>43,622</b>

**Net assets**

<b>Shareholders' equity</b>	<b>72,930</b>	<b>70,362</b>
Paid-in capital	4,560	4,560
Capital surplus	3,913	3,913
Retained earnings	68,078	65,508
Treasury stock	△3,621	△3,619
<b>Accumulated other comprehensive profit</b>	<b>△2,654</b>	<b>△1,929</b>
Valuation difference on available-for-sale securities	1,580	2,163
Deferred gains or losses on hedges		△64
Foreign currency translation adjustment	△4,171	△4,041
<b>Minority interests</b>	<b>13,428</b>	<b>12,869</b>
<b>Total net assets</b>	<b>83,703</b>	<b>81,303</b>
<b>Total liabilities and net assets</b>	<b>127,995</b>	<b>124,925</b>

## Consolidated Statements of income

	Six months ended September 30	
	2011	2010
	(JPY Million)	
Net sales	37,999	38,703
Cost of sales	23,389	23,414
<b>Gross profit</b>	<b>14,609</b>	<b>15,288</b>
<b>Selling, general and administrative expenses</b>	<b>9,545</b>	<b>9,433</b>
<b>Operating income</b>	<b>5,064</b>	<b>5,855</b>
<b>Non-operating profit</b>	<b>1,002</b>	<b>942</b>
Interest income	53	33
Dividends income	164	137
Rent income	153	163
Equity in earnings of affiliates	386	364
Other	244	242
<b>Non-operating expenses</b>	<b>187</b>	<b>327</b>
Interest expenses	46	71
Foreign exchange losses	54	164
Loss on valuation of derivatives	44	42
Other		41
<b>Ordinary profit</b>	<b>5,879</b>	<b>6,470</b>
<b>Extraordinary profit</b>	<b>22</b>	<b>9</b>
<b>Extraordinary loss</b>	<b>112</b>	<b>47</b>
<b>Income before income taxes and minority interests</b>	<b>5,789</b>	<b>6,432</b>
Income taxes	2,056	2,198
<b>Income before minority interests</b>	<b>3,732</b>	<b>4,234</b>
Minority interests in income	556	738
<b>Net profit for the period</b>	<b>3,176</b>	<b>3,495</b>