



BUSINESS REPORT 2016

(from April 1, 2015 to March 31, 2016)



To Our Shareholders

It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. (the Company) for fiscal year 2015 (April 1, 2015 to March 31, 2016), which marks our 81st business period.

Semiconductors are key components that act like the brains in PCs, smartphones, automobiles with built-in electronics, and applications related to the Internet of Things (IoT), as well as devices used in the environmental, energy, and healthcare fields. Continued growth is expected in the semiconductor industry over the medium to long term, as semiconductor usage continues to broaden in the electronic products that underpin and enrich people's lives by making them more convenient, comfortable, safe, and reliable.

On the other hand, technological innovations, such as those that enable higher integration and faster speeds, combined with ever-changing market needs, have spurred the necessity to establish development and production systems that are flexible and inexpensive. Competition is thus expected to intensify even further on a global scale.

Faced with these industry conditions, the Shinko Group will establish a more solid business foundation by seeking to develop and enhance elemental technology centered on semiconductor packaging. We will focus on pushing business development in growth markets and strive to reinforce our competitiveness by improving productivity and reliability.

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.

In September 2016, we celebrate the Company's 70th anniversary. This is a result of the support we have received from our esteemed shareholders, to whom I express our sincere appreciation. As we move forward, I ask for your continued support and encouragement.



June 2016

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, 2016

During the fiscal year under review, despite ongoing expansion of sales to the automobile market and growing demand for servers amid the spread of cloud services, the semiconductor industry continued to face a harsh market environment, including a slowdown in the growth of smartphones, which had driven growth up to this point, and ongoing sluggishness in the PC market.

Given this environment, the Shinko Group focused on new product development and capital investment in fields where market expansion is anticipated. The Group also strengthened initiatives to boost productivity and expanded further into areas with high-value-added products. These efforts achieved sales growth in ceramic electro static chucks, IC assemblies and lead frames for smartphones and automobiles. Sales of our flip-chip type packages decreased for PCs, but increased for servers. As a result, consolidated net sales for the period under review rose 0.4% year on year to 143,453 million yen. The increase in sales of high-valued-added products and weakness in the

yen up through the third quarter contributed to earnings. Consolidated recurring income was 10,135 million yen (up 12.9% year on year). Profit attributable to owners of parent declined 46.0% year on year, to 3,476 million yen, partly reflecting an impairment loss on fixed assets.

In terms of non-consolidated financial results, we recorded net sales of 134,960 million yen (up 0.8% year on year), recurring income of 9,319 million yen (up 20.8%), and net income of 2,958 million yen (down 46.2%). The Company paid a year-end dividend of 12.5 yen per share and an interim dividend of 12.5 yen, for a total dividend of 25 yen for the fiscal year under review.

■ Outlook

With regard to the future of the semiconductor industry, demand is expected to rise on the back of growth in information and communications technology (ICT)-related markets, and semiconductor usage is expected to expand further, including in the automobile, environmental, energy, and healthcare fields. On the other hand, demand for PCs is projected to decline and the deceleration of smartphone growth is predicted to grow pronounced, as seen for example in fluctuations in demand with the shift to low-priced goods and transitions between product generations. Overall, a harsh business environment is forecast to continue.

Given this environment, the Shinko Group will strive to step up sales promotion by concentrating investment of management resources in markets that are expected to grow in the future, including servers, automotive electronics, and semiconductor manufacturing equipment, based on the Group's semiconductor packaging technology and product portfolio. Additionally, in fields where the need for high-performance semiconductors is forecast to

increase, such as the IoT, which is expected to undergo rapid market expansion, we will focus on capturing new demand by enhancing our marketing and development capabilities and expanding our technology domains, to commercialize new products. We will also attempt to increase productivity and reliability of products for PCs and smartphones, and forcefully advance the development and launch of next-generation products, among other efforts, to strengthen competitiveness and ensure earnings.

To achieve "Progress without Limits," the Shinko Group is determined to create a strong company structure that can respond immediately to changes in the market and environmental conditions by continually blazing new trails in manufacturing, technology, and services in the fiercely competitive semiconductor market.

IC Assembly Division Acquires ISO/TS 16949 Certification

In July 2015, the IC Assembly Division (with the Arai Plant in Myoko City, Niigata Prefecture and the Takaoka Plant in Nakano City, Nagano Prefecture) acquired ISO/TS 16949 certification.

ISO/TS 16949 certification is an industry standard for the automotive industry. It is based on ISO 9001, which is the international standard for quality management systems, with the addition of rigorous requirements specific to the automotive industry. In acquiring certification, we are required to meet customer requests and practice a high level of quality management, including continuous improvement and prevention of defects.

The acquisition of this certification serves as a foundation to meet the needs of customers in the automotive industry, which places greater emphasis on quality and reliability, and has helped to expand our business.

Within the Group, the Leadframe Division (with the Takaoka Plant in Nakano City, Nagano Prefecture) and SHINKO ELECTRONICS (MALAYSIA) SDN. BHD. in Malaysia have also acquired the certification.



Certificates
Left: Arai Plant: JPN-16435/1-TS
Right: Takaoka Plant JPN-16435/2-TS

70th Anniversary: Determined to Keep Contributing to the Development of Society

SHINKO ELECTRIC INDUSTRIES CO., LTD. was founded in September 1946, succeeding a company that recycled domestic light bulbs. In 2016, we celebrate our 70th anniversary.

The Company was established shortly after World War II, taking over a building, equipment and nearly 60 workers of a factory that had evacuated to the city of Nagano to escape wartime destruction. Today, the Shinko Group operates its business with some 5,000 employees at 37 locations in nine countries.

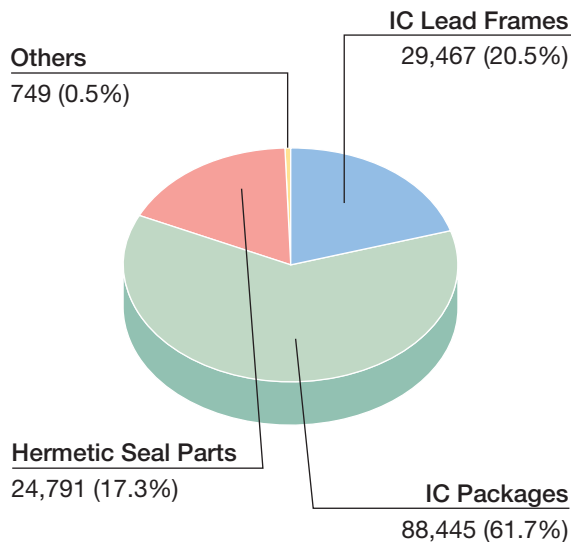
Throughout its history, the Group has engaged in manufacturing with the aim of helping to enrich people's lives and make them more comfortable. The corporate philosophy and spirit that have existed since the Company's establishment have been handed down to all Group employees as the "SHINKO Way," serving as guidelines in our day-to-day operations. In the years to come, we will keep striving to contribute to the sound development of society as a company that has won the trust of the international community.



Left: Booklet on the "SHINKO Way"
Right: Company sign of the predecessor of the Company

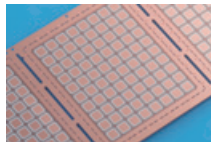
Summary of Operations by Product Category

Net sales by product category
(Millions of yen)



* Figures in () represent % of net sales

IC Lead Frames



QFN-Type Lead Frames



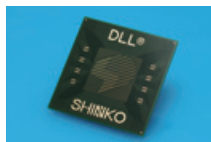
Stamping Lead Frames



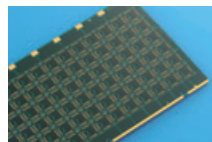
Rivetting Lead Frames

Applications: Smartphones, automobiles, PCs, home appliances and industrial uses, etc.

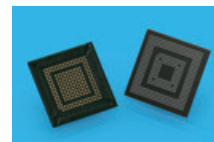
IC Packages



Flip-Chip Type Package



Plastic BGA Substrates



IC Assemblies

Applications: PCs, servers, smartphones, consumer products, etc.

Hermetic Seal Parts



Glass-to-Metal Seals for sensors



Glass-to-Metal Seals for optical devices



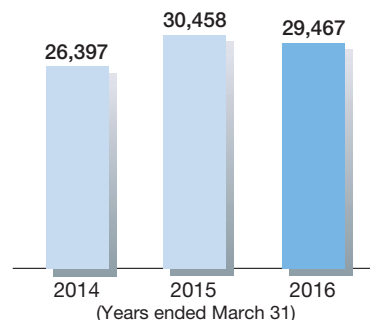
Ceramic Electro Static Chucks

Applications: Automobiles, semiconductor manufacturing equipment, consumer products, communications equipment, etc.

Net sales 29,467 million yen (↓3.3% year on year)

Revenue from etched lead frames rose as a result of upgraded production systems for Quad Flat Non-lead (QFN) type lead frames, which saw higher demand, such as for smartphones. Orders for stamping lead frames increased for automobiles, in which more electronics are being added, but sales were affected by inventory adjustments due to a sluggish market for PCs and digital home appliances. Accordingly, consolidated net sales in this segment slid to 29,467 million yen (down 3.3% year on year).

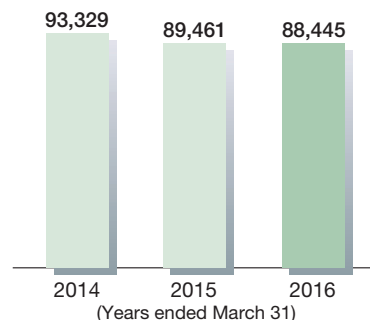
Net sales by product category (Millions of yen)



Net sales 88,445 million yen (↓1.1% year on year)

Despite strong performance for servers, revenue from flip-chip type packages decreased, affected by a sluggish PC market. Orders for plastic Ball Grid Array (BGA) substrates increased for new products for memory while, in the IC assembly business, demand expanded for IC assemblies for smartphones and automobiles. However, sales of heat spreaders used in MPUs declined. As a result, consolidated net sales in this segment were 88,445 million yen (down 1.1% year on year).

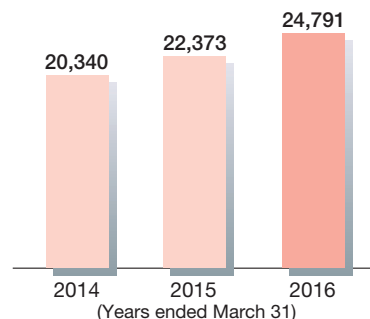
Net sales by product category (Millions of yen)



Net sales 24,791 million yen (↑10.8% year on year)

Revenue from glass-to-metal seals for sensors declined, affected in part by sluggishness in the Japanese automobile market. Orders for glass-to-metal seals for optical devices expanded for optical communications, while demand grew for ceramic electro static chucks for semiconductor manufacturing equipment. Revenue increased as a result of upgrades made to production systems. As a result, consolidated net sales in this segment reached 24,791 million yen (up 10.8% year on year).

Net sales by product category (Millions of yen)



Financial Highlights

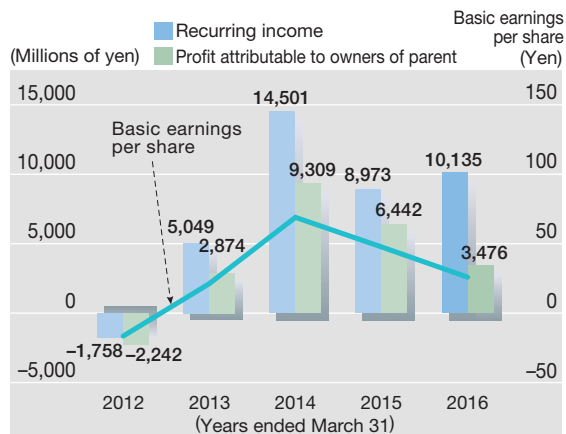
Consolidated

Net sales

(Billions of yen)

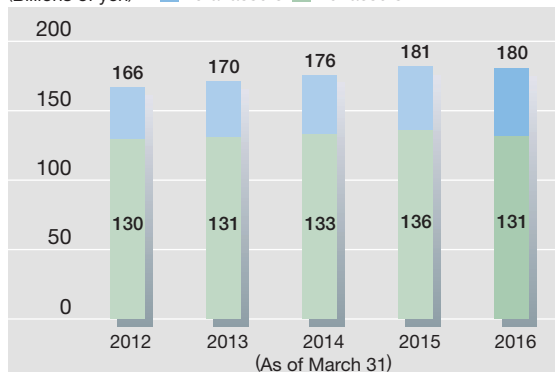


Recurring income / Profit attributable to owners of parent



Total assets / Net assets

(Billions of yen) ■ Total assets ■ Net assets



Capital expenditure

(Billions of yen)



Non-consolidated

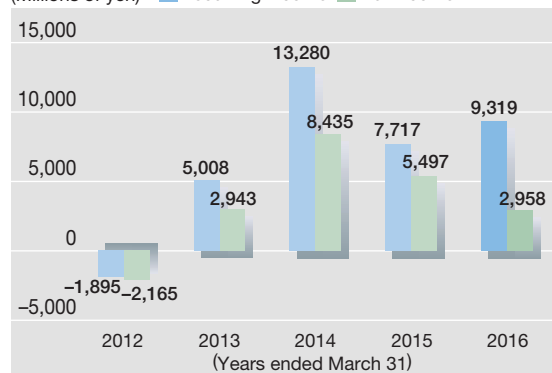
Net sales

(Billions of yen)



Recurring income / Net income

(Millions of yen) ■ Recurring income ■ Net income



Business performance and assets

Years ended March 31	2012	2013	2014	2015	2016
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Consolidated

Net sales	(Millions of yen)	125,825	127,241	140,412	142,815	143,453
Recurring income (loss)	(Millions of yen)	(1,758)	5,049	14,501	8,973	10,135
Profit (loss) attributable to owners of parent	(Millions of yen)	(2,242)	2,874	9,309	6,442	3,476
Basic earnings (loss) per share	(Yen)	(16.60)	21.28	68.91	47.69	25.74
Total assets	(Millions of yen)	166,686	170,966	176,651	181,903	180,886
Net assets	(Millions of yen)	130,048	131,206	133,536	136,407	131,834
Net assets per share	(Yen)	962.68	971.25	988.50	1,009.75	975.90
Capital expenditure	(Millions of yen)	14,771	16,596	22,508	24,324	15,508
Research & development	(Millions of yen)	4,544	4,231	4,218	3,946	3,643

Non-consolidated

Net sales	(Millions of yen)	120,438	120,867	132,302	133,898	134,960
Recurring income (loss)	(Millions of yen)	(1,895)	5,008	13,280	7,717	9,319
Net income (loss)	(Millions of yen)	(2,165)	2,943	8,435	5,497	2,958

Financial Statements (Consolidated)

■ Balance sheets		As of March 31		
	(Millions of yen)		(Thousands of U.S. dollars)	
	2016	2015	2016	
Assets	180,886	181,903	1,605,313	
Current assets	104,036	99,712	923,292	
Fixed assets	76,850	82,190	682,020	
Property, plant and equipment	70,648	77,160	626,979	
Intangible assets	1,136	993	10,089	
Investments and other assets	5,065	4,036	44,952	
Total assets	180,886	181,903	1,605,313	
Liabilities	49,052	45,495	435,324	
Current liabilities	34,771	35,879	308,586	
Long-term liabilities	14,280	9,616	126,738	
Net assets	131,834	136,407	1,169,989	
Shareholders' equity	144,192	144,431	1,279,667	
Common stock	24,223	24,223	214,971	
Capital surplus	24,129	24,129	214,142	
Retained earnings	95,932	96,171	851,372	
Treasury stock	(92)	(92)	(818)	
Accumulated other comprehensive income	(12,358)	(8,023)	(109,678)	
Total liabilities and net assets	180,886	181,903	1,605,313	

Statements of income

Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2016	2015	2016
Net sales	143,453	142,815	1,273,103
Cost of goods sold	121,611	125,689	1,079,261
Gross profit	21,842	17,125	193,842
Selling, general and administrative expenses	12,420	12,543	110,224
Operating income	9,422	4,581	83,618
Non-operating income	1,095	4,414	9,719
Non-operating expenses	382	22	3,391
Recurring income	10,135	8,973	89,945
Extraordinary losses	3,977	558	35,296
Income before income taxes	6,157	8,414	54,649
Income taxes—current	2,452	1,800	21,769
Income taxes—deferred	228	171	2,026
Profit attributable to owners of parent	3,476	6,442	30,853

Statements of cash flows

Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2016	2015	2016
Cash flows from operating activities	25,290	17,003	224,448
Cash flows from investing activities	(16,671)	(26,009)	(147,953)
Cash flows from financing activities	(3,771)	(3,424)	(33,473)
Effect of exchange rate changes on cash and cash equivalents	(829)	1,744	(7,364)
Net increase (decrease) in cash and cash equivalents	4,017	(10,685)	35,657
Cash and cash equivalents at beginning of year	44,337	55,023	393,484
Cash and cash equivalents at end of year	48,355	44,337	429,142

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥112.68 = U.S. \$1.00 on March 31, 2016.

Corporate Data

(As of March 31, 2016)

- **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** 4,070 (Consolidated: 4,880)
- **Plants & facilities** Kohoku Plant
Wakaho Plant
Takaoka Plant
Arai Plant
Kyogase Plant
SHINKO R&D Center
Kurita Sogo Center
- **Sales offices** Tokyo, Osaka, Sendai, Nagano, Nagoya, Oita, Fukuoka
 Representative office Manila



Board of Directors

(As of June 28, 2016)

Chairman and Representative Director	Noriyuki Toyoki
President and Representative Director	Mitsuharu Shimizu
Director and Executive Managing Corporate Officer	Toshihisa Yoda
Director and Managing Corporate Officer	Tadashi Kodaira
Director and Senior Corporate Officer	Hiroshi Hasebe
Director, Standing Audit and Supervisory Committee Member	Yoshihiko Ogawa
Directors, Audit and Supervisory Committee Members	Koji Kitazawa
	Rika Saeki

Corporate Officers

(As of June 28, 2016)

Managing Corporate Officers

Yoshihiro Asano
Kunihiko Imai

Senior Corporate Officers

Toshihiko Ogiwara
Takahiro Kiyono
Akihiko Murata
Susumu Kurashima
Takashi Ozawa

Corporate Officers

Hiroshi Aruga
Junichi Kobayashi
Kazuo Koike
Toshiyasu Hirabayashi
Tetsuo Taguchi
Katsuo Minamisawa
Hideyuki Tanaka
Masashi Obinata
Masato Tanaka

Kinji Nagata
Akihiko Ito
Hideki Matsuzawa

Shareholders' Data

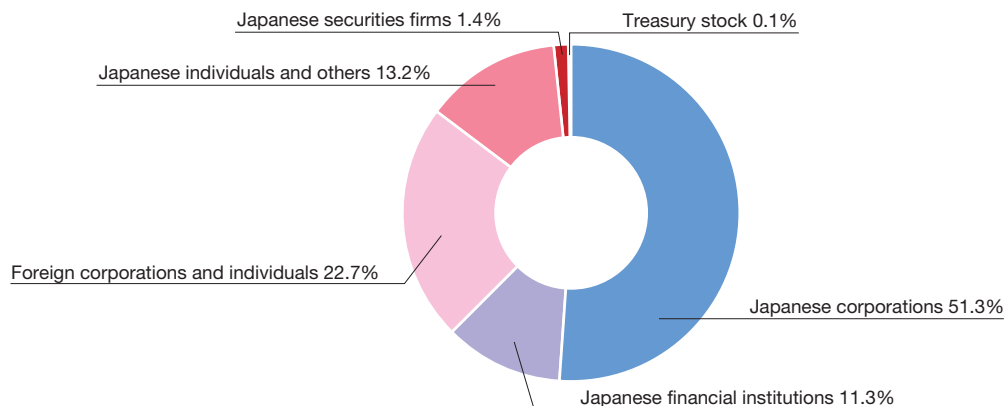
(As of March 31, 2016)

■ 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	15,432
■ Principal shareholders	

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
STATE STREET BANK AND TRUST COMPANY	2,902	2.15
Japan Trustee Services Bank, Ltd. (Trust Account)	2,670	1.98
J. P. MORGAN BANK LUXEMBOURG S. A. 380578	1,989	1.47
JP MORGAN CHASE BANK 380684	1,943	1.44
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,907	1.41
The Bank of New York 133522	1,846	1.37
The Hachijuni Bank, Ltd.	1,836	1.36
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,806	1.34
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	1,448	1.07

Distribution of stock by type of shareholder

(As of March 31, 2016)



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 Shinbun*.

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.

Front cover: Beech forest in Nozawaonsen Village, Nagano Prefecture



SHINKO

SHINKO ELECTRIC INDUSTRIES CO., LTD.
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<http://www.shinko.co.jp>