BUSINESS REPORT 2017

(from April 1, 2016 to March 31, 2017)

SHINKO

SHINKO ELECTRIC INDUSTRIES CO., LTD.

To Our Shareholders

It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. (the Company) for fiscal year 2016 (April 1, 2016 to March 31, 2017), which marks our 82nd business period.

Semiconductors are vital components that act like the brains in automobiles with built-in electronics, which is a trend that is progressing increasingly, and applications related to the Internet of Things (IoT)—which is envisioned to expand rapidly—as well as devices used in the medical, healthcare, and other associated fields that support people's health and lives. The semiconductor market is anticipated to keep expanding, as semiconductor usage continues to broaden. Moreover, big data, artificial intelligence, and other advanced technologies are changing the structure of the economy and society. They have the potential to create innovation on a different order of magnitude from before. It is expected that the innovation of semiconductors will continue as a key technology for achieving this potential.

According to the needs of the times, the Shinko Group has developed a business as a company that provides total solutions in semiconductor post-processing through its development and advancement of a wide range of elemental technologies for semiconductor packaging. Going forward, we will seek to establish a more solid business foundation by developing highly competitive products and continually pushing manufacturing innovation forward, based on our interconnection technology that brings the marvelous features and benefits of semiconductor devices into peoples' lives.

Through practice of the “SHINKO Way,” which sets out the Shinko Group's corporate philosophy and policies, we are committed to running our business so that we remain a company that is needed by society, while continually boosting our corporate value and contributing to the sound development of society.

As we move forward, I ask for the continued support and encouragement of all our shareholders.

June 2017

豊木則行

Noriyuki Toyoki

Chairman, President and Representative Director

Review of Operations and Outlook

Business Results for the Fiscal Year Ended March 31, 2017

During the fiscal year under review, demand for memory grew with the spread of cloud services and sales expanded for products for automobiles with built-in electronics, which is a progressing trend. However, deceleration of smartphone growth and ongoing sluggishness in the PC market had an impact on the semiconductor industry.

In this environment, the Shinko Group focused on investing management resources in growth markets, launching new products, and reinforcing its production system. The Group also made an aggressive sales effort and strengthened initiatives to boost productivity. These efforts expanded demand for IC assemblies for high-end smartphones and automobiles and for plastic BGA substrates for memory, and achieved sales growth in lead frames for smartphones and other devices. On the other hand, sales of our flip-chip type packages remained low for PCs. As a result, consolidated net sales for the period under review declined 2.5% year on year to 139,890 million yen. The decrease in revenue from flip-chip type packages and an ongoing trend toward a high exchange rate for yen had an impact on earnings. Consolidated recurring income was 3,468 million yen (down 65.8% year on year). Profit attributable to owners of parent declined 13.5% year on year to 3,007 million yen.

In terms of non-consolidated financial results, we recorded net sales of 132,504 million yen (down 1.8% year on year), recurring income of 3,247 million yen (down 65.2%), and net income of 3,173 million yen (up 7.3%). 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 anticipated to rise in the automotive and IoT-related markets. On the other hand, competition among companies in these growth fields is expected to intensify. Additionally, it is projected that sales to the PC market will remain low and growth of the smartphone market will continue to decelerate, as seen for example in fluctuations in demand with transitions between generational changes in products. A harsh business environment is therefore forecast to continue.

Given this environment, in an effort to expand sales, the Shinko Group will strengthen its production system by continuing to focus investment of management resources in growth markets, including automobiles, high performance memory, and semiconductor manufacturing equipment. As part of this initiative, in response to the large demand for ceramic electro static chucks, we will push to quickly outfit and start operations in the new facilities that we constructed at the Arai Plant in Myoko City, Niigata Prefecture. Additionally, we will step up our marketing and further reinforce our new product development system to create new business fields based on semiconductor packaging technology and then focus on channeling the market growth and expansion into growth for the Shinko Group. We will also push the rationalization and efficiency of production systems for products for PCs and smartphones forward, and concentrate on the application and development of these technologies and products for growth fields and high value-added fields in an effort to 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.

Topics

New Facilities Constructed at the Arai Plant

Construction of new facilities at the Arai Plant in Myoko City, Niigata Prefecture was completed in March 2017.

Since the late 1990s, the Company has been applying multi-layer ceramic packaging technology for mainframes to the manufacture of ceramic electro static chucks for semiconductor manufacturing equipment. With large demand forecast for the future, we constructed new facilities at our Arai Plant as a new production site to reinforce our production system. We are outfitting the facilities with the aim of starting operations in the second half of the fiscal year ending March 31, 2018.

At the new facilities, we plan to establish an integrated plant that handles everything from material compounding to product shipment, so that we can respond efficiently to increased production and the shift to mass production of new products in the future. Going forward, we will pursue further sales increases by continuing to be flexible in meeting our customers' diverse needs.

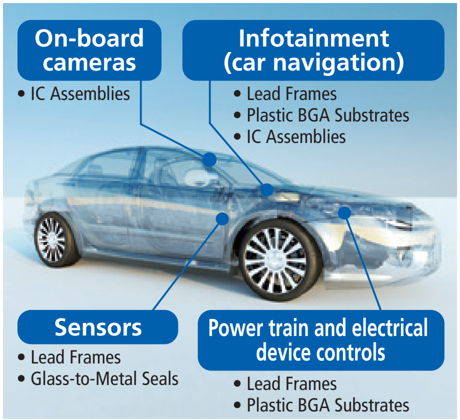
New facilities at the Arai Plant

Semiconductor Packages Supporting Automotive Safety, Reliability, and Comfort

The environment surrounding car electronics is changing greatly, including progress in driving assist systems to prevent accidents and the development of information services through communications networks.

The number of ICs mounted in automobiles has also increased dramatically. Many of the Shinko Group's semiconductor packages are used as products that support automotive safety, reliability, and comfort.

We supply products such as lead frames and plastic BGA substrates for ICs used in automobile power trains and electrical device controls. We also provide IC assemblies for infotainment systems such as navigation and communications services. The Shinko Group's lead frames and glass-to-metal seals are widely used in a range of sensors, including those for safe driving systems.

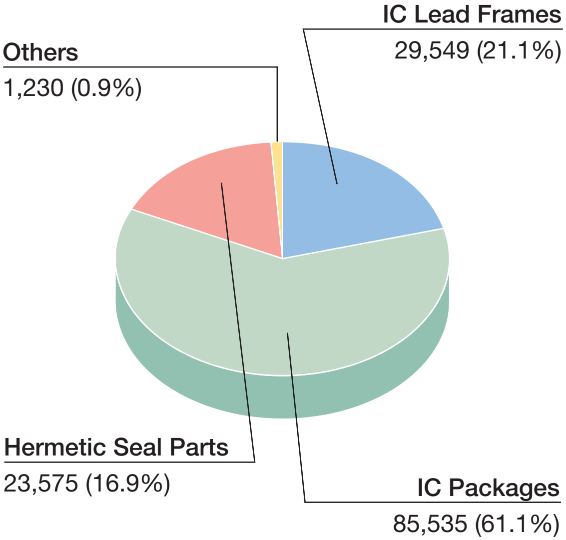


Shinko Group's products used in automobiles

Summary of Operations by Product Category

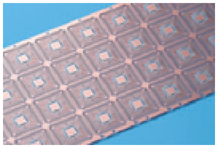
Net sales by product category

(Millions of yen)

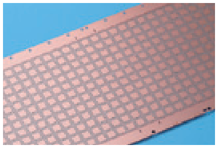


* Figures in ( ) represent % of net sales

IC Lead Frames



Stamping
Lead Frames

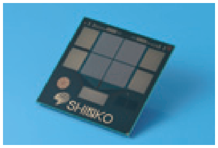


QFN-Type
Lead Frames

Rivetting
Lead Frames

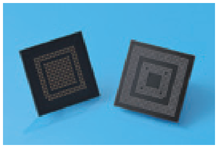
Applications: Smartphones, automobiles, PCs, home appliances and industrial uses, etc.

IC Packages



Flip-Chip Type
Package

Plastic BGA
Substrates

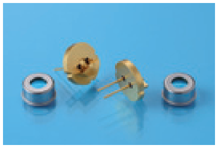


IC Assemblies

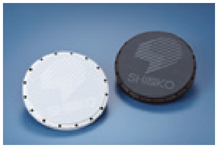
Applications: PCs, servers, smartphones, consumer products, etc.

Hermetic Seal Parts

Glass-to-Metal Seals
for sensors



Glass-to-Metal Seals
for optical devices

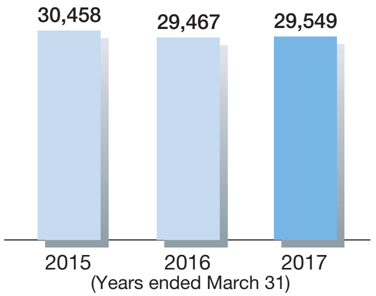


Ceramic Electro
Static Chucks

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

Net sales **29,549 million yen** (↑0.3% year on year)

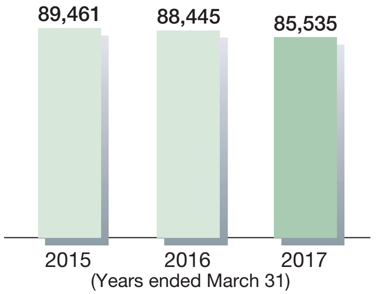
Although orders remained steady for stamping lead frames for automobiles with built-in electronic devices, revenue declined, affected by inventory adjustments. Sales of etched lead frames increased as a result of reinforced production systems for Quad Flat Non-lead (QFN) type lead frames due to large demand for smartphones and other devices. Accordingly, consolidated net sales in this segment reached 29,549 million yen (up 0.3% year on year).



Net sales by product category (Millions of yen)

Net sales **85,535 million yen** (↓3.3% year on year)

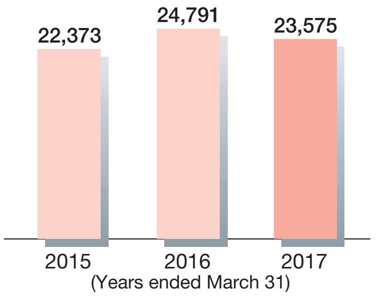
In the IC assembly business, sales of IC assemblies for high-end smartphones increased greatly while IC assemblies for automobiles also performed well. Sales of plastic BGA substrates for memory, including for smartphones, and for automobiles increased. However, affected by intensifying competition from the fall in PC market demand as well as appreciation of the yen against the dollar, revenue from flip-chip type packages and heat spreaders declined. As a result, consolidated net sales in this segment were 85,535 million yen (down 3.3% year on year).



Net sales by product category (Millions of yen)

Net sales **23,575 million yen** (↓4.9% year on year)

Demand for glass-to-metal seals for sensors remained low for automobiles while sales of glass-to-metal seals for optical devices increased. Although affected by inventory adjustments and appreciation of the yen against the dollar, orders rose significantly for ceramic electro static chucks for semiconductor manufacturing equipment during the second half of the fiscal year. Accordingly, consolidated net sales in this segment slid to 23,575 million yen (down 4.9% year on year).

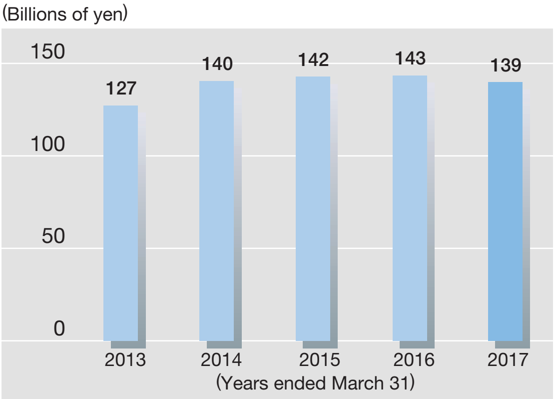


Net sales by product category (Millions of yen)

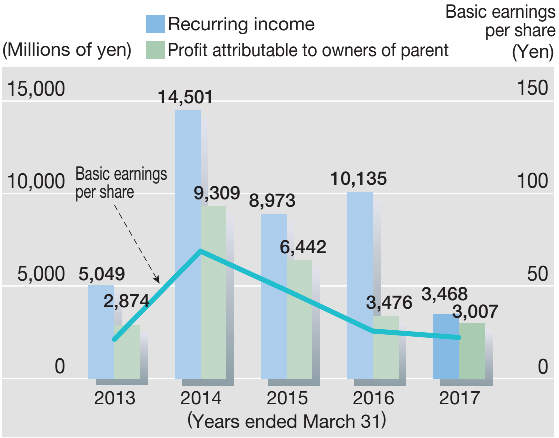
Financial Highlights

Consolidated

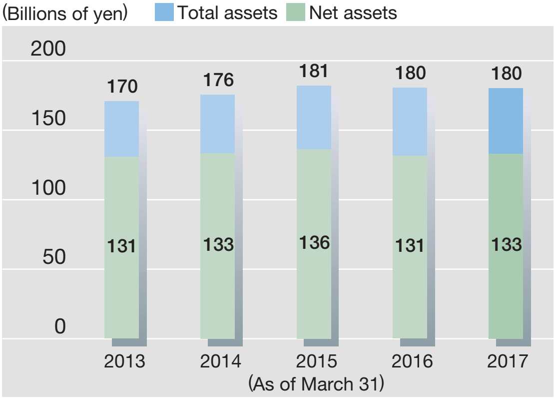
Net sales



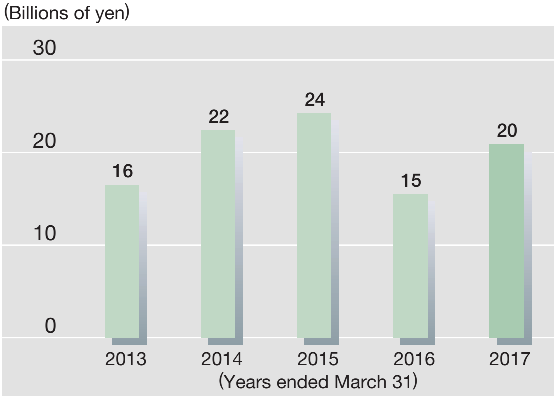
Recurring income / Profit attributable to owners of parent



Total assets / Net assets

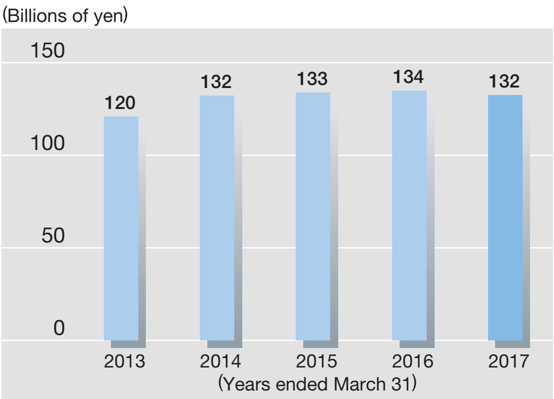


Capital expenditure

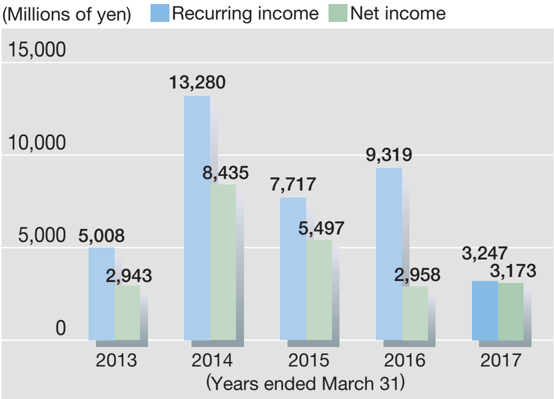


Non-consolidated

Net sales



Recurring income / Net income



Business performance and assets

Years ended March 31	2013	2014	2015	2016	2017
Consolidated					
Net sales (Millions of yen)	127,241	140,412	142,815	143,453	139,890
Recurring income (Millions of yen)	5,049	14,501	8,973	10,135	3,468
Profit attributable to owners of parent (Millions of yen)	2,874	9,309	6,442	3,476	3,007
Basic earnings per share (Yen)	21.28	68.91	47.69	25.74	22.26
Total assets (Millions of yen)	170,966	176,651	181,903	180,886	180,339
Net assets (Millions of yen)	131,206	133,536	136,407	131,834	133,435
Net assets per share (Yen)	971.25	988.50	1,009.75	975.90	987.75
Capital expenditure (Millions of yen)	16,596	22,508	24,324	15,508	20,973
Research & development (Millions of yen)	4,231	4,218	3,946	3,643	3,499
Non-consolidated					
Net sales (Millions of yen)	120,867	132,302	133,898	134,960	132,504
Recurring income (Millions of yen)	5,008	13,280	7,717	9,319	3,247
Net income (Millions of yen)	2,943	8,435	5,497	2,958	3,173

Financial Statements (Consolidated)

Balance sheets

As of March 31

	(Millions of yen) 2017	(Millions of yen) 2016	(Thousands of U.S. dollars) 2017
Assets	**180,339**	**180,886**	**1,607,449**
Current assets	**101,273**	**104,036**	**902,695**
Fixed assets	**79,066**	**76,850**	**704,754**
Property, plant and equipment	72,633	70,648	647,417
Intangible assets	1,197	1,136	10,671
Investments and other assets	5,235	5,065	46,665
Total assets	180,339	180,886	1,607,449
Liabilities	**46,904**	**49,052**	**418,078**
Current liabilities	**34,154**	**34,771**	**304,434**
Long-term liabilities	**12,749**	**14,280**	**113,643**
Net assets	**133,435**	**131,834**	**1,189,370**
Shareholders’ equity	**143,822**	**144,192**	**1,281,957**
Common stock	24,223	24,223	215,910
Capital surplus	24,129	24,129	215,077
Retained earnings	95,562	95,932	851,792
Treasury stock	(92)	(92)	(822)
Accumulated other comprehensive income	**(10,387)**	**(12,358)**	**(92,586)**
Total liabilities and net assets	180,339	180,886	1,607,449

Statements of income

Years ended March 31

	2017 (Millions of yen)	2016 (Millions of yen)	2017 (Thousands of U.S. dollars)
Net sales	**139,890**	**143,453**	**1,246,910**
Cost of goods sold	124,222	121,611	1,107,250
Gross profit	**15,668**	**21,842**	**139,660**
Selling, general and administrative expenses	12,399	12,420	110,524
Operating income	**3,268**	**9,422**	**29,135**
Non-operating income	638	1,095	5,690
Non-operating expenses	438	382	3,905
Recurring income	**3,468**	**10,135**	**30,920**
Extraordinary losses	434	3,977	3,873
Income before income taxes	**3,034**	**6,157**	**27,046**
Income taxes—current	491	2,452	4,379
Income taxes—deferred	(464)	228	(4,136)
Profit attributable to owners of parent	**3,007**	**3,476**	**26,804**

Statements of cash flows

Years ended March 31

	2017 (Millions of yen)	2016 (Millions of yen)	2017 (Thousands of U.S. dollars)
Cash flows from operating activities	**20,489**	**25,290**	**182,633**
Cash flows from investing activities	**(17,653)**	**(16,671)**	**(157,355)**
Cash flows from financing activities	**(3,444)**	**(3,771)**	**(30,698)**
Effect of exchange rate changes on cash and cash equivalents	**(499)**	**(829)**	**(4,447)**
Net increase (decrease) in cash and cash equivalents	**(1,107)**	**4,017**	**(9,868)**
Cash and cash equivalents at beginning of year	**48,355**	**44,337**	**431,016**
Cash and cash equivalents at end of year	**47,248**	**48,355**	**421,147**

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥112.19 = U.S. $1.00 on March 31, 2017.

Corporate Data

(As of March 31, 2017)

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	4,037 (Consolidated: 4,848)
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
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.

Global network

Board of Directors

(As of June 27, 2017)

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

Shareholders’ Data

(As of March 31, 2017)

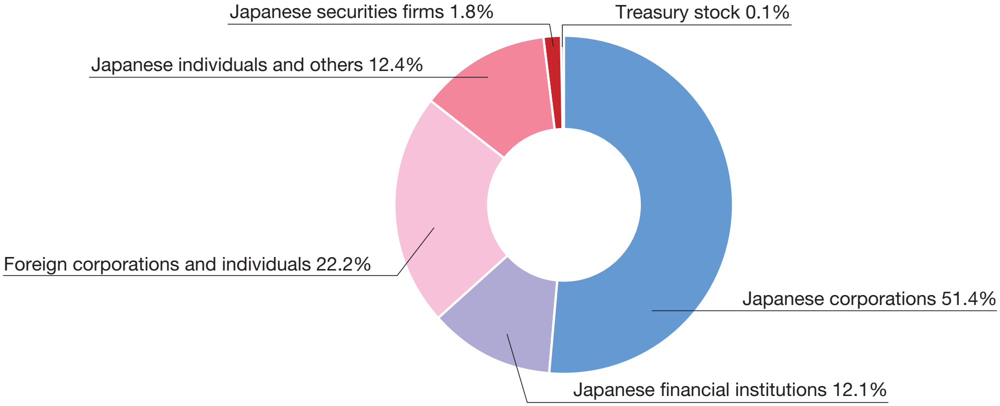
■ **Total number of authorized shares**	540,000,000 shares
■ **Total number of shares issued**	135,171,942 shares
■ **Paid-in capital**	24,223,020,480 yen
■ **Number of shareholders**	14,438

■ **Principal shareholders**

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
STATE STREET BANK AND TRUST COMPANY	2,796	2.07
Japan Trustee Services Bank, Ltd. (Trust Account)	2,558	1.89
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,376	1.76
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,837	1.36
STATE STREET BANK AND TRUST COMPANY 505103	1,837	1.36
The Hachijuni Bank, Ltd.	1,836	1.36
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	1,782	1.32
CBNY-GOVERNMENT OF NORWAY	1,541	1.14
The Bank of New York 133522	1,504	1.11

Distribution of stock by type of shareholder

(As of March 31, 2017)



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
Shin-TOKYO Post Office post office box No. 29, 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.

Front cover: Rape blossoms and the Chikuma River in Iiyama City, Nagano Prefecture

SHINKO ELECTRIC INDUSTRIES CO., LTD.
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