

BUSINESS REPORT 2018

(from April 1, 2017 to March 31, 2018)



To Our Shareholders

It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. (the Company) for fiscal year 2017 (April 1, 2017 to March 31, 2018), which marks our 83rd 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, and other associated fields that support people’s health. The semiconductor market is anticipated to keep expanding, as semiconductor usage continues to broaden. Moreover, big data, artificial intelligence (AI), 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 progress of semiconductors will continue as a key technology for achieving this potential.

The Shinko Group is committed to 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. We will strive to provide products and services with high value for customers, and to support their success and maintain their trust, by accurately grasping customers’ needs and ensuring a high level of quality, cost, and delivery performance. Through these initiatives, we will pursue our own development and growth.

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 2018

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, 2018

During the fiscal year under review, the semiconductor market was driven by rising demand for memory with development of IoT utilization and expanding sales of products for automobiles with built-in electronics, which is a progressing trend. However, deceleration of smartphone growth and shrinkage of the PC market had an impact on the semiconductor industry.

In this environment, the Shinko Group continued to focus on investing management resources in growth markets, enhance and strengthen production systems, and develop and begin mass-producing new products that answer market needs. Accordingly, orders increased substantially for ceramic electro static chucks for semiconductor manufacturing equipment, revenue from lead frames increased, mainly in sales for automobiles, and sales of plastic BGA substrates for memory and other uses expanded significantly. On the other hand, sales of IC assemblies for high-end smartphones were greatly impacted by

demand fluctuations and revenue from our flip-chip type packages decreased due to shrinkage of the PC market. As a result of these factors, consolidated net sales for the period under review increased 5.2% year on year to 147,113 million yen. The trend toward a strong yen and weak U.S. dollar in the fourth quarter had an impact on earnings. Nevertheless, the growth in revenue from high-value-added products resulted in consolidated recurring income of 5,730 million yen (up 65.2% year on year). Profit attributable to owners of parent increased 21.9% year on year to 3,664 million yen.

In terms of non-consolidated financial results, we recorded net sales of 139,464 million yen (up 5.3% year on year), recurring income of 5,466 million yen (up 68.3%), and net income of 3,502 million yen (up 10.4%). 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 for semiconductors is anticipated to continue rising significantly in the automotive market, where the trend of built-in electronic devices is expected to increase with the progress in self-driving technology, and in the IoT- and AI-related market, where applications are accelerating in various fields. On the other hand, many companies are expected to enter these growth fields and competition is forecast to intensify.

Given this environment, the Shinko Group will double down on its efforts in pursuit of new growth by focusing investment of management resources in markets with high growth potential, based on the semiconductor packaging technology we have cultivated thus far.

We plan to expand production capacity. Anticipating higher demand for high-performance semiconductors, including for servers, we will make capital investments to reinforce production lines at the Takaoka Plant in Nakano City, Nagano

Prefecture, for next-generation flip-chip type packages that can meet the growing sophistication and speed of semiconductors. We will also outfit a new plant that came online at the Arai Plant in Myoko City, Niigata Prefecture, with a mass production system for ceramic electro static chucks. Additionally, with a view toward future development, we will further strengthen our business foundation by focusing on development, mass production, and sales promotion of new products for the automotive market, which is seeing a greater shift toward built-in electronics, and the memory market, which is driving growth in the semiconductor market.

To achieve “Progress without Limits,” the Shinko Group will strive to enhance and strengthen its development, manufacturing, and sales functions, always starting with customer needs, and translate market growth and expansion into our own growth through the provision of products and services that have high value for customers.

Strengthening the Production System for Next-Generation Flip-Chip Type Packages

As semiconductor packages with excellent electrical characteristics and heat resistance that meet the development of semiconductor technologies such as nano-fabrication and high-density packaging, our flip-chip type packages are used in great numbers in the high-performance semiconductor market, such as CPUs installed in PCs and servers.

Backed by progressing utilization of IoT and AI as well as development toward commercial viability of self-driving vehicles, the semiconductor market will expand further. It is expected that demand will also increase for high-performance semiconductors, including for servers to achieve large capacity data processing at high speed.

To reinforce our production system for next-generation flip-chip type packages that meet these needs, we will install production lines in the Takaoka Plant in Nakano City, Nagano Prefecture.



The Takaoka Plant's Building J, where production lines are to be installed

Increasing Production Capacity at SHINKO ELECTRONICS (MALAYSIA) SDN. BHD.



SHINKO ELECTRONICS (MALAYSIA) SDN. BHD.

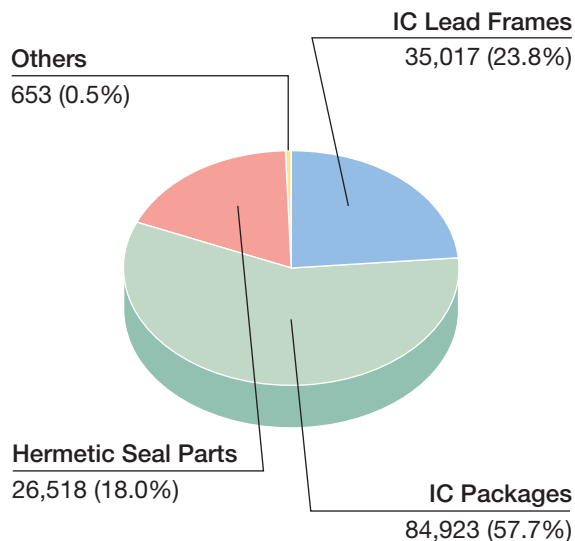
SHINKO ELECTRONICS (MALAYSIA) SDN. BHD., located near Kuala Lumpur, the capital of Malaysia, is expanding its production capacity by increasing its plating line and utility equipment, to meet the large demand for lead frames, including for the automotive market.

Our lead frames, which are based on the stamping, plating, and other technologies we have cultivated over many years, are used in large numbers in the automotive market, which requires high reliability. We anticipate further demand growth as the trend of built-in electronics in automobiles progresses.

SHINKO ELECTRONICS (MALAYSIA) SDN. BHD. has manufactured stamping lead frames using precision die tools since commencing operations in 1992. As a production base in Southeast Asia, where many customers operate, the company will strive to enhance and strengthen its capacity to meet these needs.

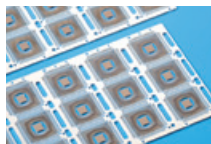
Summary of Operations by Product Category

Net sales by product category
(Millions of yen)



* Figures in () represent % of net sales

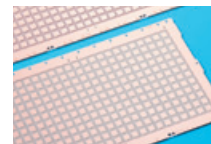
IC Lead Frames



Stamping Lead Frames



Riveting Lead Frames



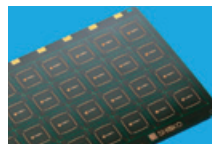
QFN-Type Lead Frames

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

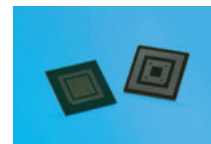
IC Packages



Flip-Chip Type Package



Plastic BGA Substrates



IC Assemblies

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

Hermetic Seal Parts



Ceramic Electro Static Chuck



Glass-to-Metal Seals for Optical Devices



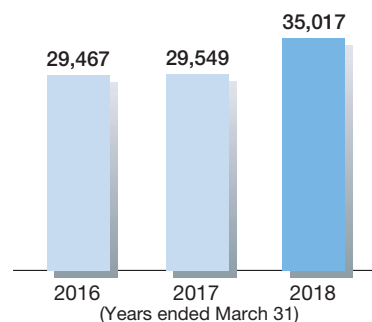
Glass-to-Metal Seals for Optical Communication Equipment

Applications: Semiconductor manufacturing equipment, automobiles, consumer products, communications equipment, etc.

Net sales 35,017 million yen (↑18.5% year on year)

Sales of stamping lead frames increased greatly as a result of expanded demand, mainly for automobiles with built-in electronics, a trend that progressed further, and reinforced production systems. Revenue from etched lead frames expanded due to steady performance of Quad Flat Non-lead (QFN) type lead frames, which continued to see large demand for a wide range of uses including smartphones. Accordingly, consolidated net sales in this segment reached 35,017 million yen (up 18.5% year on year).

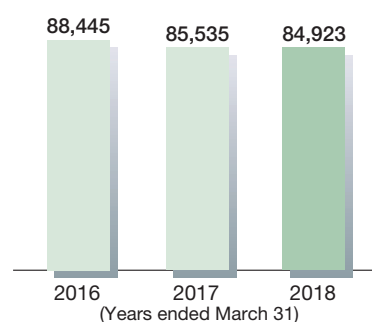
Net sales by product category (Millions of yen)



Net sales 84,923 million yen (↓0.7% year on year)

Orders increased greatly for plastic BGA substrates for memory, including for smartphones, and for automobiles. Revenue from heat spreaders for server CPUs expanded. However, affected by the shrinkage of the PC market, revenue from flip-chip type packages declined. Although sales for automotive applications were favorable, orders of IC assemblies decreased, affected by demand fluctuations for high-end smartphones. As a result, consolidated net sales in this segment were 84,923 million yen (down 0.7% year on year).

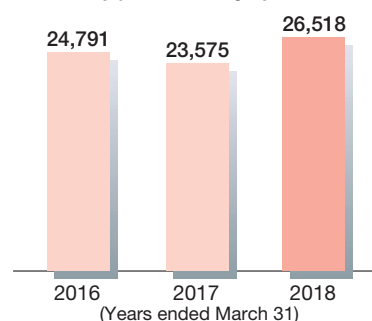
Net sales by product category (Millions of yen)



Net sales 26,518 million yen (↑12.5% year on year)

Sales of ceramic electro static chucks for semiconductor manufacturing equipment increased substantially as a result of an ongoing large-order environment as well as reinforced production capacity, including the start of operations at a new plant at the Arai Plant in Myoko City, Niigata Prefecture. Although orders of glass-to-metal seals for optical devices increased, sales remained low for optical communications equipment. Accordingly, consolidated net sales in this segment reached 26,518 million yen (up 12.5% year on year).

Net sales by product category (Millions of yen)

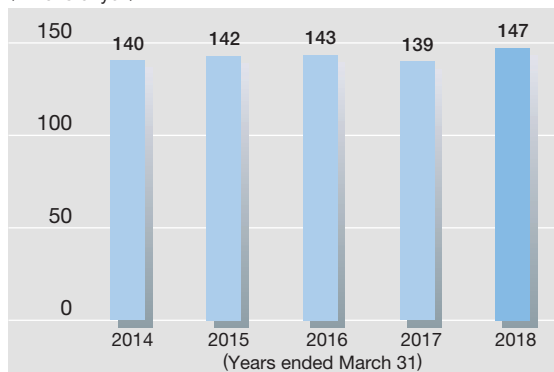


Financial Highlights

Consolidated

Net sales

(Billions of yen)

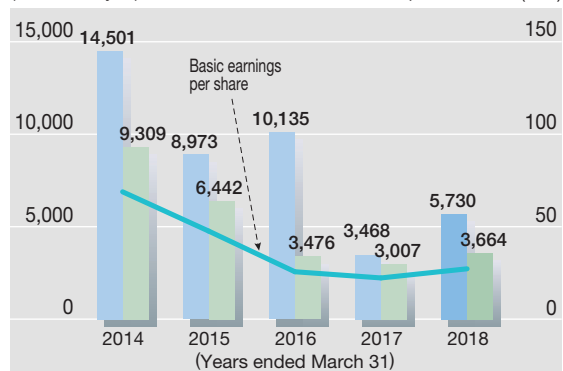


Recurring income / Profit attributable to owners of parent

(Millions of yen)

Recurring income
Profit attributable to owners of parent

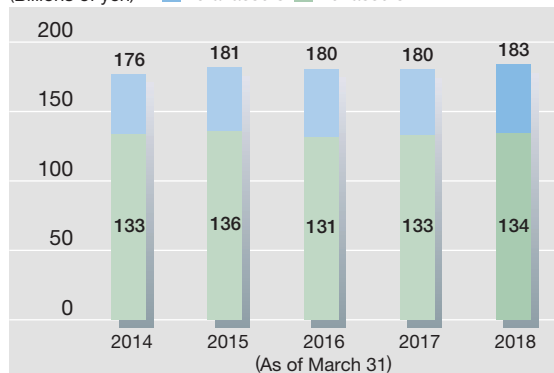
Basic earnings per share (Yen)



Total assets / Net assets

(Billions of yen)

Total assets
Net assets



Capital expenditure

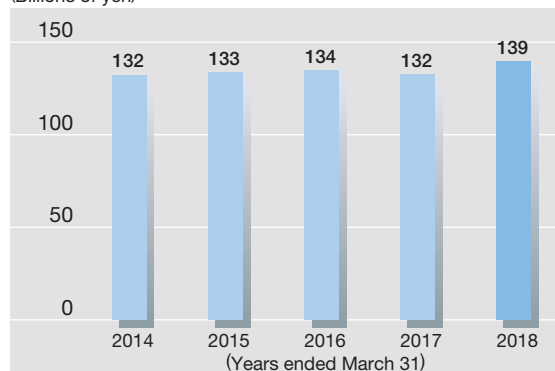
(Billions of yen)



Non-consolidated

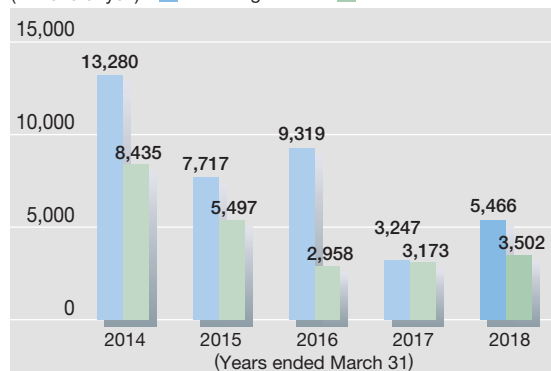
Net sales

(Billions of yen)



Recurring income / Net income

(Millions of yen) Recurring income Net income



Business performance and assets

Years ended March 31	2014	2015	2016	2017	2018
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Consolidated

Net sales	(Millions of yen)	140,412	142,815	143,453	139,890	147,113
Recurring income	(Millions of yen)	14,501	8,973	10,135	3,468	5,730
Profit attributable to owners of parent	(Millions of yen)	9,309	6,442	3,476	3,007	3,664
Basic earnings per share	(Yen)	68.91	47.69	25.74	22.26	27.13
Total assets	(Millions of yen)	176,651	181,903	180,886	180,339	183,759
Net assets	(Millions of yen)	133,536	136,407	131,834	133,435	134,606
Net assets per share	(Yen)	988.50	1,009.75	975.90	987.75	996.42
Capital expenditure	(Millions of yen)	22,508	24,324	15,508	20,973	16,813
Research & development	(Millions of yen)	4,218	3,946	3,643	3,499	3,440

Non-consolidated

Net sales	(Millions of yen)	132,302	133,898	134,960	132,504	139,464
Recurring income	(Millions of yen)	13,280	7,717	9,319	3,247	5,466
Net income	(Millions of yen)	8,435	5,497	2,958	3,173	3,502

Financial Statements (Consolidated)

Balance sheets

As of March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2018	2017	2018
Assets	183,759	180,339	1,729,661
Current assets	105,265	101,273	990,824
Fixed assets	78,494	79,066	738,837
Property, plant and equipment	72,464	72,633	682,081
Intangible assets	1,237	1,197	11,649
Investments and other assets	4,792	5,235	45,106
Total assets	183,759	180,339	1,729,661
Liabilities	49,152	46,904	462,658
Current liabilities	36,947	34,154	347,776
Long-term liabilities	12,205	12,749	114,882
Net assets	134,606	133,435	1,267,002
Shareholders' equity	144,110	143,822	1,356,462
Common stock	24,223	24,223	228,002
Capital surplus	24,129	24,129	227,123
Retained earnings	95,850	95,562	902,205
Treasury stock	(92)	(92)	(868)
Accumulated other comprehensive income	(9,504)	(10,387)	(89,459)
Total liabilities and net assets	183,759	180,339	1,729,661

Statements of income Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2018	2017	2018
Net sales	147,113	139,890	1,384,727
Cost of goods sold	129,704	124,222	1,220,860
Gross profit	17,409	15,668	163,867
Selling, general and administrative expenses	12,510	12,399	117,754
Operating income	4,899	3,268	46,113
Non-operating income	847	638	7,976
Non-operating expenses	15	438	148
Recurring income	5,730	3,468	53,941
Extraordinary losses	895	434	8,431
Income before income taxes	4,834	3,034	45,509
Income taxes—current	1,395	491	13,130
Income taxes—deferred	(225)	(464)	(2,118)
Profit attributable to owners of parent	3,664	3,007	34,497

Statements of cash flows Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2018	2017	2018
Cash flows from operating activities	21,806	20,489	205,254
Cash flows from investing activities	(19,273)	(17,653)	(181,411)
Cash flows from financing activities	(3,441)	(3,444)	(32,391)
Effect of exchange rate changes on cash and cash equivalents	(673)	(499)	(6,342)
Net increase (decrease) in cash and cash equivalents	(1,581)	(1,107)	(14,890)
Cash and cash equivalents at beginning of year	47,248	48,355	444,734
Cash and cash equivalents at end of year	45,666	47,248	429,843

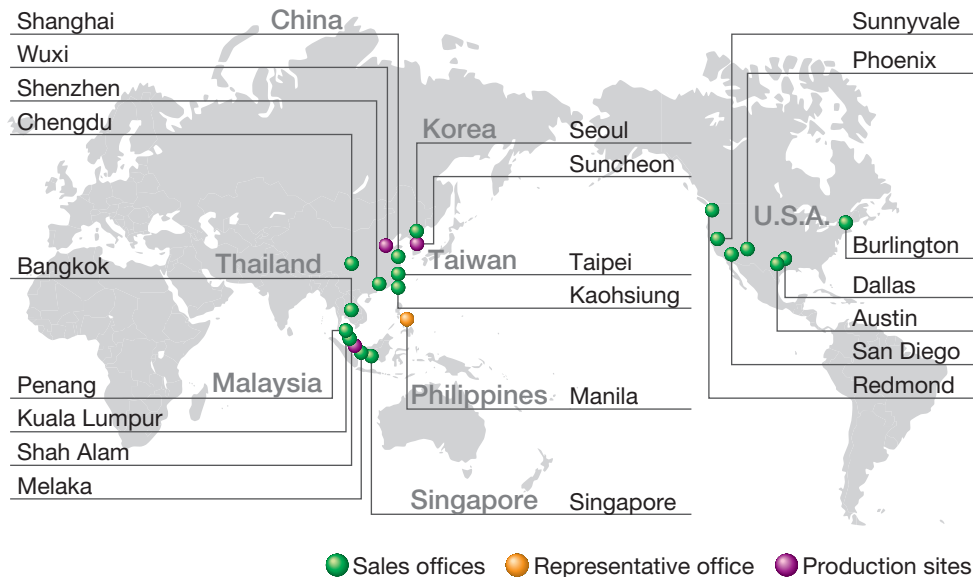
Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥106.24 = U.S. \$1.00 on March 31, 2018.

Corporate Data

(As of March 31, 2018)

■ 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	3,987 (Consolidated: 4,785)
■ Plants & facilities	Kohoku Plant Wakaho Plant Takaoka Plant Arai Plant Kyogase Plant SHINKO R&D Center Kurita Sogo Center
■ Sales offices Representative office	Tokyo, Osaka, Sendai, Nagano, Nagoya, Oita, Fukuoka 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 26, 2018)

Chairman, President and Representative Director	Noriyuki Toyoki
Representative Director and Executive Managing Corporate Officer	Hiroshi Hasebe
Directors and Managing Corporate Officers	Tadashi Kodaira Takashi Ozawa
Director, Standing Audit and Supervisory Committee Member	Akihiko Ito
Directors, Audit and Supervisory Committee Members	Koji Kitazawa Namiko Araki

Shareholders' Data

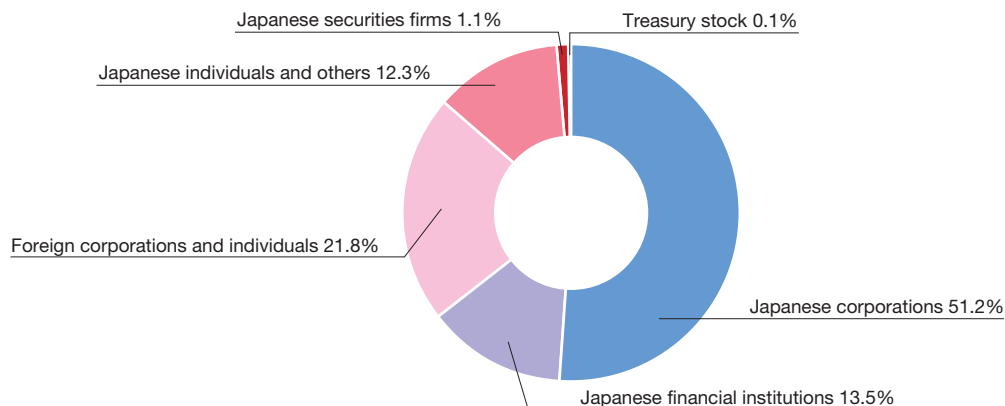
(As of March 31, 2018)

■ 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	14,045
■ Principal shareholders	

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,112	3.04
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	3,809	2.82
STATE STREET BANK AND TRUST COMPANY	3,238	2.40
Japan Trustee Services Bank, Ltd. (Trust Account)	2,484	1.84
DFA INTL SMALL CAP VALUE PORTFOLIO	2,077	1.54
The Hachijuni Bank, Ltd.	1,836	1.36
GOLDMAN SACHS INTERNATIONAL	1,631	1.21
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,567	1.16
SHINKO ELECTRIC INDUSTRIES Employee Shareholding Association	1,499	1.11

Distribution of stock by type of shareholder

(As of March 31, 2018)



Shareholder information

Administrator of shareholders' register and account management institution for special accounts	
(Contact)	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division 1-1, Nikko-cho, Fuchu-shi, Tokyo, Japan Tel (toll-free number): 0120-232-711 (Japanese only)
(Mailing address)	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division Shin-TOKYO Post Office post office box No. 29, Tokyo 137-8081, Japan
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 <i>Nihon Keizai Shimbun</i> .

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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