

BUSINESS REPORT 2014

(from April 1, 2013 to March 31, 2014)



To Our Shareholders

I, Mitsuharu Shimizu, assumed the post of the President as of June 26, 2014. It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. (the Company) for fiscal year 2013 (April 1, 2013 to March 31, 2014), which marks our 79th business period.

Continued growth is expected in the semiconductor industry over the medium to long term. Semiconductor use in products such as PCs, smartphones, digital home appliances, and automobiles with built-in electronics is broadening, making them essential electronics products that underpin and enrich people's comfortable, safe and reliable lifestyles.

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

Faced with these industry conditions, the Shinko Group will establish a solid business foundation by striving to develop and enhance elemental

technology centered on semiconductor packaging, forcefully advancing with the release of products that have excellent competitive power, and focusing on manufacturing innovations based on our *genba-shugi* (work site-oriented) philosophy.

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 2014



A handwritten signature in black ink, appearing to read "M. Shimizu".

Mitsuharu Shimizu
President and
Representative Director

Review of Operations and Outlook

Business Results for the Fiscal Year Ended March 31, 2014

Yen depreciation, higher stock prices, and gradual economic recovery

Harsh conditions continued, caused by tougher competition and declining prices

During the fiscal year under review, the economic environment in Japan was characterized by yen depreciation and rising stock prices on the back of economic measures and financial policies put in place by the government and the Bank of Japan. With improvement in corporate earnings and a rally in consumer spending, the Japanese economy continued on a gradual recovery trend. Overseas, although a slowdown in economic growth persisted in Asian countries, the U.S. economy continued to rebound, supported by a robust job market and strong consumer spending.

The semiconductor industry maintained healthy demand for smartphones and other products and saw an increase in demand for automobiles with more built-in electronics. However, harsh conditions persisted, caused by the intensification of pressure to cut product prices as a result of the infiltration of low-price models, including smartphones, as well as escalating competition amid a slump in the PC and digital home appliance markets.

Strong effects of sluggish demand for PCs materialized in the fiscal-year second half

Sales and income increased as supply system enhancements were tailored to needs

Sales of our main flip-chip type packages suffered in the second half of the fiscal year from the effects of sluggish demand for PCs. To counter negative developments, the Shinko Group enhanced its supply system to better meet customer requirements and worked aggressively to win orders, including those for smartphones and automobiles. These initiatives produced sales growth for lead frames, glass-to-metal seals, ceramic electrostatic chucks, and camera module assemblies in the module assembly business. As a result, consolidated net sales for the period under review rose 10.4% year on year to 140,412 million yen. With regard to earnings, we continued to boost efficiency especially in production innovation, and cut costs. This, combined with the trend of yen depreciation in foreign exchange markets, helped us to achieve consolidated recurring income of 14,501 million yen (up 187.2% year on year) and net income of 9,309 million yen (up 223.9% year on year).

In terms of non-consolidated financial results, we recorded net sales of 132,302 million yen (up 9.5% year on year), recurring income of 13,280 million yen (up 165.2% year on year) and net income of 8,435

million yen (up 186.6% year on year). The Company paid a year-end dividend of 15 yen per share, which included a special dividend of 5 yen on top of the ordinary dividend of 10 yen, and an interim dividend of 10 yen, for a total dividend of 25 yen for the fiscal year under review.

■ Outlook

Growth related to products such as smartphones, but stagnation in PC demand

A greater need for high quality and lower prices

With regard to the future of the semiconductor industry, an increase is anticipated in demand for smartphones and tablets—whose market continues to grow—and in line with advances in car electronics. On the other hand, it is expected that demand for PCs will remain stagnant as low-priced smartphones continue to advance. Given these and other changes in the market structure—together with the rising demand for high quality and lower prices—it is forecast that a harsh business environment will continue, along with intensifying competition among companies.

Developing a mass production system for new products and responding to changes in the business environment

Establishing a strong corporate structure

The Shinko Group is outfitting and starting production at the new factory at the Takaoka Plant in Nakano City, Nagano Prefecture, with the aim of manufacturing and promoting the next generation of its main flip-chip type packages. We will also improve mass production systems for plastic BGA (Ball Grid Array) substrates, new products in IC assemblies, and lead frames for smartphones and other products. In these and other ways, we will work to strengthen our production systems in response to changes in the business environment. In addition, we will enhance our marketing and new product development functions to commercialize new products for markets that are expected to see growth.

To achieve “Progress without Limits,” we will carry out production innovation to enhance the manufacturing capabilities of our production lines and create a strong company structure that can respond immediately to changes in market and environmental conditions.

Topics

Our 10th anniversary of production innovation

Since 2003, the Company has carried out production innovation to enhance its manufacturing capabilities, the source of its competitive strength in the manufacturing industry. We began these efforts with the aim of innovating all stages of the manufacturing process, from product development and design to production and shipment,



Glass-to-Metal Seals for optical devices assembly line with a shorter line of flow

responding flexibly to changes in the environment and market fluctuations, and continuing manufacturing in Japan.

Ten years have passed since these efforts were launched. Improvements have been achieved at each manufacturing site based on the Toyota Production System (TPS), and we have incorporated the benefits of our efforts into new manufacturing lines.

In the years ahead, we will continue to establish manufacturing sites that pursue further improvements and evolution and that result in high-quality products and high productivity.

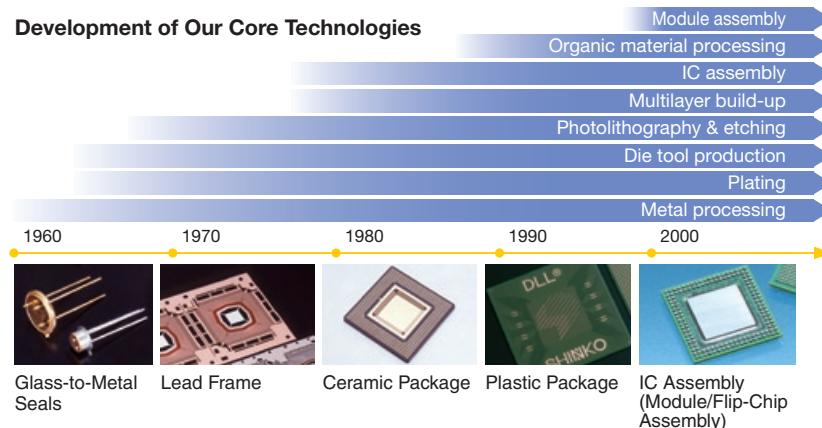
The source and foundation of our core technologies

In 1946, the Company launched a business for recycling household light bulbs. Around 1960, it began manufacturing glass-to-metal seals for transistors to achieve full-scale entry into the field of semiconductors.

The technologies cultivated through these businesses, including metal processing and high-precision plating, have been passed down as our core technologies. They have enabled us to respond to diverse requirements, and we have put them in use in a wide range of semiconductor packages.

We have also expanded the uses of our core semiconductor packaging technologies into next-generation electronics. This includes employing them in plastic packages for cutting-edge high-tech ICs and the high-performance IC assembly business.

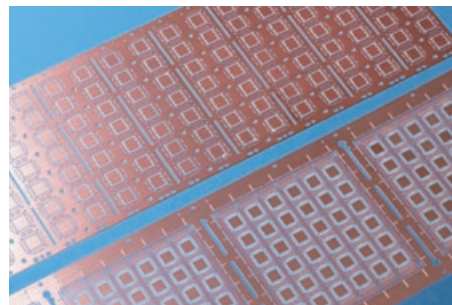
Development of Our Core Technologies



Summary of Operations by Product Category

IC Lead Frames

Stamping lead frames were affected by a slump in the PC and digital home appliance markets, but lead frames for in-car 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 reached 26,397 million yen (up 10.3% year on year).

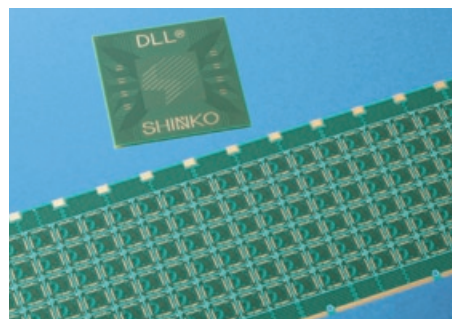


QFN-Type Lead Frames

IC Packages

Demand for flip-chip type packages rose for packages used in servers and consumer products, but sales struggled due to a sluggish PC market.

On the other hand, plastic BGA substrates turned in a steady performance, mainly for memory for smartphones. Demand for camera module assemblies in the module assembly business rose, while sales of heat spreaders used in MPUs also increased. As a result, consolidated net sales in this segment reached 93,329 million yen (up 7.4% year on year).



Flip-Chip Type Package (Top)
Plastic BGA Substrates (Bottom)

Hermetic Seal Parts

Revenue from glass-to-metal seals for optical devices grew with expanded demand, including that for consumer products. Glass-to-metal seals for sensors performed well, including that for automobiles, and sales of ceramic electrostatic chucks used in semiconductor manufacturing equipment also rose. As a result, consolidated net sales in this segment reached 20,340 million yen (up 24.2% year on year).



Glass-to-Metal Seals for sensors



Glass-to-Metal Seals for optical devices

Net sales by product category (Millions of yen)

Others

344 (0.2%)

Hermetic Seal Parts

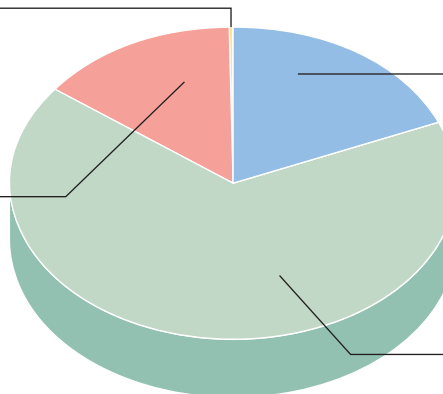
20,340 (14.5%)

IC Lead Frames

26,397 (18.8%)

IC Packages

93,329 (66.5%)

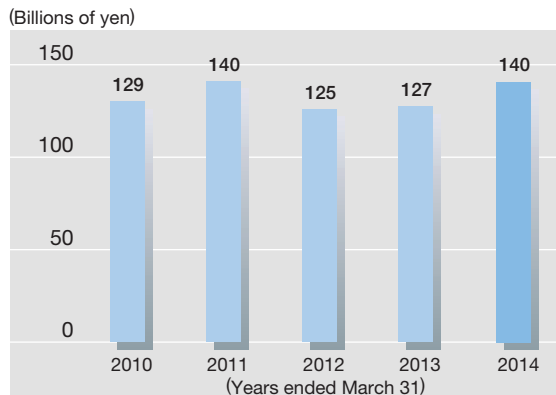


*Figures in () represent % of net sales.

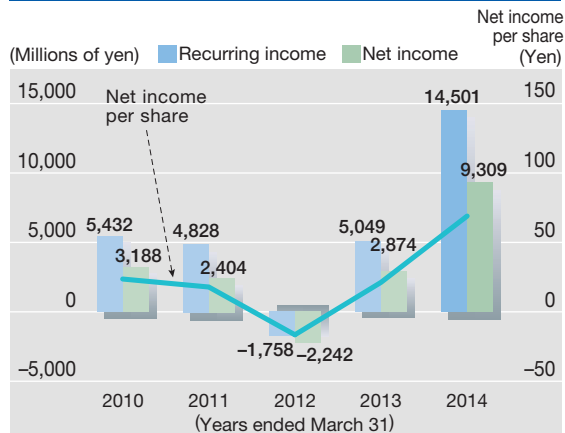
Financial Highlights

Consolidated

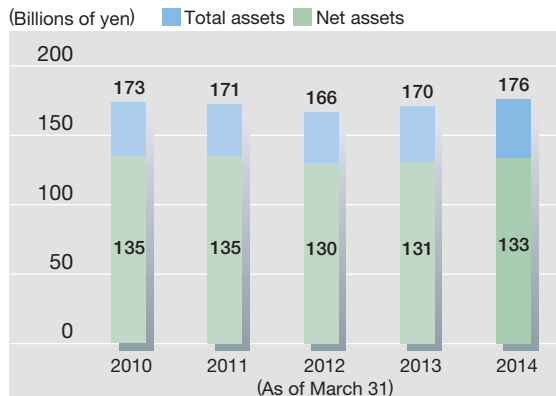
Net sales



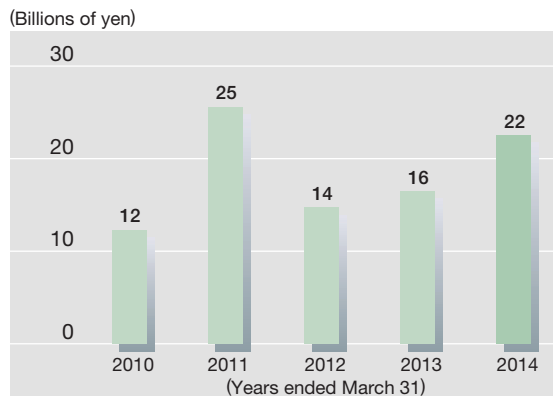
Recurring income / Net income



Total assets / Net assets



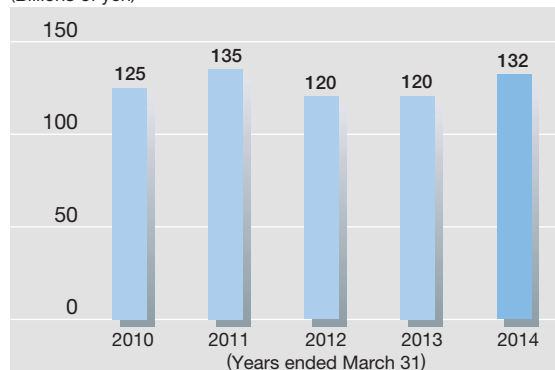
Capital expenditure



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	2010	2011	2012	2013	2014
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Consolidated

Net sales	(Millions of yen)	129,836	140,923	125,825	127,241	140,412
Recurring income (loss)	(Millions of yen)	5,432	4,828	(1,758)	5,049	14,501
Net income (loss)	(Millions of yen)	3,188	2,404	(2,242)	2,874	9,309
Net income (loss) per share	(Yen)	23.60	17.80	(16.60)	21.28	68.91
Total assets	(Millions of yen)	173,690	171,921	166,686	170,966	176,651
Net assets	(Millions of yen)	135,420	135,198	130,048	131,206	133,536
Net assets per share	(Yen)	1,002.45	1,000.80	962.68	971.25	988.50
Capital expenditure	(Millions of yen)	12,340	25,683	14,771	16,596	22,508
Research & development	(Millions of yen)	4,019	4,081	4,544	4,231	4,218

Non-consolidated

Net sales	(Millions of yen)	125,232	135,161	120,438	120,867	132,302
Recurring income (loss)	(Millions of yen)	4,915	3,984	(1,895)	5,008	13,280
Net income (loss)	(Millions of yen)	2,877	1,846	(2,165)	2,943	8,435

Financial Statements (Consolidated)

■ Balance sheets		As of March 31		
	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2014	2013	2014	
Assets	176,651	170,966	1,716,395	
Current assets	101,721	98,933	988,357	
Cash and time deposits	16,413	11,467	159,477	
Receivables, trade: notes and accounts	32,789	35,751	318,594	
Marketable securities	1,060	970	10,299	
Merchandise and finished goods	3,283	2,354	31,907	
Work in process	4,249	3,677	41,293	
Raw materials and supplies	1,427	1,384	13,874	
Money deposited	38,680	38,500	375,825	
Other current assets	3,827	4,837	37,190	
Allowance for doubtful receivables	(10)	(9)	(105)	
Fixed assets	74,929	72,033	728,038	
Property, plant and equipment	69,613	66,124	676,384	
Intangible assets	1,012	915	9,834	
Investments and other assets	4,304	4,994	41,818	
Total assets	176,651	170,966	1,716,395	
Liabilities	43,115	39,760	418,917	
Current liabilities	34,377	35,043	334,023	
Payables, trade	18,073	18,486	175,607	
Short-term borrowings	600	600	5,829	
Other current liabilities	15,704	15,957	152,586	
Long-term liabilities	8,737	4,716	84,894	
Net assets	133,536	131,206	1,297,478	
Shareholders' equity	139,888	133,280	1,359,194	
Common stock	24,223	24,223	235,357	
Capital surplus	24,129	24,129	234,449	
Retained earnings	91,627	85,020	890,282	
Treasury stock	(92)	(92)	(896)	
Accumulated other comprehensive income	(6,351)	(2,074)	(61,716)	
Unrealized gains on securities	49	27	482	
Foreign currency translation adjustments	(1,449)	(2,101)	(14,085)	
Remeasurements of defined benefit plans	(4,951)	—	(48,113)	
Total liabilities and net assets	176,651	170,966	1,716,395	

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥102.92 = U.S. \$1.00 on March 31, 2014.

Statements of income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2014	2013	2014
Net sales	140,412	127,241	1,364,283
Cost of goods sold	118,428	111,594	1,150,681
Gross profit	21,983	15,646	213,601
Selling, general and administrative expenses	12,668	12,633	123,086
Operating income	9,315	3,012	90,514
Non-operating income	5,214	2,055	50,665
Non-operating expenses	28	18	277
Recurring income	14,501	5,049	140,902
Extraordinary expenses	486	428	4,731
Income before income taxes	14,014	4,621	136,171
Income taxes—current	3,120	395	30,320
Income taxes—deferred	1,584	1,351	15,395
Net income	9,309	2,874	90,455

Statements of cash flows

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2014	2013	2014
Cash flows from operating activities	27,762	19,279	269,745
Cash flows from investing activities	(20,795)	(17,785)	(202,059)
Cash flows from financing activities	(2,740)	(2,736)	(26,626)
Effect of exchange rate changes on cash and cash equivalents	584	959	5,677
Net increase (decrease) in cash and cash equivalents	4,810	(283)	46,737
Cash and cash equivalents at beginning of year	50,213	50,496	487,883
Cash and cash equivalents at end of year	55,023	50,213	534,621

■ Statement of changes in net assets

Year ended March 31, 2014

(Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	24,223	24,129	85,020	(92)	133,280
Changes in the term:					
Dividends from surplus			(2,701)		(2,701)
Net income			9,309		9,309
Disposal of treasury stock		(0)		0	0
Net changes of items other than shareholders' equity					
Total changes in the term	—	(0)	6,607	0	6,607
Ending balance	24,223	24,129	91,627	(92)	139,888

	Accumulated other comprehensive income				Total net assets
	Unrealized gains on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Beginning balance	27	(2,101)	—	(2,074)	131,206
Changes in the term:					
Dividends from surplus					(2,701)
Net income					9,309
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	22	651	(4,951)	(4,277)	(4,277)
Total changes in the term	22	651	(4,951)	(4,277)	2,330
Ending balance	49	(1,449)	(4,951)	(6,351)	133,536

Corporate Data

(as of March 31, 2014)

■ 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) and glass-to-metal seals IC assembly
■ Number of employees	4,165 (Consolidated: 4,950)
■ Plants & facilities	Kohoku Plant Wakaho Plant Takaoka Plant Arai Plant Kyogase Plant SHINKO R&D Center Kurita Sogo Center
■ Sales offices Representative offices	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: Mt. Togakushi and Kagami Pond in Nagano City

Shareholders' Data

(as of March 31, 2014)

■ 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	18,204
■ Principal shareholders	

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
The Bank of New York - JASDEC Treaty Account	4,369	3.23
The Bank of New York 133522	4,088	3.02
Japan Trustee Services Bank, Ltd. (Trust Accounts)	2,233	1.65
The Hachijuni Bank, Ltd.	1,836	1.36
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,570	1.16
Shinko Electric Industries Employee Shareholding Association	1,079	0.80
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,071	0.79
Evergreen	1,061	0.79
Goldman Sachs International	998	0.74

Board of Directors and Auditors

(as of June 26, 2014)

Vice Chairman and Director	Akira Fujimoto
President and Representative Director	Mitsuharu Shimizu
Director and Executive Vice President, Corporate Officer	Noriyuki Toyoki
Director and Executive Managing Corporate Officer	Toshihisa Yoda
Director and Managing Corporate Officer	Yoshihiro Asano
Director and Senior Corporate Officer	Hiroshi Hasebe
Director and Senior Executive Advisor	Mamoru Kuroiwa
Standing Auditor	Yoshihiko Ogawa
Auditors	Koji Kitazawa Mitsuya Yasui

Corporate Officers

(as of June 26, 2014)

Managing Corporate Officer	Kunihiko Imai	Corporate Officers	Hiroshi Aruga 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 Kinji Nagata Akihiko Ito Tetsuo Taguchi Takashi Ozawa 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.
80, Oshimada-machi, Nagano-shi, Nagano 381-2287, Japan
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<http://www.shinko.co.jp>