

BUSINESS REPORT 2012

(from April 1, 2011 to March 31, 2012)



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 2011 (April 1, 2011 to March 31, 2012), which marks our 77th business period.

In the semiconductor industry, continued growth is expected over the medium and long term caused by such factors as market expansion for smartphones and other multifunctional personal devices, increased demand for PCs and digital home electronics applications mainly in developing countries, and ongoing developments in the field of automotive electronics.

On the other hand, technological innovations in such areas as high integration and high speed, combined with relentlessly changing market requirements, have spurred the need to establish development and production systems that are inexpensive and flexible. Therefore, competition for survival is expected to intensify even further on a global scale.

Faced with these industry conditions, the Shinko Group is pursuing reforms based on our thorough *genba-shugi* (work site-oriented) philosophy at all

stages of the manufacturing process. We further pursue efficiency and productivity improvements, with the aim of achieving a company structure that can respond immediately to changes in market conditions. From a long-term viewpoint, in addition to working to develop groundbreaking technology, we will continue to forge ahead with the development and commercial production of new products that cater to customer requirements to increase our competitiveness and secure profits.

As we move forward, I would like to request the continued support and encouragement of our esteemed shareholders.

June 2012



F. Kuraishi

Fumio Kuraishi
President and
Representative Director

Review of Operations and Outlook

Business Results for the Fiscal Year Ended March 31, 2012

Increased anxiety over the global economic deceleration

Weakening demand for electronic products

In addition to the confusion triggered by the Great East Japan Earthquake, Japan's economic environment during the period under review saw drastic reductions in production, exports and consumption. This was caused by a prolonged trend toward sharp appreciation of the yen against the U.S. dollar, which led to difficult conditions. The situation overseas also heightened anxiety over the deceleration of the global economy amid a year that saw, among other things, financial instability in Europe, slowdown in the U.S. economic recovery, flood damage in Thailand, and such factors as soaring crude oil prices triggered by political unrest in the Middle East.

The semiconductor industry was supported by demand for smartphones and tablet devices. However, amid an already decelerating global economy, insufficient supplies of certain products—owing to the impact of the flooding in Thailand—caused weak demand for electronic equipment, such as PCs and flat-panel TVs, which resulted in a harsh market environment.

Investment to improve productivity in main products and to support next-generation products

The impact of inventory adjustment and prolonged appreciation of the yen

To counter these developments, the Shinko Group invested in increasing production for our main flip-chip type packages and in assured next-generation product capacity, selectively invested management resources in product fields with potential for future growth, and worked hard to secure orders through aggressive sales activities. As a result, we saw signs of recovery in overseas orders for the fourth quarter of the period under review. Nevertheless, we experienced a negative impact through inventory adjustments due to overall sluggish demand for PCs, digital home electronics applications and other such products. Our consolidated net sales for the period under review fell 10.7% year on year to 125,825 million yen. With regard to earnings, we implemented emergency measures to combat the harsh business environment by promoting improved rationalization and efficiency throughout the Group's production reform activities while cutting expenditures. However, lower market prices together with the long-term effects of the strong yen and weak dollar affected us profoundly, and regrettably we recorded a recurring loss of 1,758 million yen on a

consolidated basis. The net loss for the period was 2,242 million yen.

In terms of non-consolidated financial results, we recorded net sales of 120,438 million yen (down 10.9% year on year), a recurring loss of 1,895 million yen, and a net loss of 2,165 million yen. The Company paid a year-end dividend of 10 yen and an interim dividend of 10 yen, for a total dividend of 20 yen per share for the period under review.

■ Outlook

Weakening in demand due to the sluggish global economy

Greater demand for high-quality and low-cost products

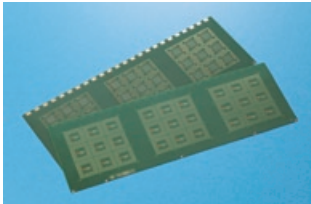
The outlook for the semiconductor industry calls for ongoing market expansion for smartphones and other multifunctional personal devices. Greater demand for PCs and other digital home appliances had been anticipated in developing countries, but the stagnation of the global economy has increased anxiety over sluggish growth in demand. Together with the heightened demand for high quality and low costs, this has resulted in an even harsher competitive environment, and the difficult outlook for the marketplace is expected to continue into the future.

Further enhancement of marketing functions and product development capabilities

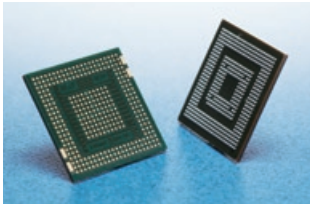
Establishment of a company structure that responds immediately to changes in the market and environment

The Shinko Group is focusing on further improving its marketing functions and product development capabilities. In this way, we aim to strengthen our corporate foundation by introducing and marketing new products that cater to our customers' needs in a timely fashion, based on our leading-edge semiconductor packaging technology. Moreover, to achieve "Progress without Limits" in the fiercely competitive semiconductor market, we are aiming to reinforce the production reforms adopted throughout the Group, and develop even higher levels of productivity. By creating production lines that can achieve outstanding levels of manufacturing, we will establish a company structure strong enough to respond instantly to changes in the marketplace and environment, and realign the Group in a way that generates earnings.

The continued quest for “thinner, lighter, higher performing”



Coreless substrate (IVH3)



MCEP®

The rapidly expanding market for smartphones and tablet PCs has generated a demand for a wider range of functions and higher performance, which is increasing demand for high-function ICs. The Shinko Group is deploying its state-of-the-art semiconductor packaging technology, investing in the development and launching products to support production of these ICs.

Coreless packages (in which the core layer, the central part of multi-layer substrates, is removed) have superior electrical characteristics and are thin and compact, and demand for them in the mobile device market is increasing. The MCEP® package is a type of three-dimensional package mounting multiple different devices that can be used for miniaturization. We have succeeded in condensing and slimming it to the point where we can anticipate increased demand for its use in smartphones and other devices.

High reliability for automotive electronics

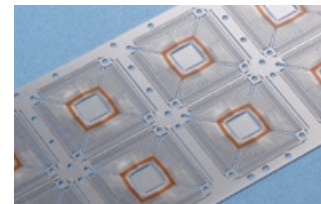
The market for automotive electronics is becoming increasingly active amid the quest for vehicles that are safe, comfortable and environmentally friendly, and automobiles now come with a vast array of electronic parts.

The Shinko Group has been involved in this field for many years, ever since we entered the semiconductor market, and our metal packages, including our very highly regarded glass-to-metal seals, are widely used and enjoying expanding demand.

Our glass-to-metal seals (known as housings) are used as sensors in brake control systems that ensure vehicular stability. In addition, lead frames are used in the micro-computers that control the engine and brakes, and in GPS systems.



Glass-to-metal seals used in sensors

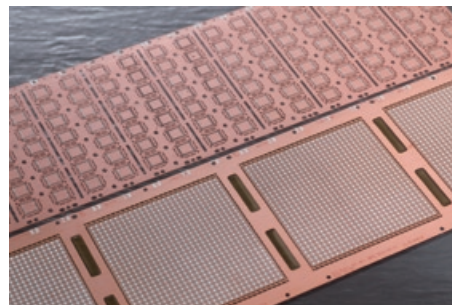


Lead frames

Summary of Operations by Product Category

■ IC Lead Frames

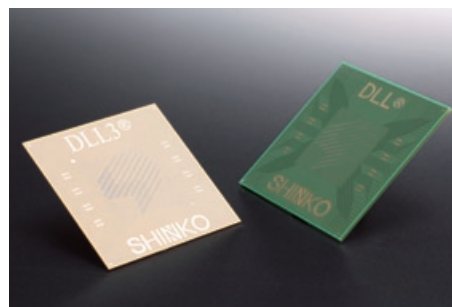
The QFN (Quad Flat Non-lead) and other types of etching lead frames remained solid for use in smartphones. On the other hand, earnings dropped for stamping lead frames due to sluggish demand for their use in digital home appliances. A similarly harsh ordering climate characterized LOC (Lead on Chip)-type lead frames for memory products. As a result, consolidated net sales in this segment were 23,120 million yen (down 5.5% year on year).



QFN-type lead frames

■ IC Packages

Sales of flip-chip type packages dropped significantly as a direct result of inventory adjustments in the first half of the period, and a similarly harsh ordering climate persisted for plastic BGA (Ball Grid Array) substrates. In the assembly business, sales rose for camera module assemblies, but demand stagnated for other products. On the other hand, demand remained solid for heat spreaders aimed at desktop PCs and servers. As a result, consolidated net sales in this segment were 88,954 million yen (down 10.6% year on year).



Flip-chip type packages

Hermetic Seal Parts

The order climate for glass-to-metal seals for optical devices remained harsh owing to sluggish demand for their use in digital home appliances, and demand for ceramic electrostatic chucks for use in semiconductor manufacturing equipment was also a cause for concern, with both items logging a year-on-year decrease in earnings. As a result, consolidated net sales in this segment were 13,750 million yen (down 19.2% year on year).



Glass-to-metal seals

Net sales by product category (Millions of yen)

Hermetic Seal Parts

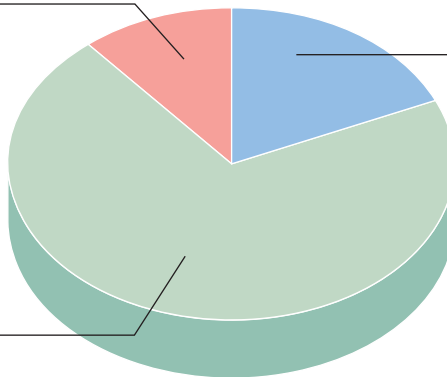
13,750 (10.9%)

IC Lead Frames

23,120 (18.4%)

IC Packages

88,954 (70.7%)

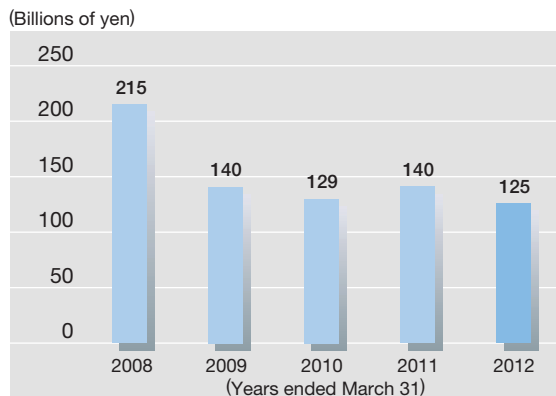


*Figures in () represent % of net sales.

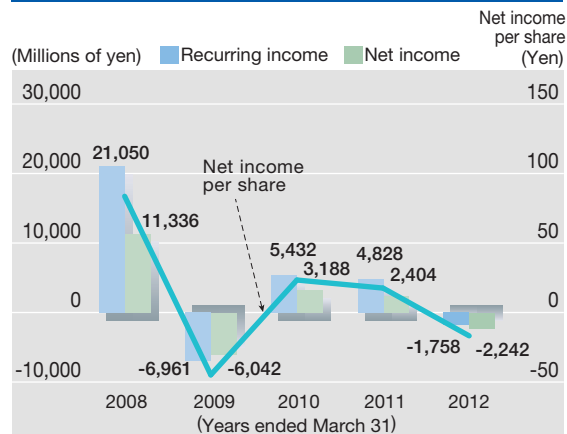
Financial Highlights

Consolidated

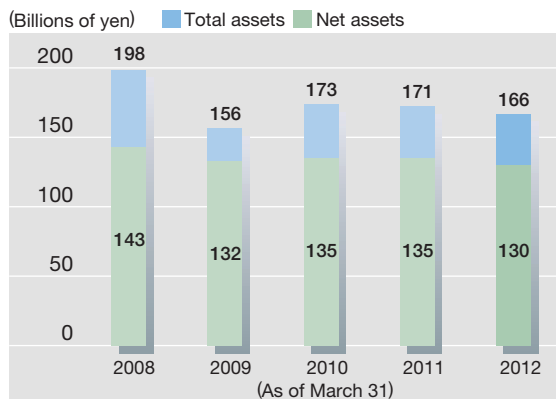
Net sales



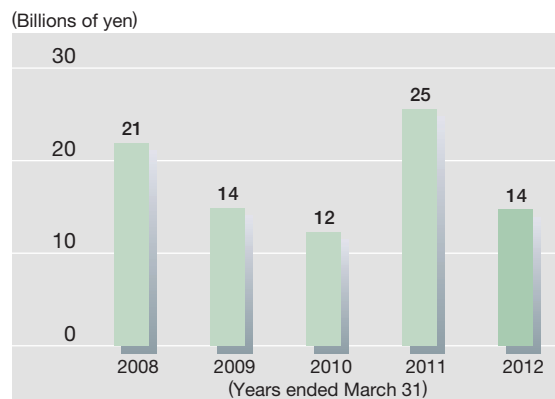
Recurring income / Net income



Total assets / Net assets



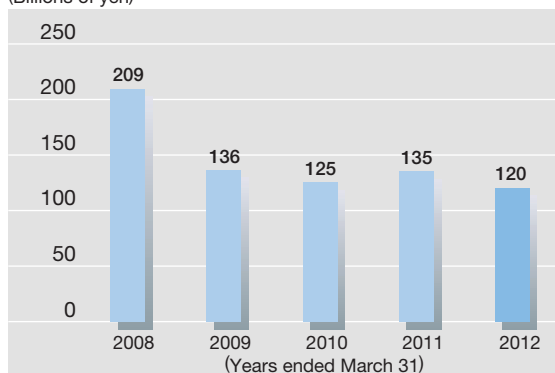
Capital expenditure



Non-consolidated

Net sales

(Billions of yen)



Recurring income / Net income

(Millions of yen) ■ Recurring income ■ Net income



Business performance and assets

Years ended March 31	2008	2009	2010	2011	2012
Consolidated					
Net sales (Millions of yen)	215,007	140,510	129,836	140,923	125,825
Recurring income (loss) (Millions of yen)	21,050	(6,961)	5,432	4,828	(1,758)
Net income (loss) (Millions of yen)	11,336	(6,042)	3,188	2,404	(2,242)
Net income (loss) per share (Yen)	83.92	(44.73)	23.60	17.80	(16.60)
Total assets (Millions of yen)	198,475	156,266	173,690	171,921	166,686
Net assets (Millions of yen)	143,193	132,959	135,420	135,198	130,048
Net assets per share (Yen)	1,059.98	984.22	1,002.45	1,000.80	962.68
Capital expenditure (Millions of yen)	21,930	14,923	12,340	25,683	14,771
Research & development (Millions of yen)	4,396	4,651	4,019	4,081	4,544

Non-consolidated

Net sales (Millions of yen)	209,582	136,336	125,232	135,161	120,438
Recurring income (loss) (Millions of yen)	20,357	(6,850)	4,915	3,984	(1,895)
Net income (loss) (Millions of yen)	11,933	(5,782)	2,877	1,846	(2,165)

Financial Statements (Consolidated)

■ Balance sheets		As of March 31		
	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2012	2011	2012	
Assets	166,686	171,921	2,028,065	
Current assets	99,645	106,863	1,212,381	
Cash and time deposits	15,835	23,625	192,674	
Receivables, trade: notes and accounts	37,926	31,185	461,444	
Marketable securities	426	—	5,183	
Merchandise and finished goods	1,377	2,722	16,754	
Work in process	3,666	3,721	44,607	
Raw materials and supplies	1,222	1,232	14,870	
Money deposited	35,000	40,000	425,842	
Other current assets	4,217	4,379	51,315	
Allowance for doubtful receivables	(25)	(4)	(310)	
Fixed assets	67,041	65,058	815,684	
Property, plant and equipment	60,023	58,990	730,302	
Intangible assets	896	983	10,911	
Investments and other assets	6,120	5,084	74,469	
Total assets	166,686	171,921	2,028,065	
Liabilities	36,637	36,722	445,769	
Current liabilities	31,952	32,029	388,766	
Payables, trade	20,320	18,563	247,234	
Short-term borrowings, including current portion of long-term debt	600	600	7,300	
Other current liabilities	11,032	12,866	134,232	
Long-term liabilities	4,685	4,692	57,003	
Net assets	130,048	135,198	1,582,295	
Shareholders' equity	133,107	138,052	1,619,511	
Common stock	24,223	24,223	294,719	
Capital surplus	24,129	24,129	293,583	
Retained earnings	84,847	89,791	1,032,330	
Treasury stock	(92)	(92)	(1,122)	
Accumulated other comprehensive income	(3,058)	(2,853)	(37,215)	
Unrealized gains on securities	26	55	322	
Deferred profits (losses) on hedges	6	—	75	
Foreign currency translation adjustments	(3,091)	(2,908)	(37,613)	
Total liabilities and net assets	166,686	171,921	2,028,065	

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥82.19 = U.S. \$1.00 on March 31, 2012.

Statements of income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2012	2011	2012
Net sales	125,825	140,923	1,530,911
Cost of goods sold	117,966	124,614	1,435,287
Gross profit	7,859	16,309	95,623
Selling, general and administrative expenses	11,538	11,660	140,383
Operating income (loss)	(3,678)	4,649	(44,760)
Non-operating income	1,947	938	23,698
Non-operating expenses	27	759	337
Recurring income (loss)	(1,758)	4,828	(21,398)
Extraordinary expenses	467	727	5,682
Income (loss) before income taxes	(2,225)	4,100	(27,081)
Income taxes—current	256	326	3,125
Income taxes—deferred	(239)	1,369	(2,918)
Net income (loss)	(2,242)	2,404	(27,288)

Statements of cash flows

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2012	2011	2012
Cash flows from operating activities	14,664	26,172	178,420
Cash flows from investing activities	(24,169)	(20,636)	(294,067)
Cash flows from financing activities	(2,745)	(2,226)	(33,408)
Effect of exchange rate changes on cash and cash equivalents	(78)	(554)	(957)
Net increase (decrease) in cash and cash equivalents	(12,329)	2,754	(150,013)
Cash and cash equivalents at beginning of year	62,825	60,071	764,396
Cash and cash equivalents at end of year	50,496	62,825	614,383

■ Statement of changes in net assets

Year ended March 31, 2012

(Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance of April 1, 2011	24,223	24,129	89,791	(92)	138,052
Changes in the term:					
Dividends from surplus			(2,701)		(2,701)
Net income			(2,242)		(2,242)
Net changes of items other than shareholders' equity					
Total changes in the term	—	—	(4,944)	—	(4,944)
Balance of March 31, 2012	24,223	24,129	84,847	(92)	133,107

	Accumulated other comprehensive income				Total net assets
	Unrealized gains on securities	Deferred profits (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	
Balance of April 1, 2011	55	—	(2,908)	(2,853)	135,198
Changes in the term:					
Dividends from surplus					(2,701)
Net income					(2,242)
Net changes of items other than shareholders' equity	(29)	6	(182)	(205)	(205)
Total changes in the term	(29)	6	(182)	(205)	(5,150)
Balance of March 31, 2012	26	6	(3,091)	(3,058)	130,048

Corporate Data

(as of March 31, 2012)

■ 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 and precision contact parts IC assembly
■ Number of employees	4,210 (Consolidated: 4,995)
■ 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: Kamikochi in Matsumoto City, Nagano Prefecture

Shareholders' Data

(as of March 31, 2012)

■ 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	15,522
■ Principal shareholders	

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
Japan Trustee Services Bank, Ltd. (Trust Accounts)	6,838	5.06
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,915	3.64
The Bank of New York-JASDEC Treaty Account	4,389	3.25
Goldman, Sachs & Co. Reg	2,564	1.90
State Street Bank and Trust Company 505103	2,556	1.89
The Hachijuni Bank, Ltd.	1,836	1.36
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1,807	1.34
Nipponvest	1,350	1.00
Asahi Mutual Life Insurance Company	1,239	0.92

Board of Directors and Auditors

(as of June 28, 2012)

Chairman and Representative Director	Mamoru Kuroiwa
Vice Chairman and Director	Akira Fujimoto
President and Representative Director	Fumio Kuraishi
Directors and Managing Corporate Officers	Yoshihiro Asano Mitsuharu Shimizu
Directors and Senior Corporate Officers	Toshihisa Yoda Hiroshi Hasebe
Standing Auditors	Yoshihiko Ogawa Yuichi Sakai
Auditor	Koji Kitazawa

Corporate Officers

(as of June 28, 2012)

Managing Corporate Officer	Corporate Officers
Kunihiko Imai	Junichi Kobayashi
Senior Corporate Officers	Katsuo Minamisawa
Kazuharu Iguchi	Masashi Obinata
Seizo Mitsui	Tadashi Kodaira
Toshihiko Ogiwara	Haruo Sorimachi
Takahiro Kiyono	Hidenori Takayanagi
Takato Kikuchi	

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, Japan

(Mailing address)

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division
10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan
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 an 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

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