Consolidated Financial Statements for the First Half of Fiscal Year Ending March 31, 2013 (Six Months Ended September 30, 2012) (Based on J-GAAP)

November 14, 2012

Company Name : Nippon Manufacturing Service Corporation. Listing : JASDAQ (Osaka Securities Exchange)
Stock Code : 2162 URL : http://www.n-ms.co.jp/
Representative : Fumiaki Ono, President and CEO
Contact : Norihiko Suehiro, Director and CFO
Tel : +81-3-5333-1711
Scheduled Date of Filing Quarterly Securities Report : November 14, 2012
Scheduled Commencement Date of Dividend Payout : —
First Half Financial Results Presentation Materials : Yes
Explanatory Meeting on First Half Financial Results : Yes (For Institutional Investors and Analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2013 (April 1, 2012 – September 30, 2012)

(1) Consolidated results of operations (six months) (Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1H FY 2013	19,438	76.6	471	215.9	461	449.0	200	(84.3)
1H FY 2012	11,006	22.5	149	(46.0)	83	(68.3)	1,273	66.5

(Note) Comprehensive income (million yen): 1H FY 2013: 344 (-70.9%) 1H FY 2012: 1,184 (62.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
1H FY 2013	1,961.27	1,884.79
1H FY 2012	12,796.05	11,951.19

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
1H FY 2013	19,342	6,144	18.0
FY 2012	18,709	5,839	17.9

Reference: Shareholders' equity (million yen): 1H FY 2013: 3,473 FY 2012: 3,343

2. Dividends

	Annual dividends				
	1Q-end	Interim	3Q-end	Yearend	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2012	—	0.00	—	400.00	400.00
FY 2013	—	0.00			
FY 2013 (forecasts)		0.00	—	300.00	300.00

Note: Revision of the latest released dividend forecast: None

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2013 (April 1, 2012 – March 31, 2013)

(Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	45,000	41.4	1,000	297.5	1,050	294.3	500	(63.1)	4,627.27

Note: Revision of the latest released business performance forecast: None

4. Others

(1) Changes in significant subsidiaries during the consolidated cumulative period (six months) under review (changes in subsidiaries accompanying change in the scope of consolidation): None

New: None (Company name:)
Excluded: None (Company name:)

(2) Application of accounting procedures specific to creation of quarterly consolidated financial statements: Yes

(Note) For details, refer to "2. Summary (Other) Information: (2) Application of accounting procedures specific to creation of quarterly consolidated financial statements on page 4 of the Attachment.

(3) Change of accounting policies; change and/or restatement of accounting estimates

1) Change of accounting policies caused by revision of accounting standards: Yes
2) Change of accounting policies other than stated in (1): None
3) Change of accounting estimates: Yes
4) Retroactive restatement: None

(Note) For details, refer to "2. Summary (Other) Information: (3) Change of accounting policies; change and/or restatement of accounting estimates" on page 5 of the Attachment.

(4) Number of shares issued and outstanding (shares of common stock)

1) Number of shares outstanding (including treasury stock) at end of period	1H FY 2013	108,055 shares	FY 2012	108,055 shares
2) Number of treasury stock at end of period	1H FY 2013	5,815 shares	FY 2012	5,815 shares
3) Average number of shares outstanding during the period	1H FY 2013	102,240 shares	1H FY 2012	99,543 shares

* Implementation of quarterly review procedures

This summary of quarterly financial statements is not subject to quarterly review procedures pursuant to the Financial Instruments and Exchange Act. At the time of disclosure of this summary of quarterly financial statements, the review procedures of quarterly financial statements pursuant to the FIEA were completed.

* Cautionary statement with respect to forward-looking statements

The forward-looking statements such as the forecasts for the business performance described in this document are based on the judgments made by the Company in accordance with information currently available that is rational. For this reason, actual results may differ from these forecasts due to a number of factors, including but not limited to the operating environment. For the underlying assumptions and usage of earnings projections refer to the disclaimer in “(3) Qualitative information concerning business performance forecast” under “1. Qualitative Information Concerning Financial Results of the Quarter under Review” on page 4 of the Attachment.

(How to obtain Quarterly Financial Results Presentation Materials)

Quarterly financial results presentation materials are published on the same day on TDnet.

1. Qualitative Information Concerning Financial Results of the Quarter under Review

Forward-looking information included in the text reflects the judgment of the nms Group (the Company and consolidated subsidiaries) as of the end of the consolidated quarter under review.

(1) Qualitative information concerning consolidated operating results

In the period under review, the world economy is yet to grasp the trend of sovereign risks in Europe, while China, which has been the driving force for world economy for the past several years, is experiencing slower economic growth, and the United States is still unable to turn around its economy toward recovery. Under these circumstances, world economy is feared to experience unforeseeable damage in case the European debt crisis does become a reality.
Meanwhile, with regard to Japanese economy, territorial disputes with neighboring countries have become a concern. Especially, anti-Japanese demonstrations in China such as boycott of Japanese products, originating from nationalization of the Senkaku Islands in Okinawa inflicted a serious blow to the export industry, including manufacturers. Furthermore, domestic economy is still unable to halt its increasing debt or to find a way to depart from the deflationary economy, resulting in a stronger sense of stagnation. Thus, Japanese economy in the period under review struggles from the uncertainties toward European economic crisis as well as concern for decrease in exports to China, and manufacturing industry, which is Japan’s key industry, significantly lacks global competitiveness in a harsh business environment such as strong yen.
Under these conditions, many manufactures in our industry are downscaling their domestic production bases and shifting them overseas, making it more difficult to maintain and expand business as in the past. Great East Japan Earthquake and massive flooding in Thailand last year urged manufactures to review their procurement, production and supply structures from BCP point of view, and manufacturers began restructuring their production bases at a speed far beyond the industry expectation. In addition, more manufactures are requesting to reduce their cost in domestic production, forcing our industry to control cost per hire, affecting considerably in recruiting activities and securing profitability. Additionally, increased anti-Japan sentiments in China are expected to affect exports to China and manufacturing activity in China.
Occasioned by these developments, nms Group (the Company and its consolidated subsidiaries) has formulated a business strategy concept (“neo EMS”) under which the Group will promote business initiatives that address key issues of the Group’s individual operations. The Group has been successful to a certain degree in regard to these efforts. Specific measures include the following:
- Inline Solutions (IS) operations: Raise the domestic competitive strength of the Group’s core business, and develop overseas market
- Customer Service (CS) operations: Pursue high-margined business models, expand domestic operations, and make preparations to enter overseas market
- Global Engineering (GE) operations: Pursue synergies between operations, recognizing that such operations are indispensable for “neo EMS”
- Electronics Manufacturing Service (EMS) operations: Aim for greater group manufacturing prowess and re-establish a business platform for domestic and overseas operations

In the period under review, business environment was severe for nms Group who operates manufacturing outsourcing services under “neo EMS” business strategy concept described above. Nevertheless, the Group was able to record strong results by pursuing operational synergy between business segments.
As a result, consolidated sales for the first half increased 76.6% to 19,438 million yen, with operating income of 471 million yen (+215.9% on the year), ordinary income of 461 million yen (+449.0% on the year), and net income of 200 million yen (-84.3% on the year).

Segment results developed as follows.
Note that from the first consolidated quarter, changes have been made in calculation of profit or loss of reportable segments. As regards the comparisons made with the same quarter of the previous year that appear in the following financial result summaries for each segment, the figures for the previous year have been reclassified to take account of the new segment decisions so as to enable direct comparison.

[1] Inline Solutions (IS) operations

Japanese manufacturers are restructuring their base strategies according to manufacturing functions from global perspective, taking into account lessons learned from Great East Japan Earthquake and massive flooding in Thailand last year. All manufacturing processes including material procurement activity, production activity (substrate mounting and product assembly), and supply activity are being reviewed strategically. The Group’s manufacturing clients are looking ahead to what each place of procurement, production, and consumption should be, and are advocating establishment of internationally diversified production bases through comprehensive consideration for severe business environment including strong yen, as well as underlying country risks throughout the world such as in China.

Under these circumstances, for the period under review, domestic IS operations gained a high reputation from clients because in comparison to other companies, the Group possesses: overwhelmingly broad range of solution menus available in "neo EMS" business development; an advantage in contract manufacturing thanks to its consistent commitment to manufacturing; and an ability to make global proposals including overseas production, by having multiple overseas bases for EMS operations and overseas staff dispatch. As a result of foregoing combined with aggressive marketing, enrollment has reached its highest since the Lehman Brothers' fall, continuing from the first consolidated quarter.

For manufacturing clients considering production transfer to overseas, the Group's ability to offer services such as overseas manufacturing outsourcing and contract manufacturing, not to mention the ability to meet the domestic outsourcing needs, has enabled the Group to achieve perfect discrimination, and aggressive sales and marketing activities were promoted in China and Vietnam respectively in full cooperation with Beijing Zhongji Zhonghe International Technical Services Ltd. ("Zhongji Zhonghe") and nms International Vietnam Company Limited. ("nms Vietnam"). At Zhongji Zhonghe, anti-Japanese demonstrations originating from the Senkaku Islands issues made the Group to face another difficulty of operating business in China. Nevertheless, Japanese-affiliated manufacturers have shown increased interest in high value-added manufacturing staff dispatch and contract business offered by the Group, and while recognizing the risks for business environment, the Group is also sensing great business opportunities.

Based on the foregoing, the Group reported revenues of 4,936 million yen (+12.0% on the year) with segment profit of 2 million yen (-93.9% on the year).

[2] Customer Service (CS) operations

CS operations, despite of its small business size, is a unique and highly profitable business model not present with other human resources companies, creating a differentiator in the industry. Especially in the Group's "neo EMS" business development, in-house factories serve multiple purposes as bases for CS operations, bases for adjusting supply and demand of human resources, educational facilities to improve add-on values of human resources, and mother factories to the client bases that are scattered as satellites. In-house factories have been proceeding with distribution of function with factories under EMS operations (SHIMA Group and TKR Group) which has become a Group subsidiary, and the Group is currently making a concerted effort to promote "neo EMS" strategy.

With such an important mission with regards to "neo EMS" strategy development, though, there has been no major development of new business in the period under review, and in today's severe business environment, even the main repair business for home-use video game equipment and mobile phones has been unable to secure growth as in the past. Nonetheless, with regard to field services business which provides visit repair services, its launch has been smoothly underway since last period, and a new organization for field service business was added to an existing organization for contracting business, resulting in a system restructuring for promoting CS operations.

Also in the period under review, continuing from the previous period, CS operations further strengthened the cooperation with Zhongji Zhonghe who offers overseas human resource business, and nms Vietnam, along with SHIMA Group and TKR Group who offer EMS operations. In order to seek business opportunity potentials overseas, a feasibility study which includes marketing review as well as business model review has been under way.

Based on the foregoing, the Group reported revenues of 1,258 million yen (-15.6% on the year) with segment profit of 56 million yen (-45.0% on the year).

[3] Global Engineering (GE) operations

In the period under review, continuing from the previous period, GE operations mainly focused on domestic engineer dispatch services as a key operation. While experiencing a difficulty in securing Japanese engineers in the engineer dispatch market, nms viewed it as a business opportunity; working more closely with Beijing Rihua Caichuang International Technical Services Ltd. and Zhongji Zhonghe, two local affiliates in China, nms made further improvements to the Group's unique business model of dispatching Chinese engineers to Japanese manufacturers in China and met the needs of its clients.

In addition, GE operations has been practicing its business development as "neo EMS", meaning that it has been focusing on the creation of new contract-base design business by cooperating with SHIMA Group and TKR Group, which had been turned into subsidiaries and offer EMS operations, while at the same time dispatching engineers from TKR Group and SHIMA Group to meet the demand within the nms Group as production fluctuated.

As a result, the Group reported revenues of 313 million yen (+1.7 % on the year) with segment profit of 3 million yen (corresponding period in the previous year had segment loss of 3 million yen).

[4] Electronics Manufacturing Service (EMS) operations

EMS operations develops its business with SHIMA Group and TKR Group as its parent organization.

In the period under review, the goal of EMS operations was to display business synergy with the Group's IS, CS and GE operations and to more powerfully promote "neo EMS". A cross-sectional sales strategy organization, which was set up in April 2012 in order to vigorously promote sales toward key accounts by head office, has proved effective and the Group is able to gain new orders. The Group is beginning to receive orders that extends to multiple operations, and EMS operations is starting to play a certain role as a mother factory for "neo EMS" within the Group, along with in-house factories, bases of CS operations. EMS operation is gathering momentum to share important parts of Hitozukuri (employee development) and Monozukuri functions in "neo EMS" development.

EMS operations centers itself overseas rather than in Japan and is an essential business to the Group, who offers a broad range of solutions to various outsourcing needs of manufacturing clients, including overseas shift of domestic production bases. Albeit minor, anti-Japanese demonstrations in China that occurred in the period under review did have an effect on EMS operations, which left the Group no choice but to recognize China's country risks. Nevertheless, the Group also realized that developing business as "neo EMS" in coalition with Zhongji Zhonghe enables the Group to meet the needs of Japanese-affiliated manufacturers that are moving into China.

As a result, the Group reported revenues of 12,929 million yen (+169.4 % on the year) with segment profit of 408 million yen (+5,182.8% on the year). Note that TKR Group was turned into subsidiary in July 2011. For comparison of corresponding period in the previous year, financial results of TKR Group are not included in the prior consolidated cumulative period as the financial results of TKR Group include the results before the date of acquisition.

Note that SHIMA Electronic Industry Co., Ltd and SHIMA Electronic Industry (H.K) Co., Ltd. have changed account closing date from March 31 to December 31, and their results for the first quarter are reported in the beginning balance of retained earnings. Results for the two companies, therefore, are not included in the consolidated results of operations for the first half.

(2) Qualitative information concerning financial position

Consolidated assets at the end of the period under review increased 632 million yen compared with the end of the prior fiscal year to 19,342 million yen.

Current assets increased 727 million yen compared with the end of the prior fiscal year to 13,764 million yen. This was due to trade notes and accounts receivable, which increased 1,043 million yen, and marketable securities, which decreased 326 million yen.

Fixed assets decreased 94 million yen compared with the end of the prior fiscal year to 5,578 million yen. This was due to intangible assets, which increased 150 million yen, and tangible assets and investments and other assets, which decreased 128 million yen and 116 million yen, respectively.

Consolidated liabilities increased 327 million yen compared with the end of the prior fiscal year to 13,197 million yen.

Current liabilities increased 954 million yen compared with the end of the prior fiscal year to 11,184 million yen. This was due to trade notes and accounts payable and short-term loans payable, which increased 360 million yen and 428 million yen, respectively.

Long-term liabilities decreased 626 million yen compared with the end of the prior fiscal year to 2,013 million yen. This was due to long-term loans, which decreased 532 million yen.

Consolidated net assets increased 305 million yen compared with the end of the prior fiscal year to 6,144 million yen. This was due to retained earnings and minority shareholder's interest, which increased 159 million yen and 174 million yen, respectively.

(Cash flow)

Consolidated net cash and cash equivalents ("Cash") at the end of the period under review totaled 3,968 million yen (4,095 million yen at the same period in the previous year).

Cash flows and relevant factors in the period under review are as follows:

[Cash flows from operating activities]

Cash provided in operating activities totaled 230 million yen (Cash used by operating activities totaled 295 million yen at the same period in the previous year). Main factors were a 1,075 million yen increase in accounts receivables, a 429 million yen in net income before taxes, a 247 million yen in depreciation and a 389 million yen increase in accounts payable.

[Cash flows from investing activities]

Cash provided by investing activities totaled 88 million yen (Cash provided in investing activities totaled 462 million yen at the same period in the previous year). Main factors were a 221 million yen in proceeds from sales of tangible assets and a 171 million yen in payments for purchase of intangible assets.

[Cash flows from financing activities]

Cash used by financing activities totaled 227 million yen (Cash provided by financing activities totaled 2,229 million yen at the same period in the previous year). Main factors were a 616 million yen in repayment of long-term loans and a 495 million yen in net increase of short-term loans.

(3) Qualitative information concerning business performance forecast

The earning estimates for the consolidated fiscal year ending March 31, 2013 (full year) listed in "Consolidated Financial Statements for the Fiscal Year Ended March 31, 2012 (Based on J-GAAP)" released on May 15, 2012, remain unchanged.
It should be noted that earnings estimates are based on the information available at the time of release and are subject to revision in case earnings trends change due to events.

2. Summary (Other) Information

(1) Changes in significant subsidiaries during the consolidated cumulative period under review

None.
Note that since the first quarter of the consolidated fiscal year, SHIMA Electronic Industry Co., Ltd and SHIMA Electronic Industry (H.K) Co., Ltd. have changed account closing date from March 31 to December 31 in order to promote efficiency in operations. Their results for the first quarter (January 1, 2012 to March 31, 2012) are reported in the beginning balance of retained earnings.

(2) Application of accounting procedures specific to creation of quarterly consolidated financial statements

(Application of accounting procedures specific to creation of quarterly consolidated financial statements)
For some of its consolidated subsidiaries, the effective tax rate expected to be imposed on pretax net income of the consolidated fiscal year including the current period under review was estimated based on reasonable assumptions. Then, tax expenses for the current period under review were calculated by multiplying the pretax net income for the quarter by the estimated effective tax rate.

(3) Change of accounting policies; change and/or restatement of accounting estimates

Change of accounting policies
(Change of depreciation method)
In accordance with the amendment of the Corporation Tax Law, effective from the consolidated first quarter of fiscal year ending March 31, 2013, nms and its domestic consolidated subsidiaries have changed their depreciation method for those property and equipment acquired on or after April 1, 2012.
The impact of this change on operating income, ordinary income and net income before income taxes and minority interests is not significant compared to the former method.