Consolidated Financial Statements for the Fiscal Year Ended March 31, 2011 (Based on J-GAAP)

May 13, 2011

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, 2011
Scheduled Commencement Date of Dividend Payout : June 29, 2011
Scheduled date of filing Annual Securities Report : June 28, 2011
Financial Results Presentation Materials: Yes
Explanatory Meeting on Financial Results for FY ended March 31, 2011 : 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, 2011 (April 1, 2010 – March 31, 2011)

(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 2011	20,675	—	602	—	584	—	907	—
FY 2010	—	—	—	—	—	—	—	—

(Note) Comprehensive income (million yen): FY 2011: 870 (—%) FY 2010: — (—%)

	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 2011	45,595.87	42,997.49	42.3	7.9	2.9
FY 2010	—	—	—	—	—

(Reference) Equity in earnings of affiliates (million yen): FY2011: — FY2010: —

(Note 1) Since this fiscal year is the first fiscal year that consolidated financial statements have been created, figures for the fiscal year ended March 31, 2010 and changes compared with the fiscal year 2010 are not stated.

(Note 2) Return on equity and ratio of ordinary income to total assets are calculated using shareholder's equity and total assets at the end of period.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY 2011	7,362	2,169	29.2	107,857.71
FY 2010	—	—	—	—

(Reference) Shareholders' equity (million yen): FY 2011: 2,147 FY 2010: —

(Note) Since this fiscal year is the first fiscal year that consolidated financial statements have been created, figures for the fiscal year ended March 31, 2010 are not stated.

(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 2011	671	(196)	349	1,712
FY 2010	—	—	—	—

(Note) Since this fiscal year is the first fiscal year that consolidated financial statements have been created, figures for the fiscal year ended March 31, 2010 are not stated.

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 2010	—	0.00	—	500.00	500.00	9	—	—
FY 2011	—	0.00	—	2,000.00	2,000.00	39	4.4	1.9
FY 2012 (forecasts)	—	0.00	—	300.00	300.00		8.1	

(Note 1) Since this fiscal year is the first fiscal year that consolidated financial statements have been created, figures for the fiscal year ended March 31, 2010 are figures listed in the non-consolidated financial statements.

(Note 2) Since this fiscal year is the first fiscal year that consolidated financial statements have been created, dividend payout ratio and dividend on equity for the fiscal year ended March 31, 2010 are not stated.

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2012 (April 1, 2011 – March 31, 2012)

(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)	11,500	28.0	65	(76.5)	60	(77.4)	15	(98.0)	150.69
Full year	24,500	18.5	650	7.8	630	7.9	370	(59.2)	3,717.10

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: 3 (Company name: SHIMA Electronic Industry Co., Ltd.
SHIMA Electronic Industry (H.K.) Co., Ltd.
Shima Electronic Industry (Malaysia) Sdn. Bhd.)
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
(Note) Items to be disclosed in "Changes in Significant accounting policies in the preparation of financial statements."

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

1) Number of shares outstanding (including treasury stock) at end of period	FY 2011	21,611 shares	FY 2010	21,608 shares
2) Number of treasury stock at end of period	FY 2011	1,703 shares	FY 2010	1,703 shares
3) Average number of shares outstanding during the period	FY 2011	19,907 shares	FY 2010	20,006 shares

(Reference) Non-Consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2011 (April 1, 2010 – March 31, 2011)

(1) Non-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 2011	12,378	10.3	489	108.5	479	108.3	199	(13.3)
FY 2010	11,224	(24.3)	234	27.5	230	32.4	230	—

	Net income per share	Diluted net income per share
	Yen	Yen
FY 2011	10,015.76	9,444.99
FY 2010	11,497.36	11,334.19

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY 2011	4,255	1,498	34.7	74,170.63
FY 2010	3,117	1,295	41.3	64,656.00

Reference: Shareholders' equity (million yen): FY 2011: 1,476 FY 2010: 1,286

2. Forecasts for the Fiscal Year Ending March 31, 2012 (April 1, 2011 – March 31, 2012)

(Percentages represent year-over-year changes)

	Net sales		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Yen
1H (six months)	5,600	(10.4)	(5)	—	(45)	—	(452.08)
Full year	13,000	5.0	480	0.0	250	25.4	2,511.55

* Implementation of audit procedures

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

* Cautionary statement with respect to forward-looking statements

1. 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 "Analysis regarding results of operations" on page 1 of the Attachment to the summary of consolidated financial statement.

2 On April 1, 2011, the Company will undertake a 5-for-1 stock split of common shares held by shareholders on March 31, 2011. The "net income per share" appearing in "3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2012" and "(Reference) Non-Consolidated Financial Results" were calculated taking into consideration this stock split.

1. Results of Operations

(1) Analysis regarding results of operations

During the fiscal year under review the Japanese economy continued to gradually recover due to economic growth in Asian countries such as China, but economic conditions were thrown into uncertainty as a result of the unprecedented Great East Japan Earthquake that hit right before the end of the fiscal year. The earthquake not only had an extensive and major impact itself but also created a secondary disaster, the accidents at the nuclear power plant. Along with the appreciation of the yen, deflationary pressures, and the troubling financial condition of the Japanese government, which must be improved, these disasters have cast a pall on future economic growth. Problems such as the destruction of social infrastructure in the Tohoku region, power shortages due to troubles at the nuclear power plant, and damage caused by rumors have had a substantial negative impact on various industries in Japan including the manufacturing industry, and economic conditions are extremely bleak with no sign of when relief efforts targeting victims of the disaster and reconstruction will be completed.
Under these conditions, within the industry, some manufacturers had experienced a firm recovery in earnings until the earthquake, and the dispatch of manufacturing workers and contract manufacturing services had been recovering even though the economic outlook had not been very strong. However, manufacturers and companies in this industry were faced with the challenge of maintaining their system of domestic production. In particular, manufacturers are confronted with numerous difficult problems including physical damage to plants and equipment, deterioration in logistics capabilities as a result of the destruction of social infrastructure, partial disruption to the supply chain for parts and materials, damage from rumors related to various issues such radioactive contamination of parts due to accidents at the nuclear power plant, unstable production as a result of power shortages, and maintaining employment when plants are closed.
Occasioned by these developments, nms Group (the Company and its consolidated subsidiaries) has formulated a new 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:

- Raise the competitive strength of Inline Solutions (IS) operations, the Group’s core business
- Expand Manufacturing Solution (MS) operations, a business with growth potential
- Improve business systems in Global Engineering (GE) operations, indispensable for the “neo EMS” one-stop service concept
- Establish a business platform for Electronics Manufacturing Service (EMS) operations, necessary for gaining greater manufacturing prowess

The earthquake has had a major impact on the Group’s earnings. Although none of the Group’s employees, fortunately, were injured, the Group has been saddled with greater-than-expected costs, including those related to damaged buildings and structures, compensation paid to employees when plants were not operating, and transportation of relief goods to damaged areas. The Group recorded 94 million yen in disaster related expenses under extraordinary losses.
Based on the foregoing, for the consolidated fiscal year under review, the Group reported revenues of 20,675 million yen, operating income of 602 million yen, ordinary income of 584 million yen, and net income of 907 million yen.

Segment results developed as follows.

[1] Inline Solutions (IS) operations

As our clients, manufacturers, faced a business environment in which the yen was appreciating and debate in the Diet regarding revisions to the current Worker Dispatch Law was suspended, they had several options including closing their domestic manufacturing bases in preparation for a shift overseas, shifting to hiring irregular-contract employees on their own account, or using contract manufacturing services provided by contractors with manufacturing prowess. However, the outlook for their production systems remained unclear. The Great East Japan Earthquake that hit right before the end of the fiscal year created numerous difficult problems for manufacturers, such as physical damage to plants and equipment, partial disruption to the supply chain for parts and materials, unstable production as a result of power shortages, and maintaining employment when plants are closed. This is an opportunity for manufacturers to review the ideal form of their production bases from a global perspective.
Before the earthquake, the Group had made valuable propositions to existing and new clients and continues to proactively engage in the contracting business. Moreover, in connection with a possible principle ban on manufacturing worker dispatch, for almost ten years the Group has been continuously engaged in dispatching permanent employees of nms to which different regulations apply, and created a framework enabling manufacturer clients to enter into manufacturing worker dispatch agreements with the Group without having to worry about compliance matters. Manufacturers have been rating the nms Group highly for its policy initiatives, business stance, solid track record, and specific propositions, etc., which has enabled the Group to increase order receipts by some width. Based on the foregoing, revenues in the consolidated fiscal year under

review totaled 8,516 million yen.

[2] Manufacturing Solution (MS) operations

Starting last fiscal year, the Group rolled out a management policy that proposes highly profitable business initiatives by using the Company's in-house factories, and proactively worked on developing new business fields. During the consolidated fiscal year under review, continuing on from the last fiscal year, repair operations for home-use game consoles and mobile phones, etc., posted business growth amid a stable scope of operations and rising handling volumes. This expansion was possible thanks to manufacturers' trust in nms's repair business operations for both home-use game consoles and mobile phones. The earthquake has had various impacts, including physical damage to structures, but since the earthquake hit right before the end of the fiscal year, the Group had already recorded 3,173 million yen in sales, making the fiscal year the 12 consecutive year of sales growth.

[3] Global Engineering (GE) operations

The Group's Engineering Solution (ES) operations and Global Solution (GS) operations have historically been treated and developed as distinct individual business models. However, business efficiency improvement measures implemented last fiscal year to achieve organizational integration activated inter-operational synergies, which connected to the redefinition of Engineering Solution (ES) operations and Global Solution (GS) operations, combining the two as Global Engineering (GE) operations. In the consolidated fiscal year under review, to develop nms Group's global contracting business ("The UKEOI") and to capitalize on the Groups contracting power overseas, the Group established a local subsidiary in Vietnam as the first Vietnam-based business model of its kind and accelerated activities to acquire new customers. In addition, Beijing Zhongji Zhonghe International Technical Services Ltd. ("Zhongji Zhonghe"), a new joint venture with a government-linked company, was established in China and was the first foreign firm to obtain a license for labor dispatch (all forms of staff dispatch including manufacturing staff and engineers) in China.

The earthquake had only a minor impact on this business compared to the IS business and MS business but it affected GE business to some extent; therefore, the business recorded 689 million yen in sales.

[4] Electronics Manufacturing Service (EMS) operations

These operations constitute a new business centered on SHIMA Electronic Industry Co., Ltd, which joined the Group in July 2010, and its subsidiaries in Hong Kong and Malaysia and the China based manufacturing service plant that caters to the Hong Kong subsidiary. In the consolidated fiscal year under review, sales, marketing, and technology aspects underwent rigorous reviews for a restructuring of business strategies in order to activate inter-operational synergies at the Group level; at the same time infrastructure for future business growth was put into place. In sales and marketing in particular, efforts concentrated on the search for possible integration effects such as by commencing business with nms clients. Based on the foregoing, revenues for the consolidated fiscal year under review totaled 8,297 million yen.

Since this is the first fiscal year that consolidated financial statements are being created, there are no year-on-year comparisons.

As for the outlook for the coming fiscal year, it has been impossible to fully ascertain the impact of the Great East Japan Earthquake, but the Group will continue to fully exercise its strengthens under the neo EMS business strategy concept and forecasts that it will record 24,500 million yen in consolidate net sales, 650 million in consolidate operating income, 630 million yen in consolidated ordinary income, and 370 million yen in consolidated net income.

For the IS business, the Group will continually strive to precisely ascertain client trends in order to timely meet the post-earthquake needs of manufacturers and will actively propose contract manufacturing services making use of its abundant experience in the field. In order to benefit from the many business opportunities when manufacturing bases are moved overseas from Japan, the Group will rapidly launch labor dispatch services (manufacturing staff and engineer dispatch) in China and fully introduce "The UKEOI (the global shift to contracting)" in Vietnam. The Group will strengthen its footing as a strategic partner of Japanese manufacturers, the Group's goal, by preparing a wide-range of solution options and precisely meeting client needs.

For the MS business, the Group will not only reexamine the business model applied to these operations, which have continued to generate sales growth even under difficult conditions such as the collapse of Lehman Brothers and the Great East Japan Earthquake, but also continue to look for new business opportunities. It is assumed that manufacturers will further examine moving their production bases located in Japan overseas on account of the earthquake, 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 actively strive next year to win new projects and improve its know-how related to digital repair technology. The business has been developed centered on repair operations where the work is completed at the Group's worksites, but the Group is actively working to develop operations to handle repair work in the field, such as for white appliances that consumers cannot send to the Company.

For the GE business, 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 businesses that were merged this fiscal year. In addition, the Group will strive to ascertain customer trends and improve the quality of operation management to reduce the time that potential dispatch workers have to wait for an assignment.

In the EMS business, the Group has generated new business centered on SHIMA Electronic Industry, which joined the Group in the fiscal year under review, and its subsidiaries in Hong Kong and Malaysia and the China based manufacturing service plant that caters to the Hong Kong subsidiary. The strategy for this business during the next fiscal year is to form collaborations with other operations such as the IS business, the core of the neo EMS business strategy concept, and to give the greatest priority to meeting the diverse needs of manufacturers. In particular, the Group is aiming to increase orders from client manufacturers in the IS business, MS business, and GE business and will develop a business strategy to maximize inter-operational synergies at the Group level and vigorously undertake both sales and technology related activities.

(2) Analysis concerning financial position

1) Assets, liabilities and net assets

Consolidated assets at the end of the fiscal year under review totaled 7,362 million yen.

Current assets totaled 6,507 million yen, which included 3,226 million yen in trade notes and accounts receivable, and 1,371 million yen in cash and deposits.

Fixed assets totaled 854 million yen, which included 427 million yen in property, plant, and equipment, and 410 million yen in investments and other assets.

Consolidated liabilities totaled 5,192 million yen.

Current liabilities totaled 4,232 million yen, which included 1,706 million yen in trade notes and accounts payable, and 998 million yen in other accounts payable.

Long-term liabilities totaled 960 million yen, which included 910 million yen in long-term loans.

Consolidated net assets totaled 2,169 million yen, comprised of 500 million yen in legal capital, 216 million yen in capital surplus, and 1,511 million yen in retained earnings.

2) Cash flows

Consolidated cash and cash equivalents and the end of the fiscal year under review totaled 1,712 million yen.

Net cash provided by operating activities was a 671 million yen. Main factors were a 1,060 million yen in net income before income taxes and a 592 million yen in goodwill expenses.

Net cash used in investing activities was a 196 million yen. Main factors were a 292 million yen in income from the repayment of time deposits and a 498 million yen in expenses for the acquisition of subsidiary stocks due to a change in the scope of consolidation.

Net cash provided by financing activities was a 349 million yen. Main factors were a 1,400 million yen in income from new long-term loans and, among expenses, a 831 million in net repayment of short-term loans and a 209 million in repayment of long-term loans.

(Reference) Cash flow related indicators

	FY 2010	FY 2011
Shareholders' equity ratio (%)	—	29.2
Shareholders' equity ratio based on market prices (%)	—	106.4
Interest-bearing debt to cash flow ratio (%)	—	2.5
Interest coverage ratio (times)	—	55.7

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.
5. Since fiscal year 2011 is the first fiscal year that consolidated financial statements have been created, cash flow indicators for fiscal year 2010 and earlier are not given.

Since this fiscal year is the first fiscal year that consolidated financial statements have been created, year-on-year comparisons are not provided.

(3) Basic profit allocation policy, and dividends in the current and next fiscal years

The Group is aware that providing shareholders a return on their investment is an important business mission but also thinks that it is vital to maintain sufficient internal reserves in preparation for developing a business strategy in order to realize long-term corporate growth. The Group has a basic dividend policy of paying dividends while giving consideration to balancing shareholders' return and internal reserves. In addition, dividends are not the only way to provide shareholders with a return; another method is to conduct share buyback.

In accordance with the basic dividend policy given above, the Group set a medium-term target of generating a total shareholder return of 20% through dividends and share buybacks and initially promised a year-end dividend of 1,000 yen per share. After that, taking into consideration the acquisition of the SHIMA Electronic Industry group and firm earnings generated by the nms itself, the Group announced that it had revised its forecast for the year-end dividend to 2,000 yen per share.

As for the dividend for the next fiscal year, the Group is comprehensively examining shareholder return, which includes several elements including dividend and share buybacks, and is aiming to achieve its medium-term goal of a total shareholder return of 20% as we aimed to achieve this fiscal year.