# Consolidated Financial Statements for the First Quarter of Fiscal Year Ending March 31, 2012 (Three Months Ended June 30, 2011) (Based on J-GAAP)

August 5, 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 Filing Quarterly Securities Report : August 5, 2011
Scheduled Commencement Date of Dividend Payout : —
First Quarter Financial Results Presentation Materials : Yes
Explanatory Meeting on First Quarter Financial Results : None

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

## 1. Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 31, 2012 (April 1, 2011 – June 30, 2011)

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

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| 1Q FY 2012 | 5,346 | — | 45 | — | 21 | — | (0) | — |
| 1Q FY 2011 | — | — | — | — | — | — | — | — |

(Note) Comprehensive income (million yen): 1Q FY 2012: (50) (—%) 1Q FY 2011: — (—%)

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| 1Q FY 2012 | (7.46) | — |
| 1Q FY 2011 | — | — |

Note 1: Quarterly consolidated financial statements were first prepared beginning with the second quarter of the fiscal year ended March 31, 2011. Figures for the first quarter of the fiscal year ended March 31, 2011 and changes compared with the same quarter a year earlier are therefore not stated.
Note 2: With regard to diluted net income per share data for the first quarter of the fiscal year ending March 31, 2012, although dilutive instruments are in issue, diluted net income per share is not stated since a net loss was reported for the period.

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---|---|---|---|
| | Million yen | Million yen | % |
| 1Q FY 2012 | 7,522 | 2,120 | 27.8 |
| FY 2011 | 7,362 | 2,169 | 29.2 |

Reference: Shareholders' equity (million yen): 1Q FY 2012: 2,094 FY 2011: 2,147

## 2. Dividends

| | Annual dividends | | | | |
|---|---|---|---|---|---|
| | 1Q-end | Interim | 3Q-end | Yearend | Annual |
| | Yen | Yen | Yen | Yen | Yen |
| FY 2011 | — | 0.00 | — | 2,000.00 | 2,000.00 |
| FY 2012 | — | | | | |
| FY 2012 (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, 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 | 150 | (45.7) | 120 | (54.8) | 60 | (92.2) | 602.77 |
| Full year | 24,500 | 18.5 | 650 | 7.8 | 630 | 7.9 | 370 | (59.2) | 3,717.10 |

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

**4. Others**

(1) Changes in significant subsidiaries during the consolidated quarter (three 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

(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: | None |
| 4) Retroactive restatement: | None |

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

| | | | | |
|---|---|---|---|---|
| 1) Number of shares outstanding (including treasury stock) at end of period | 1Q FY 2012 | 108,055 shares | FY 2011 | 108,055 shares |
| 2) Number of treasury stock at end of period | 1Q FY 2012 | 8,515 shares | FY 2011 | 8,515 shares |
| 3) Average number of shares outstanding during the period | 1Q FY 2012 | 99,540 shares | 1Q FY 2011 | 99,525 shares |

(Note) On April 1, 2011, the Company instituted a 5-for-1 stock split of common shares. The number of shares is calculated assuming that the stock split was carried out the beginning of the previous consolidated fiscal year.

* 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 3 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 operating results**

The Japanese economy in the period under review was affected by the widespread devastation caused by the Great East Japan Earthquake on March 11, 2011, which introduced a highly adverse economic environment. The nuclear accident that occurred as secondary damage of the earthquake has drawn into question the principles of Japan's reliance on nuclear power generation and poses a huge problem for the supply of electric power, adding to the uncertainty overshadowing the economic environment in the second and following quarters. However, despite the fact that the pace of recovery, including the rebuilding of infrastructure in the disaster area, remains slow, the supply disruptions of electronic components feared immediately after the earthquake have given way to a rapid rebound and economic activity is gradually moving back to normal.

Under these conditions, production at manufacturers in our industry has started to recover faster than previously expected after the Great East Japan Earthquake. As a result, operations in manufacturing staff dispatch and subcontracting services too have been displaying a more rapid rebound than anticipated. However, in the light of the earthquake damage and the resulting severed supply chains and power supply insufficiencies, etc., manufacturers have been reviewing their production frameworks and are looking for ways to sustain domestic production despite obstacles such as high corporation tax rates and the strong yen. On the other hand, current production has been seeing a number of manufacturers increase output to cover inventory shortages caused by the sudden production recovery, with positive effects also for the industry of the Company. There is occasional evidence that orders from manufacturers tend to concentrate on industry members with outstanding staff procurement capabilities and an established reputation for compliance, which has further deepened the divide between strong and weak industry members.

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 impacted also the Group's earnings to no small extent. In spite of this, results have been ahead of expectations, as the Group has frequently been nominated as a service provider by Group clients whose production as already shifted into higher gear. As a result, consolidated sales for the first quarter totaled 5,346 million yen, with operating income of 45 million yen, ordinary income of 21 million yen, and net income near break-even.

Segment results developed as follows.

**[1] Inline Solutions (IS) operations**

The Group's manufacturing clients have been faced with an array of problems after the Great East Japan Earthquake and in the subsequent recovery efforts, such as physical damage to plant and equipment, partly dysfunctional supply chains for components procurement, and unstable production operations due to electric power shortages. In light of these obstacles, manufacturers have reached a situation compelling them to review the roles of production bases from wider global perspective. On the other hand, in the period under review, parts procurement has been recovering fast despite unavoidable production adjustments. With manufacturers changing direction from depleted inventories towards increased production, a preference is emerging for building up inventories taking into consideration the electricity supply problems in the summer and later. As a result, earnings of the Group's IS operations in June were almost back to the level before the earthquake, staging a recovery ahead for expectations.

Moreover, in connection with the launch of overseas IS operations, aggressive sales and marketing activities were promoted in China and Vietnam respectively in cooperation with Beijing Zhongji Zhonghe International Technical Services Ltd. ("Zhongji Zhonghe") and nms International Vietnam Company Limited. ("nms Vietnam"). Despite a lack of big successes in the period under review, trade inquiries from Japanese manufacturers have been strong, and conditions for an early resumption of full-scale operations are in place.

Based on the foregoing, for the consolidated quarter under review, the Group reported revenues of 2,008 million yen with operating income of 205 million yen.

**[2] Manufacturing Solution (MS) operations**

With regard to MS operations, although the physical damage from the earthquake, specifically with respect to buildings, was not small, in the period under review the Group was quick to implement transfers of operating bases and worked with the objective of a speedy resumption of operations. Thanks to these efforts, performance in June recovered almost to the level before the earthquake. Moreover, under a management policy of proactive development activities in new business areas, MS operations will work to develop repair operations and acquire orders also outside the existing operations for home-use game consoles and mobile phones. Although these results could not be accomplished in the period under review, existing repair operations have continued to enjoy the trust of manufacturers, and efforts have been made to at further business growth.
Based on the foregoing, for the consolidated quarter under review, the Group reported revenues of 685 million yen with operating income of 79 million yen.

**[3] Global Engineering (GE) operations**

GE operations in the period under review engaged in aggressive sales and marketing activities to acquire new orders from manufacturing clients with a view to keep the effects of the earthquake as small as possible. With respect to business initiative in nms Group's global contracting business ("The UKEOI") designed to capitalize on the Group's contracting power overseas, by shifting the operations that collaborate with Zhongji Zhonghe and nms Vietnam to the IS operations, the domestic technical staff dispatch business became the main entity at GE operations. At the same time, research has been conducted for the launch of overseas staff dispatch operations.
Based on the foregoing, for the consolidated quarter under review, the Group reported revenues of 155 million yen with operating income of 15 million yen.

**[4] Electronics Manufacturing Service (EMS) operations**

EMS operations constitute a 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.
Results for the period under review declined more strongly than at other operations due to the direct effects from disrupted global components procurement after the Great East Japan Earthquake.
However, based on expectations of a rebound beginning in the second quarter, all-out efforts were made to limit performance deterioration as much as possible through cost minimum operations. Moreover, at EMS operations, rigorous reviews will be implemented with regard to sales, marketing, and technology in order to obtain further synergies between group operations in the future.
Based on the foregoing, for the consolidated quarter under review, the Group reported revenues of 2,497 million yen with operating income of 12 million yen.

As no quarterly consolidated financial statements were prepared for the first-quarter period of the previous fiscal year, prior-year comparisons are omitted.

**(2) Qualitative information concerning financial position**

Consolidated assets at the end of the period under review totaled 7,522 million yen.
Current assets totaled 6,672 million yen, which included 1,587 million yen in cash and deposits, 3,119 million yen in trade notes and accounts receivable, and 969 million yen in raw materials and supplies.
Fixed assets totaled 850 million yen, which included 429 million yen in property, plant, and equipment, and 406 million yen in investments and other assets.
Consolidated liabilities totaled 5,402 million yen.
Current liabilities totaled 4,512 million yen, which included 1,439 million yen in trade notes and accounts payable, 1,405 million yen in short-term loans payable, and 1,071million yen in other accounts payable.
Consolidated net assets totaled 2,120 million yen, comprised of 500 million yen in legal capital, 216 million yen in capital surplus, and 1,470 million yen in retained earnings.
As no quarterly consolidated financial statements were prepared for the first-quarter period of the previous fiscal year, prior-year comparisons are omitted.

**(3) Qualitative information concerning business performance forecast**

The earning estimates for the consolidated first half of fiscal year ending March 31, 2012 (six months ending September 30, 2011) listed in "Notice about Revision on Earning Estimates for the Consolidated First Half of Fiscal Year Ending March 31, 2012 (Six Months Ending September 30, 2011)" released on August 1, 2011, remain unchanged. Also, the earning estimates for

the fiscal year ending March 31, 2012 (full year) listed in "Consolidated Financial Statements for the Fiscal Year Ended March 31, 2011" released on March 31, 2011, remain unchanged.
Notably, effects on operating results from the acquisition of the stock of TKR Corporation are currently being researched and not reflected in earnings estimates. Earnings estimates will be revised as soon as performance data of TKR Corporation become available.

Note: For the acquisition of the stock of TKR Corporation, please refer to "the Acquisition of Shares in TKR Corporation, Turning the Company into Subsidiary (Management Integration)" released on July 26, 2011.