

BUSINESS REPORT 2010

(from April 1, 2009 to March 31, 2010)



To Our Shareholders

I would like to take this opportunity to extend my best wishes and to thank everyone for the exceptional support given to us. It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. (the Company) for fiscal year 2009 (April 1, 2009 to March 31, 2010), which marks our 75th business period.

Continued growth is expected in the semiconductor industry over the medium to long term, due to the increasing functionality of PCs and portable equipment, market expansion led by developing countries, and growth in new areas of use, such as the increased use of electronic components in automobiles.

On the other hand, however, competition for survival is expected to further intensify on a global basis. Product cycles will accelerate more than ever due to rapidly advancing technological innovation. It will be necessary to establish flexible development and production systems to manufacture at low cost in order to keep up with constantly changing market needs.

Faced with these industry conditions, the Shinko Group is committed to pursuing reforms based on our thoroughly “genba-shugi” (work site-oriented) philosophy at all stages of the manufacturing process, from development to design, manufacturing, and shipping. In addition to pursuing further rationalization and productivity improvements in all departments, to achieve a company structure that can respond immediately to changes in market conditions, the Group will continue working to meet customer needs as quickly as possible, making best use of the technological expertise we have accumulated since our founding. We will also continue to pursue the development and commercial production of clearly differentiated products to improve our competitiveness and secure profits.

■ Business Results for the Fiscal Year Ended March 31, 2010

Moderate recovery from global recession

Amid continuing difficult conditions, slow improvement in company profits

The economic environment recovered moderately in this fiscal year from the global recession that was triggered by the US financial crisis in autumn 2008. In Japan, exports and production have begun to recover, driven by foreign demand in markets such as China, but company profits have yet to significantly improve. As companies continue to hold back on investment and consumer spending remains low, conditions remain difficult.

In the semiconductor industry, demand has improved for PCs and digital home electronics applications due to market expansion in developing countries, and the industry is recovering from the extreme inventory and production adjustments that began in autumn 2008. However, conditions remain difficult, due to stagnation in the developed markets caused by restrained corporate investment in IT, decreased consumer spending, and other factors.

Promoting greater rationalization and efficiency through production reforms

Emphasis on development / commercial production systems for new products

Against this background, the Shinko Group is achieving gradual recovery in orders, primarily from overseas, but the domestic climate remains poor due to the decline in demand. All Shinko Group companies are committed to securing profits by continuing to pursue emergency measures such as cost-cutting, energetically promoting greater rationalization and efficiency through production reforms, and emphasizing the development / commercial production systems for new products to meet the needs of the market. As a result of these efforts, although

consolidated net sales were down from the previous fiscal year, at 129,836 million yen (down 7.6% year on year), we recorded consolidated recurring income of 5,432 million yen (compared to a recurring loss of 6,961 million yen for the previous fiscal year), and net income of 3,188 million yen (compared to a net loss of 6,042 million yen for the previous fiscal year), despite a continuing decline in product prices and the effects of a strong yen against the dollar.

In terms of non-consolidated financial results, we recorded net sales of 125,232 million yen (down 8.1% year on year), recurring income of 4,915 million yen, and net income of 2,877 million yen. The Company paid a year-end dividend of 6 yen and an interim dividend of 4 yen, for a total dividend of 10 yen per share for the period under review.

■ Outlook

Continuing moderate recovery driven by developing countries

Further downward pressure on product prices

The moderate recovery in the global economy is expected to continue, driven by China and other developing countries. In Japan, continued recovery is expected in exports and production, led by foreign demand. However, conditions remain unpredictable, and there are concerns that prolonged deflation, combined with rising prices for crude oil and raw materials, will put pressure on company profits. In the US economy, although employment conditions and consumer spending are expected to improve, sustainable growth will take time to achieve, and the outlook remains uncertain.

In the semiconductor industry, the outlook is for recovery and improvement in market conditions. The market is expected to grow, due to increasing demand in developing countries for electronics devices such as PCs and digital home electronics applications, as well as growth in the market for personal digital assistants such as smartphones. However, the competitive environment

will be increasingly severe as companies battle to survive the expected demand shift to low-cost products and the subsequent further downward pressure on product prices.

Continuing our thorough efforts to cut costs and optimize management resources

Constructing a strong company structure capable of responding immediately to market changes

In response to these challenging conditions, the Shinko Group is continuing to pursue thorough cost reductions and optimize management resources. As a leader in semiconductor packages, we intend to further develop and optimize the possibilities of the semiconductor packaging technology so as to enhance our commercial production systems and bring to market highly competitive new products that meet our customers' needs. Moreover, to achieve "Progress without Limits" in the fiercely competitive semiconductor market, we are redoubling our efforts to achieve production reforms based on our "genba-shugi" principle. Through these reforms, we aim to construct a superior production environment that can achieve high productivity while building superior quality into our products. At the same time, we are working to build a strong company structure that will help us to respond immediately to changes in the market environment.

I would like to request the continued support of our esteemed shareholders.

June 2010



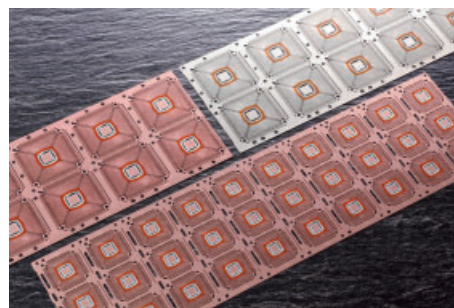
Mamoru Kuroiwa
President

A handwritten signature in black ink that reads "M. Kuroiwa". The signature is written in a cursive, flowing style.

Summary of Operations by Product Category

■ IC Lead Frames

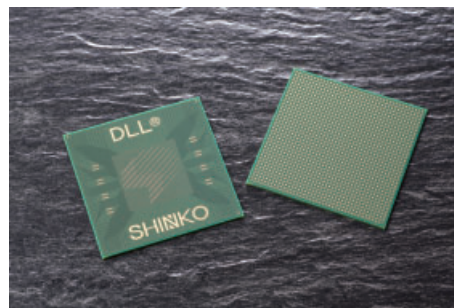
LOC (Lead on Chip)-type lead frames are performing well due to improved supply and demand conditions in the memory market. With the recovery in the semiconductor market, the sales climate has also improved for stamping lead frames and etching lead frames. As a result, consolidated sales in this segment were 23,120 million yen (up 10.7% year on year).



Lead frames

■ IC Packages

Sales of flip-chip type packages increased greatly, thanks to the recovery in the market for PCs, especially laptops. In the assembly business, however, orders remained sluggish for camera module assemblies for mobile phones. In addition, continuing difficult conditions such as falling product prices affected the order climate for plastic BGA (Ball Grid Array) substrates. Sales were down for both products. As a result, consolidated sales in this segment were 92,873 million yen (down 12.8% year on year).



Flip-chip type package

Hermetic Seal Parts

Sales of glass-to-metal seals for optical devices increased due to continued improvement in demand. Orders for ceramic electrostatic chucks were sluggish in the first half, due to stagnation in the market for semiconductor manufacturing equipment, but an upward trend became clear in the second half. As a result, consolidated sales in this segment were 13,841 million yen (up 5.8% year on year).



Glass-to-metal seals for optical devices

Sales by product category (Millions of yen)

Hermetic Seal Parts

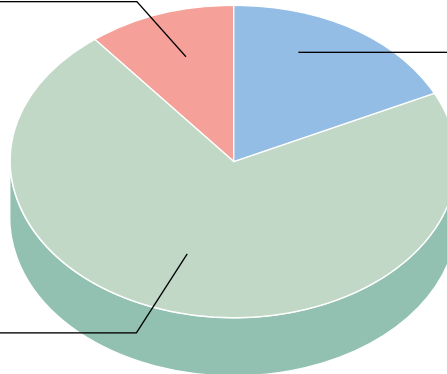
13,841 (10.7%)

IC Lead Frames

23,120 (17.8%)

IC Packages

92,873 (71.5%)

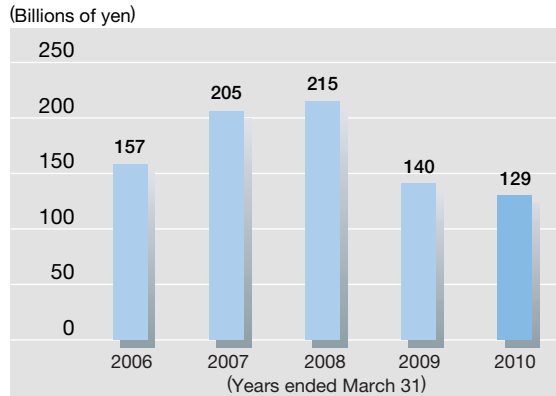


*Figures in () represent % to total sales.

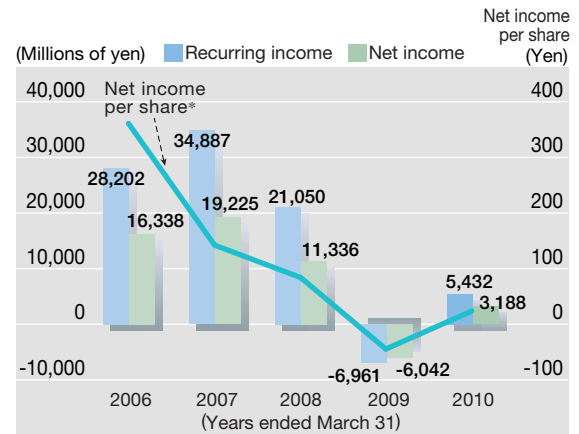
Financial Highlights

Consolidated

Net sales

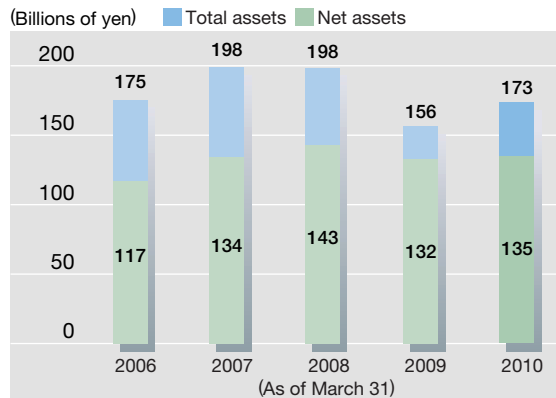


Recurring income / Net income

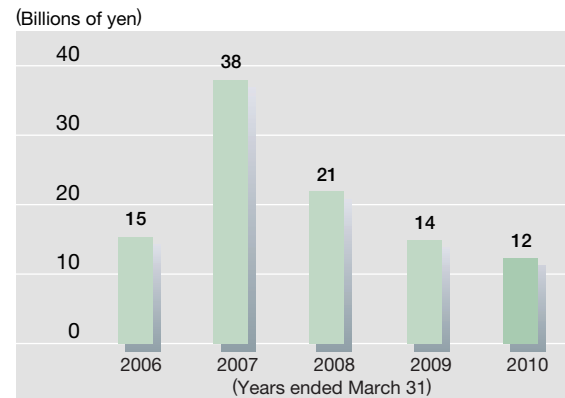


*Three-for-one stock split as of April 1, 2006.

Total assets / Net assets

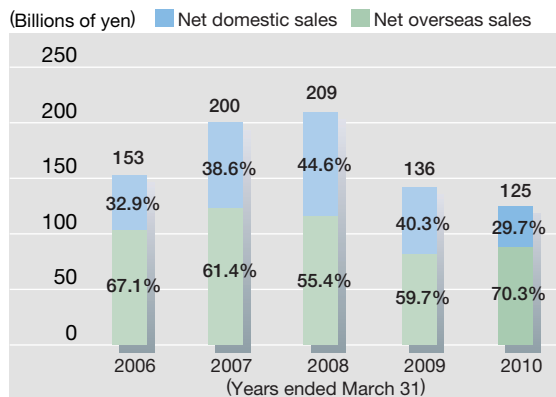


Capital expenditure

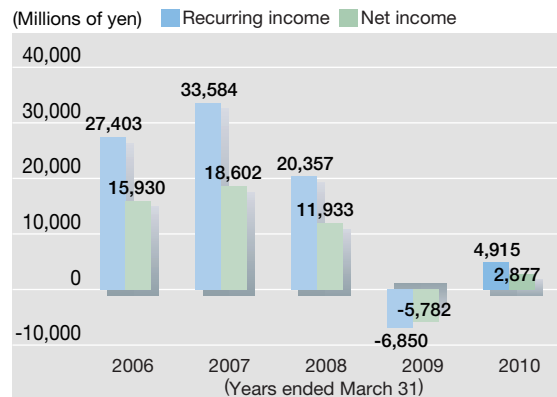


Non-consolidated

Net sales



Recurring income / Net income



Business performance and assets

Years ended March 31	2006	2007	2008	2009	2010
Consolidated					
Net sales (Millions of yen)	157,806	205,859	215,007	140,510	129,836
Recurring income (loss) (Millions of yen)	28,202	34,887	21,050	(6,961)	5,432
Net income (loss) (Millions of yen)	16,338	19,225	11,336	(6,042)	3,188
Net income (loss) per share (Yen)	361.13	142.32*	83.92	(44.73)	23.60
Total assets (Millions of yen)	175,541	198,862	198,475	156,266	173,690
Net assets (Millions of yen)	117,288	134,193	143,193	132,959	135,420
Net assets per share (Yen)	2,603.29	1,000.33*	1,059.98	984.22	1,002.45
Capital expenditure (Millions of yen)	15,398	38,038	21,930	14,923	12,340
Research & development (Millions of yen)	3,477	3,975	4,396	4,651	4,019

*Three-for-one stock split as of April 1, 2006.

Non-consolidated

Net sales (Millions of yen)	153,123	200,100	209,582	136,336	125,232
Recurring income (loss) (Millions of yen)	27,403	33,584	20,357	(6,850)	4,915
Net income (loss) (Millions of yen)	15,930	18,602	11,933	(5,782)	2,877

Financial Statements (Consolidated)

Balance Sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2010	2009	2010
Assets	173,690	156,266	1,866,834
Current assets	109,083	83,077	1,172,437
Cash and time deposits	17,475	17,000	187,824
Receivables, trade: notes and accounts	36,825	22,812	395,808
Marketable securities	3,582	3,173	38,509
Merchandise and finished goods	1,613	551	17,344
Work in process	3,538	2,396	38,028
Raw materials and supplies	1,069	1,066	11,491
Money deposited	40,000	31,430	429,922
Other current assets	5,046	5,492	54,238
Allowance for doubtful receivables	(67)	(845)	(729)
Fixed assets	64,606	73,188	694,397
Property, plant and equipment	58,793	63,782	631,914
Intangible assets	963	1,250	10,358
Investments and other assets	4,849	8,155	52,124
Total assets	173,690	156,266	1,866,834
Liabilities	38,269	23,306	411,322
Current liabilities	33,544	18,999	360,541
Payables, trade	20,321	8,066	218,415
Short-term borrowings, including current portion of long-term debt	600	600	6,448
Other current liabilities	12,623	10,332	135,677
Long-term liabilities	4,724	4,307	50,781
Net assets	135,420	132,959	1,455,511
Shareholders' equity	137,809	135,702	1,481,182
Common stock	24,223	24,223	260,350
Capital surplus	24,129	24,129	259,346
Retained earnings	89,548	87,441	962,476
Treasury stock	(92)	(91)	(991)
Valuation and translation adjustments	(2,388)	(2,742)	(25,670)
Unrealized gains on securities	123	124	1,326
Deferred profits (losses) on hedges	(18)	—	(202)
Foreign currency translation adjustments	(2,492)	(2,867)	(26,793)
Total liabilities and net assets	173,690	156,266	1,866,834

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥93.04 = U.S. \$1.00 on March 31, 2010.

Statements of Income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2010	2009	2010
Net sales	129,836	140,510	1,395,495
Cost of goods sold	112,703	133,364	1,211,344
Gross profit	17,133	7,146	184,150
Selling, general and administrative expenses	11,775	13,969	126,562
Operating income (loss)	5,358	(6,823)	57,588
Non-operating income	876	1,287	9,419
Non-operating expenses	802	1,425	8,620
Recurring income (loss)	5,432	(6,961)	58,387
Extraordinary expenses	746	2,727	8,027
Income (loss) before income taxes and minority interests	4,685	(9,688)	50,359
Income taxes—current	263	131	2,831
Refund of income taxes	—	(105)	—
Income taxes—deferred	1,233	(3,671)	13,259
Net income (loss)	3,188	(6,042)	34,268

Statements of Cash Flows

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2010	2009	2010
Cash flows from operating activities	24,245	33,526	260,595
Cash flows from investing activities	(13,633)	(20,348)	(146,531)
Cash flows from financing activities	(1,210)	(3,611)	(13,012)
Effect of exchange rate changes on cash and cash equivalents	(106)	(674)	(1,149)
Net increase (decrease) in cash and cash equivalents	9,294	8,891	99,902
Cash and cash equivalents at beginning of year	50,776	41,885	545,745
Cash and cash equivalents at end of year	60,071	50,776	645,648

■ Statements of Changes in Net Assets

Year ended March 31, 2010

(Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance of March 31, 2009	24,223	24,129	87,441	(91)	135,702
Changes in the term:					
Dividends from surplus			(1,080)		(1,080)
Net income			3,188		3,188
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes in the term	—	—	2,107	(0)	2,107
Balance of March 31, 2010	24,223	24,129	89,548	(92)	137,809

	Valuation and translation adjustments				Total net assets
	Unrealized gains on securities	Deferred profits (losses) on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments	
Balance of March 31, 2009	124	—	(2,867)	(2,742)	132,959
Changes in the term:					
Dividends from surplus					(1,080)
Net income					3,188
Purchase of treasury stock					(0)
Net changes of items other than shareholders' equity	(1)	(18)	374	354	354
Total changes in the term	(1)	(18)	374	354	2,461
Balance of March 31, 2010	123	(18)	(2,492)	(2,388)	135,420

Financial Statements (Non-consolidated)

Balance Sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2010	2009	2010
Assets	172,252	155,703	1,851,386
Current assets	102,578	77,463	1,102,517
Fixed assets	69,674	78,240	748,868
Property, plant and equipment	56,994	61,946	612,584
Intangible assets	962	1,248	10,345
Investments and other assets	11,717	15,045	125,938
Total assets	172,252	155,703	1,851,386
Liabilities	37,583	22,809	403,947
Current liabilities	32,880	18,522	353,398
Long-term liabilities	4,703	4,287	50,549
Net assets	134,669	132,894	1,447,438
Shareholders' equity	134,565	132,769	1,446,315
Common stock	24,223	24,223	260,350
Capital surplus	24,129	24,129	259,346
Retained earnings	86,304	84,508	927,609
Treasury stock	(92)	(91)	(991)
Valuation and translation adjustments	104	124	1,123
Total liabilities and net assets	172,252	155,703	1,851,386

Statements of Income

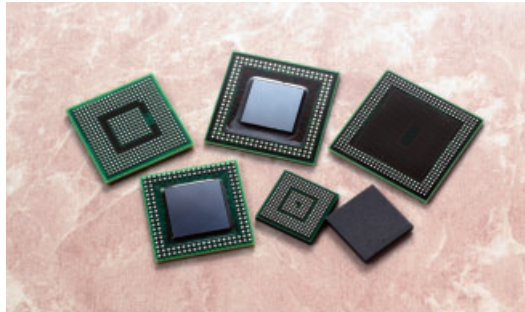
Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2010	2009	2010
Net sales	125,232	136,336	1,346,005
Cost of goods sold	108,690	129,630	1,168,208
Gross profit	16,542	6,706	177,796
Selling, general and administrative expenses	11,969	13,883	128,648
Operating income (loss)	4,572	(7,177)	49,147
Non-operating income	1,075	1,888	11,563
Non-operating expenses	732	1,561	7,876
Recurring income (loss)	4,915	(6,850)	52,834
Extraordinary expenses	744	2,716	8,000
Income (loss) before income taxes	4,171	(9,566)	44,834
Income taxes—current	43	—	464
Refund of income taxes	—	(105)	—
Income taxes—deferred	1,251	(3,678)	13,446
Net income (loss)	2,877	(5,782)	30,923

Shinko's cutting-edge in flip-chip technology

The demand for flip-chip type packages, which are used for the MPUs of PCs and servers among other products, is increasing substantially.

As the name implies, “flip-chip” means turning a chip over. Turning a chip over, to achieve the shortest connection distances between the bumps on the chip surface and the package substrate, improves electrical characteristics and makes it possible to increase the number of bumps that input and output signals. Thus, flip-chip technology achieves superior product characteristics.



Flip-chip type IC assembled by Shinko

Shinko offers flip-chip type packages that provide the best of these characteristics. With our industry-leading flip-chip technology, we also assemble processors for digital cameras and mobile devices, which require miniaturization, high speed, and high functionality.

Intensifying our efforts to conserve resources and energy

Reducing the burden on the environment is of increasing importance as a corporate obligation. At Shinko, our basic philosophy is “Harmony between global environment and corporate activities,” a concept that has guided a wide range of environmental initiatives to date. To achieve even more drastic reductions in our consumption of resources and energy, we have begun a new program.

At our Wakaho Plant and Kohoku Plant (Nagano City), which are working to increase their production capability for flip-chip type packages, we have introduced a program of “visualization” of the energy consumption of each piece of production equipment as a way of reducing the energy consumption of existing equipment and promoting the introduction of new equipment for which energy conservation has been a priority from the design stage. In addition, we have begun to review the utility facilities of all of our factories, including air conditioning, air supply and exhaust systems, and lighting. These efforts are also contributing to cost reductions.

We will continue to pursue these initiatives throughout the Shinko Group in order to conserve resources and energy.



Wakaho Plant (Nagano City)

Corporate Data

(as of March 31, 2010)

■ Corporate Name	SHINKO ELECTRIC INDUSTRIES CO., LTD.
■ Established	September 12, 1946
■ Head Office	80, Oshimada-machi, Nagano-shi, Nagano 381-2287, Japan Tel: 81 (26) 283-1000
■ Major Business Lines	Manufacturing and sales of lead frames, plastic laminated packages (PLPs), glass-to-metal seals, surge arresters and precision contact parts IC assembly
■ Number of Employees	4,211 (Consolidated: 5,035)
■ Plants & Facilities	Kohoku Plant Wakaho Plant Takaoka Plant Arai Plant Kyogase Plant SHINKO R&D Center Kurita Sogo Center
■ Sales Office Network	Tokyo, Osaka, Sendai, Nagano, Nagoya, Oita, Fukuoka, Frankfurt, Shanghai, Chengdu, Manila
■ Subsidiaries	SHINKO PARTS CO., LTD. SHINKO TECHNOSERVE CO., LTD. SHINKO ELECTRONICS (MALAYSIA) SDN. BHD. KOREA SHINKO MICROELECTRONICS CO., LTD. SHINKO ELECTRIC INDUSTRIES (WUXI) CO., LTD. SHINKO ELECTRIC AMERICA, INC. KOREA SHINKO TRADING CO., LTD. TAIWAN SHINKO ELECTRONICS CO., LTD. SHINKO ELECTRONICS (SINGAPORE) PTE. LTD.
■ Affiliated Company	SHINKO MICROELECTRONICS (THAILAND) CO., LTD.

Cover: Head Office / Kohoku Plant in Nagano City

Shareholders' Data

(as of March 31, 2010)

■ Total number of authorized shares	540,000,000 shares
■ Total number of shares issued	135,171,942 shares
■ Paid-in capital	24,223,020,480 yen
■ Number of shareholders	13,707
■ Principal shareholders	

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
Japan Trustee Services Bank, Ltd. (Trust Accounts)	11,935	8.83
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,497	4.07
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,114	3.04
The Hachijuni Bank, Ltd.	1,836	1.36
Nipponvest	1,350	1.00
National Mutual Insurance Federation of Agricultural Cooperatives	1,336	0.99
Goldman, Sachs & Co. Reg	1,257	0.93
Asahi Mutual Life Insurance Company	1,239	0.92
State Street Bank and Trust Company 505200	969	0.72

Board of Directors and Auditors

(as of June 29, 2010)

President	Mamoru Kuroiwa
Director and Executive Vice President, Corporate Officer	Akira Fujimoto
Director and Executive Managing Corporate Officer	Fumio Kuraishi
Director and Managing Corporate Officer	Akihiko Murata
Standing Auditor	Masaji Yokoyama
Auditors	Yuichi Sakai Motoki Watanabe

Corporate Officers

(as of June 29, 2010)

Managing Corporate Officers	Corporate Officers
Yoshihiko Ogawa	Takahiro Kiyono
Kunihiko Imai	Takahiro Ichimura
Yoshiyuki Suzuki	Hiroshi Hasebe
Yoshihiro Asano	Takato Kikuchi
Senior Corporate Officers	Takashi Obinata
Kazuharu Iguchi	Katsuo Minamisawa
Seizo Mitsui	Masashi Obinata
Toshihiko Ogiwara	Toshihisa Yoda
Mitsuharu Shimizu	Tadashi Kodaira
	Haruo Sorimachi
	Hidenori Takayanagi

Shareholder Information

■ Administrator of shareholders' register and account management institution for special accounts

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212

(Mailing address)

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division
10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081
TEL (Toll free number): 0120-232-711 (Japanese only)

■ Business year

From April 1 each year to March 31 of the following year

■ Record date

Record date for the annual
shareholders' meeting

March 31 each year

Record date for dividends

March 31 each year and September 30 if interim dividend shall be paid

■ Method of public notice

Electronic public notice
Electronic public notice shall be presented on our company website:
<http://www.shinko.co.jp/ir/kk/>
However, in case an accident or any other unavoidable circumstance
that precludes electronic notification arises, notices shall be posted in
the *Nihon Keizai Shimbun*.

Notes:

1. To change a shareholder address, place a claim for purchase, or other requests, please contact the account management institution (such as a securities company) with which you have an account.
2. For all matters relating to shares recorded in special accounts, the account management institution is Mitsubishi UFJ Trust and Banking Corporation. Please contact the address above. Any branch of Mitsubishi UFJ Trust and Banking Corporation throughout Japan will also be able to assist you.
3. If you have not yet received your dividend payment, you can receive payment at any branch of Mitsubishi UFJ Trust and Banking Corporation.



SHINKO

SHINKO ELECTRIC INDUSTRIES CO., LTD.
80, Oshimada-machi, Nagano-shi, Nagano 381-2287, Japan
Tel: 81 (26) 283-1000 Fax: 81 (26) 284-8861

URL <http://www.shinko.co.jp>