Consolidated Financial Statements for the Fiscal Year Ended March 31, 2013 (Based on J-GAAP)

May 15, 2013

Company Name : Nippon Manufacturing Service Corporation. Listing : JASDAQ (Osaka Securities Exchange)
Stock Code : 2162 URL : http://www.n-ms.co.jp/
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Scheduled date of Annual General Meeting of Shareholders: June 28, 2013
Scheduled Commencement Date of Dividend Payout : July 1, 2013
Scheduled date of filing Annual Securities Report : June 28, 2013
Financial Results Presentation Materials: Yes
Explanatory Meeting on Financial Results for FY ended March 31, 2013 : Yes (For Institutional Investors and Analysts)

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

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2013 (April 1, 2012 – March 31, 2013)

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2013	38,869	22.1	387	54.1	564	112.0	235	(82.6)
FY 2012	31,832	54.0	251	(58.3)	266	(54.4)	1,356	49.4

(Note) Comprehensive income (million yen): FY 2013: 724 (37.2%) FY 2012: 1,154 (32.7%)

	Net income per share	Diluted net income per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	yen	yen	%	%	%
FY 2013	2,303.42	2,219.98	6.6	3.0	1.0
FY 2012	13,552.23	12,741.57	49.4	2.0	0.8

(Reference) Equity in earnings of affiliates (million yen): FY2013: — FY2012: —

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY 2013	19,061	6,523	19.7	36,745.45
FY 2012	18,709	5,839	17.9	32,707.18

(Reference) Shareholders' equity (million yen): FY 2013: 3,756 FY 2012: 3,343

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY 2013	145	(222)	(382)	3,527
FY 2012	596	667	949	3,873

2. Dividends

	Dividends per share					Total dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	Interim	3Q-end	Yearend	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY 2012	—	0.00	—	400.00	400.00	40	3.0	1.5
FY 2013	—	0.00	—	300.00	300.00	30	13.0	0.9
FY 2014 (forecasts)	—	0.00	—	300.00	300.00		6.1	

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2014 (April 1, 2013 – March 31, 2014)

(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
1H (six months)	19,300	(0.7)	(125)	—	85	(81.6)	0	—	—
Full year	45,000	15.8	820	111.5	1,000	77.1	500	112.3	4,890.45

4. Others

(1) Changes in significant subsidiaries during the fiscal year under review
(changes in subsidiaries accompanying change in the scope of consolidation): Yes
New: 1 (Company name: SHIMA Electronics (Shenzhen) Co., Ltd.)
Excluded: None (Company name:)

(2) Changes in accounting principles, procedures and method of presentation
1) Changes caused by revision of accounting standards: Yes
2) Other changes: None
3) Changes in accounting estimates: Yes
4) Retroactive restatement: None

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

1) Number of shares outstanding (including treasury stock) at end of period	FY 2013	108,055 shares	FY 2012	108,055 shares
2) Number of treasury stock at end of period	FY 2013	5,815 shares	FY 2012	5,815 shares
3) Average number of shares outstanding during the period	FY 2013	102,240 shares	FY 2012	100,074 shares

* 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 “1. Analysis Regarding Results of Operations and Financial Condition (1)Analysis regarding results of operations” on page 2 of the Attachment to the summary of consolidated financial statement.

1. Analysis Regarding Results of Operations and Financial Condition

(1) Analysis regarding results of operations

Japanese 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 in 2011 urged manufactures to review their procurement, production and supply structures from BCP point of view, and manufacturers are 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 such as cost per payslip, affecting considerably in recruiting activities and securing profitability. In domestic economic environment where strong yen has been corrected with haste, exporting companies would theoretically benefit from improved profitability. Our industry, however, has not seen any significant change during the period under review such as reshoring of products manufactured in foreign bases.

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, the Group implemented a new mid-term management plan which aims to go beyond segment boundaries to maximize synergy between business segments in order to further promote intragroup sharing of “neo EMS” business strategy concept described above.

As a result, consolidated sales for the consolidated fiscal year under review increased 22.1% to 38,869 million yen, with operating income of 387 million yen (+54.1% on the year), ordinary income of 564 million yen (+112.0% on the year), and net income of 235 million yen (-82.6% on the year).

Segment results developed as follows.

Note that from in the consolidated fiscal year under review, changes have been made in calculation of profit or loss of reportable segments. As regards the comparisons made with the same period 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 in 2011. All manufacturing processes including material procurement activity, production activity (substrate mounting and product assembly), and supply activity are being reviewed strategically.

In the period under review, although strong yen has shifted towards weaker yen after monetary policy set out by the coalition of the government and the Bank of Japan was favored, the Group’s manufacturing clients are yet to make significant changes in their strategy in developing their global production bases. 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 of factors such as currency movement and labor costs as well as country risks.

Under these circumstances, 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. Especially 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. Meanwhile, Japanese-affiliated manufacturers who are experiencing higher labor cost in China and are troubled by labor disputes such as demonstrations have shown increased interest in high value-added manufacturing staff dispatch and contract business offered by the Group. Thus, while recognizing the risks for fast-changing business environment, the Group is once again sensing great business opportunities.
Based on the foregoing, the Group reported revenues of 9,538 million yen (+2.0% on the year) with segment loss of 77 million yen (corresponding period in the previous year had segment loss of 2 million yen).

[2] Customer Service (CS) operations
The Group recognizes CS operations, despite of its small business size, as 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 SHIMA Group, which operates EMS operations (including SHIMA Electronic Industry Co., Ltd, its local affiliates in Hong Kong and Malaysia, and an outsourcing factory in China which is a contract manufacturer of Hong Kong local affiliate) as well as factories under TKR Group (TKR Corporation and its subsidiaries including three domestic local affiliates, two local affiliates in Malaysia, two local affiliates in Hong Kong and one local affiliate in China). 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. 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 2,386 million yen (-17.8% on the year) with segment profit of 118 million yen (-49.4% 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, the Group viewed it as a business opportunity and made improvements to a business model which involves collaborating with the Group's overseas companies to dispatch foreign engineers to domestic manufacturers. In particular, GE operations strives to differentiate itself from other companies in the same industry by securing Chinese engineers through Beijing Rihua Caichuang International Technical Services Ltd. and Zhongji Zhonghe, two local affiliates in China, and by securing Vietnamese engineers through nms Vietnam, a local affiliate in Vietnam.
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 611 million yen (-2.5 % on the year) with segment profit of 25 million yen (+447.9% on the year).

[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 take 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 26,333 million yen (+39.0 % on the year) with segment profit of 320 million yen (+2,043.9% 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 fiscal year under review.

As for the outlook for the coming fiscal year, the Group will continue to thoroughly pursue its strengths under the "neo EMS" business strategy concept. As a numerical goal, the Group forecasts that it will record 45,000 million yen in consolidate net sales, 820 million yen in consolidated operating income, 1,000 million yen in consolidated ordinary income, and 500 million yen in consolidated net income.
For the IS operations, the Group will continually strive to precisely ascertain client trends in order to timely meet the needs of manufacturers, and by making use of its abundant experience in the field, the Group will actively propose contract services even in a new, non-manufacturing field. In order to benefit from the many business opportunities when manufacturing bases are moved overseas from Japan, the Group will further strengthen its coalition with Zhongji Zhonghe who now offers full-scale labor dispatch services (manufacturing staff and engineer dispatch) in China, as well as nms Vietnam who offers contracting business in Vietnam. By preparing wide-range solution options in Japan and overseas and precisely meeting client needs, the Group professes to support Japanese manufacturing and to become a strategic partner of client manufacturers. In addition, as regards domestic business development, considering the increasingly intense competition and under assumption of maintaining certain scale, the Group will seek alliance with other companies in the same industry who approve the Group's "neo EMS" business strategy concept.
For the CS operations, the Group will not only reexamine the business model applied to these operations, which have continued to generate sales growth even under difficult conditions, but also reflect upon insufficiency of new businesses during the consolidated fiscal year under review, and continue to look for new business opportunities. It is assumed that Japanese manufacturers will further examine moving their production bases located in Japan overseas, but the Group is aware that repair operations, which it is particularly strong in, will remain in Japan and, therefore, will work to steadily expand these operations. In particular, the Group will set winning new projects as a primary assignment, and will be engaging in aggressive marketing activities. The CS operations has adopted B to B business model, but it will now also introduce B to C business model and will make various efforts. In particular, a feasibility study has been under way for a new business model with a platform built upon cloud environment on the Internet, and a system will be constructed which enhances the Group's domestic ability to handle high-mix low-volume production in a medium- and long-term perspective.
For the GE operations, the Group will focus on maintaining sales and improving profitability in order to steadily expand the business even without an increase in demand. In particular, efforts will be undertaken to make effective use of business resources in order to generate greater synergies from the ES and GS operations that were merged previous consolidated fiscal year. In addition, the Group will review and improve its nms course (educational program for Japanese language and production management) which is offered at colleges in China, so that engineer dispatches to manufactures in Japan will increase. At the same time, the Group will cooperate with Zhongji Zhonghe in China in order to expand engineer dispatches to Japanese manufacturers. Also in Vietnam, the Group will work to exploit various channels in order to construct the same infrastructure as in China.
For the EMS operations, the Group will make efforts to enhance synergy between SHIMA Group and TKR Group, as well as to create business synergy with the IS, CS, and GE operations. The strategy for this business during the next fiscal year is to form collaborations with other operations such as the IS operations (human resources business), the core of the "neo EMS" business strategy concept, both domestically and internationally, and to give the greatest priority to meeting the diverse needs of manufacturers. Particularly in China, the Group is aiming to promote business integrations with labor dispatch services (dispatches of manufacturing workers and engineers) promoted by Zhongji Zhonghe in Huanan region, where TKR HUANAN ELECTRONICS (DONG GUAN) CO., LTD (Dong Guan EMS plant) of TKR Group and SHIMA Group's Shenzhen plant for processing and assembling with supplied materials are located, in order to further strengthen "neo EMS" business model. As for SHIMA Group's Shenzhen plant, the Group aims to take full ownership during the current fiscal year in order to expand business opportunities in mainland China. Domestically, the Group aims to expand new technical field and acquire new clients by approaching manufacturers who undergo business restructuring and by offering business succession, where manufacturers would transfer certain business fields that they have difficulty continuing to the Group. A business

succession strategy will be designed taking into account such succeeded businesses would be transferred overseas in the future. As stated above, the Group will aspire to increase orders from client manufacturers in the IS, CS, and GE operations both domestically and internationally, and will strengthen their coalition to maximize inter-operational synergies at the Group level and vigorously undertake both sales and technology related activities.

(Reference) Cash flow related indicators

	FY 2012	FY 2013
Shareholders' equity ratio (%)	17.9	19.7
Shareholders' equity ratio based on market prices (%)	25.6	24.7
Interest-bearing debt to cash flow ratio (%)	10.6	41.6
Interest coverage ratio (times)	10.4	2.3

Shareholders' equity ratio: Shareholders' equity / Total assets
Shareholders' equity ratio based on market prices: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flow
Interest coverage ratio: Cash flow / Interest paid

(Notes) 1. Indicators are calculated using consolidated financial figures.
2. Market capitalization is calculated using the total number of issued shares minus treasury shares.
3. Cash flow refers to cash flow from operating activities.
4. Interest-bearing debt refers to all liabilities appearing on the balance sheet that interest is paid on. Interest paid appearing in the statement of cash flows is used as interest paid.