# Consolidated Financial Statements for the Third Quarter of Fiscal Year Ending March 31, 2013 (Nine Months Ended December 31, 2012) (Based on J-GAAP)

February 14, 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 Filing Quarterly Securities Report : February 14, 2013
Scheduled Commencement Date of Dividend Payout : —
First Half Financial Results Presentation Materials : Yes
Explanatory Meeting on First Half Financial Results : None

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

## 1. Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2013 (April 1, 2012 – December 31, 2012)

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

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| 3Q FY 2013 | 29,810 | 37.3 | 472 | 422.9 | 417 | - | 159 | (87.1) |
| 3Q FY 2012 | 21,704 | 44.9 | 90 | (79.5) | 11 | (97.2) | 1,242 | 43.6 |

(Note) Comprehensive income (million yen): 3Q FY 2013: 336 (-62.0%) 3Q FY 2012: 884 (7.9%)

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| 3Q FY 2013 | 1,562.10 | 1,501.44 |
| 3Q FY 2012 | 12,455.45 | 11,665.86 |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---|---|---|---|
| | Million yen | Million yen | % |
| 3Q FY 2013 | 18,208 | 6,133 | 19.1 |
| FY 2012 | 18,709 | 5,839 | 17.9 |

Reference: Shareholders' equity (million yen): 3Q FY 2013: 3,476 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 | 39,000 | 22.5 | 420 | 66.9 | 550 | 106.5 | 240 | (82.3) | 2,347.42 |

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

## 4. Others

(1) Changes in significant subsidiaries during the consolidated cumulative period (nine 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: None

(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 | 3Q FY 2013 | 108,055 shares | FY 2012 | 108,055 shares |
| 2) Number of treasury stock at end of period | 3Q FY 2013 | 5,815 shares | FY 2012 | 5,815 shares |
| 3) Average number of shares outstanding during the period | 3Q FY 2013 | 102,240 shares | 3Q FY 2012 | 99,758 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 current accurate information. 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 has yet to put debt risks in Europe to rest, while China, which has been the driving force for the world economy for the past several years, is experiencing slower economic growth. Similarly, the United States is experiencing a slow recovery despite of its diversion of the Fiscal Cliff. Overall, the outlook on the world economy remained in uncertain conditions.
Meanwhile, with regard to Japanese economy, the LDP has taken over the administration from the Democratic Party after three years, and Abenomics, a set of economic policies advocated by the new government which consists of a bold monetary policy, agile fiscal policy, and economic growth strategies to encourage private investment, prompted expectations for changes that led to weaker yen and higher stock prices. However, the domestic economy has not seen any significant changes. Japan's national debt has grown to twice its GDP and the government is still not able to determine a course for financial restructuring or to draw up a scenario to break away from a deflated economy.
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. The Great East Japan Earthquake and massive flooding in Thailand in 2011 urged manufactures to review their procurement, production and supply structures from a 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 costs in domestic production, forcing our industry to control cost per hire, considerably affecting recruiting activities and securing profitability. Additionally, anti-Japan demonstrations in China triggered by issues regarding Senkaku Islands in Okinawa are affecting exports to China and manufacturing activity in China to no small extent, and it is now important to assess future development.
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 markets
- 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 third quarter increased 37.3% to 29,810 million yen, with an operating income of 472 million yen (+422.9% on the year), ordinary income of 417 million yen (+3,525.8% on the year), and a net income of 159 million yen (-87.1% on the year).

Segment results developed as follows.
Note that from the first consolidated quarter, changes have been made in the calculation of profit or loss of reportable segments. As regards the comparisons made within 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 a global perspective, taking into account lessons learned from the 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 strategically reviewed.
In the period under review, although strong yen has shifted towards weaker yen since the change of the governing party, the Group's manufacturing clients are yet to make significant changes in their strategy in restructuring their production bases. The Group's manufacturing clients are looking ahead to what each place of procurement, production, and consumption should be,

and are advocating the establishment of internationally diversified production bases through comprehensive consideration of factors such as currency movement and labor costs as well as risks for the country.
Under these circumstances, domestic IS operations gained a high reputation from clients because in comparison to other companies, the Group possesses: an 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 face another difficulty of operating the 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 the contract business offered by the Group. Thus, while further recognizing the risks for business environment, the Group also senses great business opportunities.
Based on the foregoing, the Group reported revenues of 7,321 million yen (+6.9% on the year) with a segment loss of 58 million yen (near break-even the prior year).

**[2] Customer Service (CS) operations**

The Group recognizes that CS operations, despite of its small business size, is a unique and highly profitable business model not available 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 have 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 the last period, and a new organization for the 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 which offers an overseas human resource business, and nms Vietnam, along with SHIMA Group and TKR Group who offer EMS operations. In order to seek potential business opportunity overseas, a feasibility study which includes marketing review as well as a business model review has been under way.
Based on the foregoing, the Group reported revenues of 1,884 million yen (-15.9% on the year) with a segment profit of 113 million yen (-35.0% 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 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 462 million yen (-0.5 % on the year) with a segment profit of 14 million yen (+26,701.2% 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 extend 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 a "neo EMS" development.

EMS operations centers itself overseas rather than in Japan and is an essential business to the Group, which 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 20,142 million yen (+65.8 % on the year) with a segment profit of 403 million yen (corresponding period in the previous year had segment loss of 83 million yen).

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 the 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 nine months.

### (2) Qualitative information concerning financial position

Consolidated assets at the end of the period under review decreased by 501 million yen, compared with the end of the prior fiscal year to 18,208 million yen.

Current assets decreased by 263 million yen compared with the end of the prior fiscal year to 12,773 million yen. This was due to trade notes and accounts receivable, which increased by 460 million yen, and cash and deposits, marketable securities, and finished goods, which decreased by 179 million yen, 326 million yen, and 152 million yen, respectively.

Fixed assets decreased by 237 million yen compared with the end of the prior fiscal year to 5,435 million yen. This was due to intangible assets, which increased by 139 million yen, and tangible assets and investments and other assets, which decreased by 113 million yen and 263 million yen, respectively.

Consolidated liabilities decreased by 795 million yen compared with the end of the prior fiscal year to 12,074 million yen.

Current liabilities increased by 183 million yen compared with the end of the prior fiscal year to 10,413 million yen. This was due to trade notes and accounts payable, which decreased by 352 million yen, and short-term loans payable, which increased by 562 million yen.

Long-term liabilities decreased by 978 million yen compared with the end of the prior fiscal year to 1,661 million yen. This was due to long-term loans and bonds payable, which decreased by 877 million yen and 50 million yen, respectively.

Consolidated net assets increased by 294 million yen compared with the end of the prior fiscal year to 6,133 million yen. This was due to retained earnings and minority shareholder's interest, which increased by 118 million yen and 159 million yen, respectively.

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

The earning estimates for the consolidated fiscal year ending March 31, 2013 (full year) listed in, "Notice of Revision to Forecast" released on January 25, 2013, 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 the fiscal year ending March 31, 2013, nms and its domestic consolidated subsidiaries have changed their depreciation method for 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.