

# BUSINESS REPORT 2013

(from April 1, 2012 to March 31, 2013)



# 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 2012 (April 1, 2012 to March 31, 2013), which marks our 78th 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 is expected to intensify even further on a global scale.

Faced with these industry conditions, to achieve a corporate structure that can respond immediately to changes in the market, the Shinko Group will move ahead with innovations in the field of manufacturing

based on our *genba-shugi* (work site-oriented) philosophy. We must also forge ahead with the development and mass production of new products that suit customer requirements, and do everything in our power to increase competitiveness and secure profits.

In addition, the practical application of the “SHINKO Way,” our corporate philosophy and policies, will not only establish us as a necessary company for the market but also expand our business so that we can continue to be a necessary company for society.

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

June 2013



*F. Kuraishi*

Fumio Kuraishi  
President and  
Representative Director

# Review of Operations and Outlook

## Business Results for the Fiscal Year Ended March 31, 2013

### Decline in production and a tendency toward depressed investment continued

### Transition under an irreversible sense of uncertainty

During the fiscal year under review, the economic environment was characterized by a deceleration in the global economy, and a strong yen and weak dollar. This brought about such things as a reduction in exports, ongoing production reduction in the manufacturing industry, and a continued tendency to cut back on investment. However, by the fourth quarter of the fiscal year under review, expectations had risen in response to economic measures and financial policies by the government, leading to a turnaround in the foreign exchange market, with a cheaper yen and higher stock prices, among other results, indicating signs of an attempt to turn the economy in a favorable direction. Overseas, the U.S. economy showed signs of a slow recovery, but was in a period of transition in which a strong irreversible sense of uncertainty prevailed. This reflected long-term anxiety over European finances and slower growth in the economies of emerging nations, among other factors.

The semiconductor industry was supported by demand for smartphones and tablets. However, harsh conditions continued, which were brought about by

lower demand for PCs and a lack of growth in the electronics market.

### Influence of inventory adjustment caused by the sluggish PC market

### Reduction in administrative costs, contracted investment and other emergency measures

To counter these developments, even though the Shinko Group suffered from the effects of inventory adjustment brought about by a sluggish market for PCs and thin-screen televisions, we actively secured orders, and moved ahead with the establishment of mass production systems for new products in our main flip-chip type package lineup, among others. As a result, our consolidated net sales for the period under review rose 1.1% year on year to 127,241 million yen.

With regard to earnings, in addition to implementing emergency measures, such as reducing administration costs and cutting back on investment to secure profits amid stagnating markets, we took measures to reinforce our efforts to improve the rationalization and efficiency centering on the core of our production innovation activities. In addition, there were signs of a sales recovery in the fourth quarter of the fiscal year under review. This, combined with the trend of yen depreciation in foreign exchange markets, helped us to achieve consolidated recurring income of 5,049 million yen (against a recurring loss of 1,758 million yen the

prior year) and net income of 2,874 million yen (against a net loss of 2,242 million yen a year earlier).

In terms of non-consolidated financial results, we recorded net sales of 120,867 million yen (up 0.4% year on year), recurring income of 5,008 million yen (against a recurring loss of 1,895 million yen the prior year) and net income of 2,943 million yen (against a net loss of 2,165 million yen a year earlier). The Company paid a year-end dividend of 10 yen per share and an interim dividend of 10 yen, for a total dividend of 20 yen for the fiscal year under review.

## ■ Outlook

### Expanding smartphone and tablet markets

#### Heightened competition among companies and pressure to lower product prices

With regard to the future of the semiconductor industry, there is an expectation that growing demand will be generated by market expansion for smartphones and tablets, advancement in car electronics and others. However, the PC market has stalled owing to the increasing prominence of tablets and others. This, added to heightened competition among companies, has resulted in additional pressure to lower product prices, with harsh market conditions expected to continue into the future.

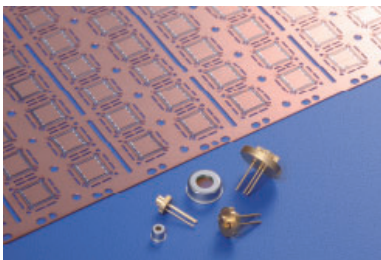
### Improvement of production systems suited to market requirements and aggressive expansion of sales activities

#### Creation of a strong company structure that can respond immediately to changes in market conditions

The Shinko Group is starting up production step by step at the new factory added to the Takaoka Plant (Nakano City, Nagano Prefecture) to manufacture the next-generation of our main flip-chip type packages. We will also improve production systems suited to market requirements and develop aggressive sales activities to strengthen our business base even further, as well as enhance our marketing and new product development functions so that we can further emphasize commercialization of new products for markets that are expected to see growth, based on our leading-edge semiconductor packaging technology. Moreover, we will develop initiatives to improve productivity through production innovation activities to enhance the manufacturing capabilities of our production lines, which are the source of our competitiveness, and create a strong company structure that can respond immediately to changes in market and environmental conditions. In this way, we can achieve “Progress without Limits.”



## Glass-to-metal seals and lead frames used in a wide range of products



QFN-type lead frames (top) and glass-to-metal seals (bottom)

Production of glass-to-metal seals began in the 1950s, when demand expanded for such seals used in transistors, and since then they have continued to be used in a wide range of products with the evolution and shift in electronic products that require ICs, sensors, optical devices and many other semiconductor elements. Following in the footsteps of glass-to-metal seals, lead frames, which boast a history of nearly half a century as the most versatile IC package, have continued to spur market expansion, and demand is again increasing for use in smartphones and tablets.

These products, which include precision metal processing, represent the foundation of Shinko's technology. They have been highly acclaimed by our customers and are currently employed in leading-edge electronics products. This is because of unceasing improvements in our production lines and the accumulation of skills in technological development.

## Construction of a new factory completed at the Takaoka Plant

Construction of a new factory within the Takaoka Plant (Nakano City, Nagano Prefecture) was completed in July 2012, and operations are scheduled to start in line with demand.

The new factory was built to reinforce the production system for flip-chip type packages, which are our main products, and to manufacture next-generation products. It was constructed to enable additional expansion in the future to cater to the expected increase in demand for flip-chip type packages used in servers, mobile devices and other products.

The new factory will actively employ natural energy through such initiatives as the reuse of heat generated by equipment for heating during the winter months and improvement in efficiency of a free cooling system that creates cold water with outdoor air. In addition, the new factory will reduce the burden on the environment by installing utility equipment with high levels of energy-saving performance and LED lighting, among others.

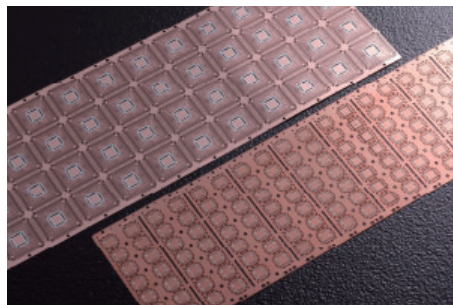


New factory building at the Takaoka Plant

# Summary of Operations by Product Category

## ■ IC Lead Frames

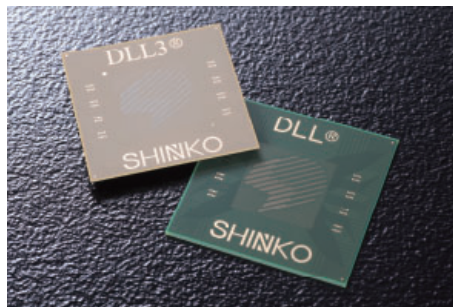
Stamping lead frames were affected by a slump as well as other factors in the digital home appliance market, but LOC (Lead on Chip)-type lead frames for memory products moved favorably and demand increased for smartphones and tablets using etching lead frames such as QFN (Quad Flat Non-lead)-type, which resulted in higher sales. As a result, consolidated net sales in this segment were 23,932 million yen (up 3.5% year on year).



Etching and stamping lead frames with high levels of versatility and reliability

## ■ IC Packages

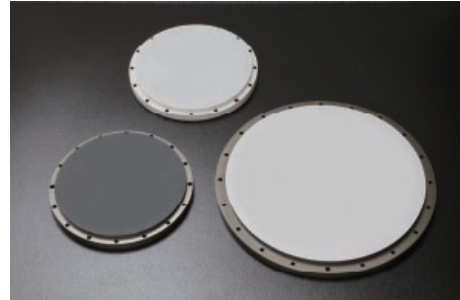
Sales of flip-chip type packages were affected by inventory adjustment caused by a sluggish PC market, but sales rose owing to an increase in demand for packages used in servers and because we emphasized obtaining orders for new products. Orders for heat spreaders used in MPUs moved steadily in the first half of the fiscal year under review, but sales declined in the latter half of the period owing to inventory adjustment. The assembly business remained severe owing to plunging demand for camera module assemblies, and sales of plastic BGA (Ball Grid Array) substrates were also sluggish. As a result, consolidated net sales in this segment were 86,860 million yen (down 2.4% year on year).



Flip-chip type packages are enjoying increased use in high-function ICs

## Hermetic Seal Parts

Sales for glass-to-metal seals for optical devices were affected by the sluggish digital home appliance market and failed to experience growth, but demand for glass-to-metal seals for sensors expanded mainly for automobiles for a year-on-year increase. Orders rose for ceramic electrostatic chucks used in semiconductor manufacturing equipment. As a result, consolidated net sales in this segment were 16,371 million yen (up 19.1% year on year).



Ceramic electrostatic chucks used to hold silicon wafers in place on semiconductor manufacturing equipment

### Net sales by product category (Millions of yen)

Others

77 (0.0%)

Hermetic Seal Parts

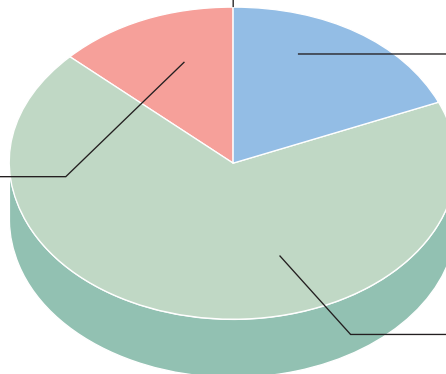
16,371 (12.9%)

IC Lead Frames

23,932 (18.8%)

IC Packages

86,860 (68.3%)

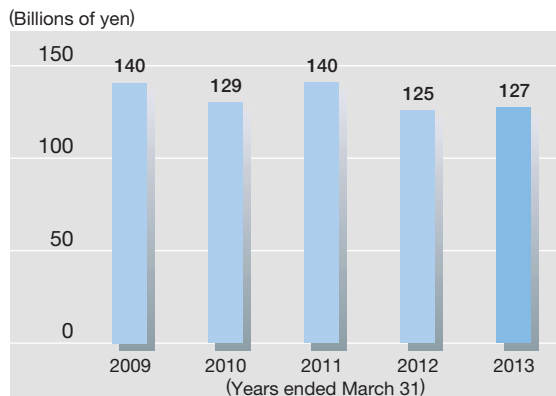


\*Figures in ( ) represent % of net sales.

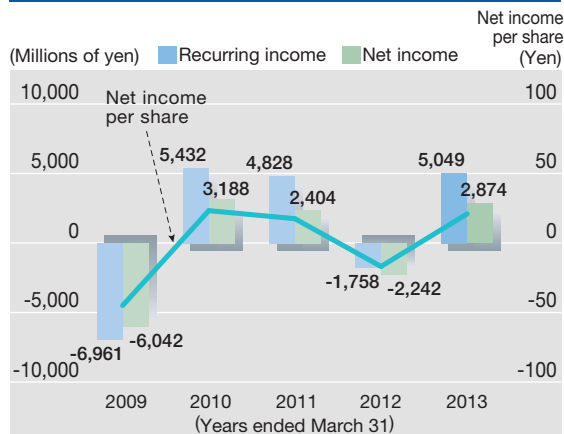
# Financial Highlights

## Consolidated

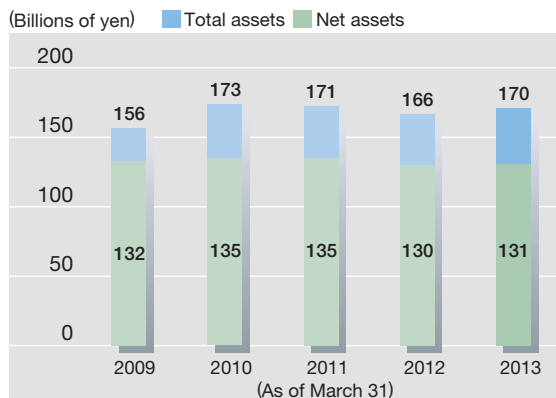
### Net sales



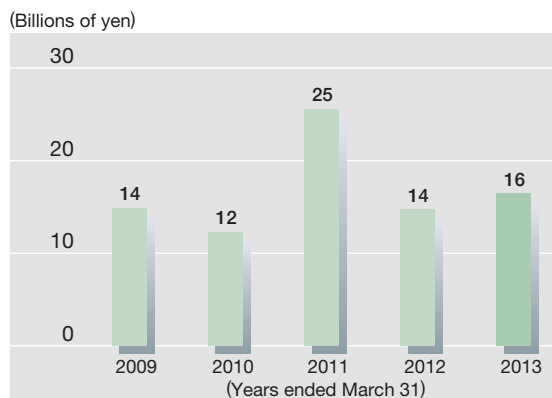
### Recurring income / Net income



### Total assets / Net assets



### Capital expenditure

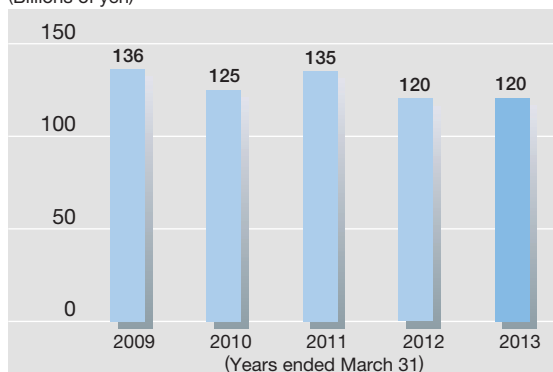




## Non-consolidated

### Net sales

(Billions of yen)



### Recurring income / Net income

(Millions of yen) Recurring income Net income



### Business performance and assets

Years ended March 31	2009	2010	2011	2012	2013
<b>Consolidated</b>					
Net sales (Millions of yen)	140,510	129,836	140,923	125,825	127,241
Recurring income (loss) (Millions of yen)	(6,961)	5,432	4,828	(1,758)	5,049
Net income (loss) (Millions of yen)	(6,042)	3,188	2,404	(2,242)	2,874
Net income (loss) per share (Yen)	(44.73)	23.60	17.80	(16.60)	21.28
Total assets (Millions of yen)	156,266	173,690	171,921	166,686	170,966
Net assets (Millions of yen)	132,959	135,420	135,198	130,048	131,206
Net assets per share (Yen)	984.22	1,002.45	1,000.80	962.68	971.25
Capital expenditure (Millions of yen)	14,923	12,340	25,683	14,771	16,596
Research & development (Millions of yen)	4,651	4,019	4,081	4,544	4,231

### Non-consolidated

Net sales (Millions of yen)	136,336	125,232	135,161	120,438	120,867
Recurring income (loss) (Millions of yen)	(6,850)	4,915	3,984	(1,895)	5,008
Net income (loss) (Millions of yen)	(5,782)	2,877	1,846	(2,165)	2,943

# Financial Statements (Consolidated)

## Balance sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2013	2012	2013
<b>Assets</b>	<b>170,966</b>	<b>166,686</b>	<b>1,817,826</b>
<b>Current assets</b>	<b>98,933</b>	<b>99,645</b>	<b>1,051,921</b>
Cash and time deposits	11,467	15,835	121,931
Receivables, trade: notes and accounts	35,751	37,926	380,132
Marketable securities	970	426	10,313
Merchandise and finished goods	2,354	1,377	25,031
Work in process	3,677	3,666	39,100
Raw materials and supplies	1,384	1,222	14,723
Money deposited	38,500	35,000	409,356
Other current assets	4,837	4,217	51,435
Allowance for doubtful receivables	(9)	(25)	(104)
<b>Fixed assets</b>	<b>72,033</b>	<b>67,041</b>	<b>765,905</b>
Property, plant and equipment	66,124	60,023	703,073
Intangible assets	915	896	9,730
Investments and other assets	4,994	6,120	53,101
<b>Total assets</b>	<b>170,966</b>	<b>166,686</b>	<b>1,817,826</b>
<b>Liabilities</b>	<b>39,760</b>	<b>36,637</b>	<b>422,757</b>
<b>Current liabilities</b>	<b>35,043</b>	<b>31,952</b>	<b>372,607</b>
Payables, trade	18,486	20,320	196,558
Short-term borrowings	600	600	6,379
Other current liabilities	15,957	11,032	169,669
<b>Long-term liabilities</b>	<b>4,716</b>	<b>4,685</b>	<b>50,149</b>
<b>Net assets</b>	<b>131,206</b>	<b>130,048</b>	<b>1,395,069</b>
<b>Shareholders' equity</b>	<b>133,280</b>	<b>133,107</b>	<b>1,417,122</b>
Common stock	24,223	24,223	257,554
Capital surplus	24,129	24,129	256,561
Retained earnings	85,020	84,847	903,987
Treasury stock	(92)	(92)	(980)
<b>Accumulated other comprehensive income</b>	<b>(2,074)</b>	<b>(3,058)</b>	<b>(22,053)</b>
Unrealized gains on securities	27	26	287
Deferred profits (losses) on hedges	—	6	—
Foreign currency translation adjustments	(2,101)	(3,091)	(22,341)
<b>Total liabilities and net assets</b>	<b>170,966</b>	<b>166,686</b>	<b>1,817,826</b>

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥94.05 = U.S. \$1.00 on March 31, 2013.

## Statements of income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2013	2012	2013
<b>Net sales</b>	<b>127,241</b>	<b>125,825</b>	<b>1,352,914</b>
Cost of goods sold	111,594	117,966	1,186,548
<b>Gross profit</b>	<b>15,646</b>	<b>7,859</b>	<b>166,365</b>
Selling, general and administrative expenses	12,633	11,538	134,331
<b>Operating income (loss)</b>	<b>3,012</b>	<b>(3,678)</b>	<b>32,034</b>
Non-operating income	2,055	1,947	21,857
Non-operating expenses	18	27	201
<b>Recurring income (loss)</b>	<b>5,049</b>	<b>(1,758)</b>	<b>53,690</b>
Extraordinary expenses	428	467	4,554
<b>Income (loss) before income taxes</b>	<b>4,621</b>	<b>(2,225)</b>	<b>49,135</b>
Income taxes—current	395	256	4,204
Income taxes—deferred	1,351	(239)	14,366
<b>Net income (loss)</b>	<b>2,874</b>	<b>(2,242)</b>	<b>30,564</b>

## Statements of cash flows

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2013	2012	2013
<b>Cash flows from operating activities</b>	<b>19,279</b>	<b>14,664</b>	<b>204,991</b>
<b>Cash flows from investing activities</b>	<b>(17,785)</b>	<b>(24,169)</b>	<b>(189,106)</b>
<b>Cash flows from financing activities</b>	<b>(2,736)</b>	<b>(2,745)</b>	<b>(29,100)</b>
Effect of exchange rate changes on cash and cash equivalents	959	(78)	10,204
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(283)</b>	<b>(12,329)</b>	<b>(3,010)</b>
Cash and cash equivalents at beginning of year	50,496	62,825	536,907
Cash and cash equivalents at end of year	50,213	50,496	533,897

**Statement of changes in net assets**

Year ended March 31, 2013

(Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance of April 1, 2012</b>	<b>24,223</b>	<b>24,129</b>	<b>84,847</b>	<b>(92)</b>	<b>133,107</b>
<b>Changes in the term:</b>					
Dividends from surplus			(2,701)		(2,701)
Net income			2,874		2,874
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock		(0)		0	0
Net changes of items other than shareholders' equity					
<b>Total changes in the term</b>	<b>—</b>	<b>(0)</b>	<b>172</b>	<b>(0)</b>	<b>172</b>
<b>Balance of March 31, 2013</b>	<b>24,223</b>	<b>24,129</b>	<b>85,020</b>	<b>(92)</b>	<b>133,280</b>

	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	
<b>Balance of April 1, 2012</b>	<b>26</b>	<b>6</b>	<b>(3,091)</b>	<b>(3,058)</b>	<b>130,048</b>
<b>Changes in the term:</b>					
Dividends from surplus					(2,701)
Net income					2,874
Purchase of treasury stock					(0)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	0	(6)	990	984	984
<b>Total changes in the term</b>	<b>0</b>	<b>(6)</b>	<b>990</b>	<b>984</b>	<b>1,157</b>
<b>Balance of March 31, 2013</b>	<b>27</b>	<b>—</b>	<b>(2,101)</b>	<b>(2,074)</b>	<b>131,206</b>

# Corporate Data

(as of March 31, 2013)

■ Corporate name	<b>SHINKO ELECTRIC INDUSTRIES CO., LTD.</b>
■ 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) and glass-to-metal seals IC assembly
■ Number of employees	4,223 (Consolidated: 4,980)
■ 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, 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. SHANGHAI SHINKO TRADING LTD. SHINKO ELECTRONICS (SINGAPORE) PTE. LTD.
■ Affiliated company	SHINKO MICROELECTRONICS (THAILAND) CO., LTD.

Front cover: Flowers named *Shinanokinbai* and Mt. Karasawa (Northern Alps / Karasawa)

# Shareholders' Data

(as of March 31, 2013)

■ 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	14,804
■ Principal shareholders	

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
The Bank of New York - JASDEC Treaty Account	4,803	3.55
Japan Trustee Services Bank, Ltd. (Trust Accounts)	4,694	3.47
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,023	2.24
Goldman Sachs International	2,102	1.56
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,050	1.52
The Hachijuni Bank, Ltd.	1,836	1.36
Asahi Mutual Life Insurance Company	1,239	0.92
State Street Bank and Trust Client Omnibus Account OM02	1,089	0.81
Shinko Electric Industries Employee Shareholding Association	1,041	0.77

## Board of Directors and Auditors

(as of June 27, 2013)

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 27, 2013)

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



## 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

SHINKO ELECTRIC INDUSTRIES CO., LTD.  
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