

BUSINESS REPORT 2020

(from April 1, 2019 to March 31, 2020)



To Our Shareholders

It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. (the Company) for fiscal year 2019 (April 1, 2019 to March 31, 2020), which marks our 85th business period.

I would like to express my sincerest sympathy to those affected by COVID-19. I would also like to express my deep gratitude to everyone who is working to prevent the spread of the virus.

Expanding use of big data, artificial intelligence (AI), and other advanced technologies, supported by the practical implementation of the fifth-generation mobile communications systems (5G), is changing the structure of the economy and society. They have the potential to create innovation on a different order of magnitude than ever before. It is expected that the progress of semiconductors will continue as a key technology for achieving this potential. Moreover, the markets for semiconductors are expected to continue expanding in the future, including the automotive market, in which technological development such as autonomous driving is accelerating, the market for applications related to the Internet of Things (IoT), which is anticipated to expand rapidly, and the medical field that supports people's health, as well as in other areas.

The Shinko Group is committed to developing highly competitive products, based on our interconnection technology that brings the marvelous features and benefits of semiconductor devices into people's lives. We will strive to provide products and services with high value for customers and to support their success. Through these initiatives, we will pursue our own development and growth. In addition, we will focus on cash flow and on building a solid management foundation able to continuously generate profits.

Through the practice of the "SHINKO Way," which embodies the Shinko Group corporate philosophy and policies, we are committed to developing business that we contribute to the creation of a prosperous society while pursuing harmony with stakeholders.

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

June 2020



M. Fujita

Masami Fujita
President and Representative Director

Review of Operations and Outlook

■ Business Results for the Fiscal Year Ended March 31, 2020

During the fiscal year under review, there was a sense that semiconductor demand had bottomed out in the second half of the year. Nevertheless, due to factors including stagnation in the smartphone market where demand for memory was significantly lower as well as the impact of inventory adjustments, conditions remained challenging in the semiconductor market.

In this environment, the Shinko Group focused on allocating management resources in growth markets, including the decision to make additional capital investments beginning in fiscal year 2018 with the aim of strengthening production systems for next-generation flip-chip type packages and the sequential construction of production lines. Under difficult circumstances caused by deteriorating market conditions, the Shinko Group actively engaged in sales activities and focused on securing earnings. As a result, revenue from flip-chip type packages and heat spreaders increased. Meanwhile, due to the impact of restrained investment in the first half of the fiscal year, sales of ceramic electro static chucks decreased while revenue from plastic

BGA substrates and lead frames declined. As a result of these factors, consolidated net sales for the period under review were 148,332 million yen (up 4.3% year on year). Although profit and loss took an upturn with improved profitability driven by increased revenue from the second half of the fiscal year, sales of ceramic electro static chucks and other products declined significantly in the first half of the fiscal year; the cost of setting up the production lines for next-generation flip-chip type packages increased; and the yen exchange rate maintained a high level. Such factors resulted in consolidated recurring income of 4,813 million yen (down 37.1% year on year) and profit attributable to owners of the parent of 2,690 million yen (up 6.5% year on year).

For non-consolidated financial results, we recorded net sales of 142,823 million yen (up 5.0% year on year), recurring income of 5,547 million yen (down 35.4%), and net income of 3,519 million yen (down 1.5%). The Company paid a yearend 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

Regarding the future of the semiconductor industry, there are concerns that the deterioration of the real economy due to the prolonged impact of COVID-19 will have serious consequences, including repercussions for semiconductor demand for automobiles and other products. On the other hand, demand for semiconductors is anticipated to increase significantly over the medium to long term for a wide range of applications. These applications include servers, which are expected to see higher demand due to the launch of 5G and more use of IoT and AI, as well as in the automotive field, where technological development is accelerating, and for mobile devices, a market that is projected to grow due to an upsurge in teleworking. Nonetheless, it is expected that the operating climate will remain challenging, as it will require setting up development and production systems that can respond quickly and flexibly to increasingly sophisticated market needs.

Given this environment, in pursuit of future development the Shinko Group will strengthen its efforts to improve productivity and reduce costs, strive to optimize management resources, and focus on the allocation of management resources in

markets with high growth potential. For capital investments to strengthen the production systems for next-generation flip-chip type packages, we will sequentially begin operations of production lines, focusing on capturing growing demand for high-performance semiconductors, such as those for data centers. We will also make every effort to increase sales of products that contribute to boosting the performance of semiconductors including the expansion of next-generation plastic BGA substrates sales for which we installed production lines at our Arai Plant in Myoko City, Niigata Prefecture, and strengthening the production systems for heat spreaders, which are expected to see increased orders for CPUs for servers and other hardware.

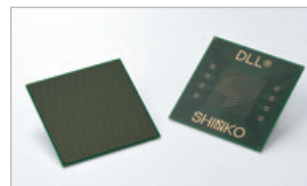
To achieve “Progress without Limits,” the Shinko Group will provide customers in semiconductor markets where continued growth is expected with high-value products and services offering solid value and rooted in customer needs for function, performance, cost, and quality.

Topics

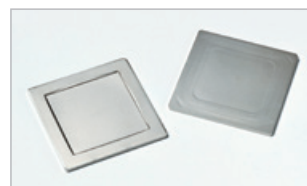
Our Products Supporting 5G

As the practical application of communication services using 5G commences in many countries around the world and communication networks with dramatic performance including high speeds and large capacity are established sequentially in the future, various devices around us will be connected to 5G networks. This is anticipated to substantially impact people's lives, business, and society. Demand for semiconductors as a key device supporting 5G is anticipated to grow further as a result.

We supply many products used in high-performance semiconductors supporting 5G, including flip-chip type packages for which we are strengthening production systems at our Takaoka Plant in Nakano City, Nagano Prefecture, heat spreaders for servers, and plastic BGA substrates for most advanced memory, which is becoming smaller and thinner with larger capacities. Going forward, we will aim for further development by improving production systems and expanding sales for these products.



Flip-chip type packages



Heat spreaders

Sustainability Initiatives

In recent years, the emergence of serious social issues, such as climate change, has made initiatives aimed at realizing a sustainable society ever more important.

Having started out in the light bulb recycling business during the turbulent post-war period, we have consistently managed our business with consideration for local employment creation and the global environment. This stance, which we have handed down since our founding, is in line with the kind of society and direction targeted by the United Nations' Sustainable Development Goals (SDGs).

Under our Environmental Action Program(Stage 9), which began in fiscal year 2019, we are enhancing efforts to reduce our environmental impact with the goal of contributing to the SDGs.

We will continue to enhance these sustainability initiatives to fulfill our corporate social responsibility and increase our corporate value.

For information on Shinko Group initiatives, please refer to our corporate website and the annual *Environmental and Social Report*.

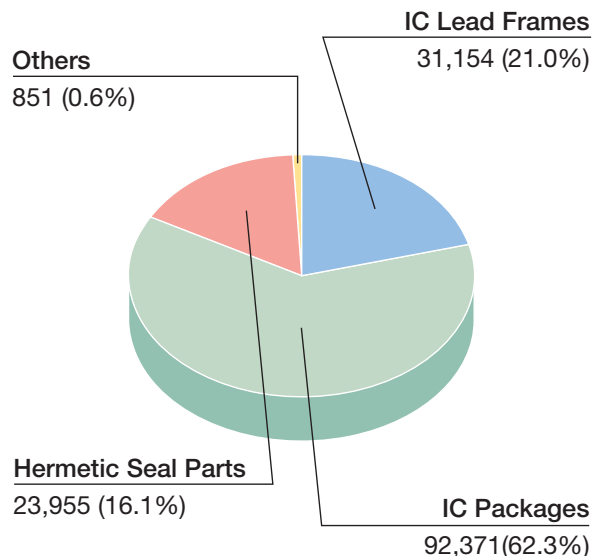
<https://www.shinko.co.jp/english/sustainability/>

SUSTAINABLE DEVELOPMENT GOALS



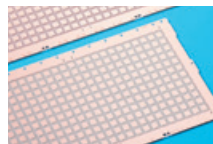
Summary of Operations by Product Category

Net sales by product category
(Millions of yen)

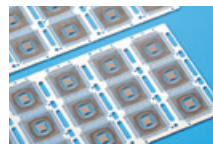


* Figures in () represent % of net sales

IC Lead Frames



QFN-Type
Lead Frames



Stamping
Lead Frames



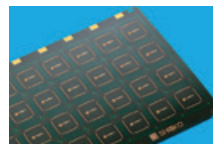
Riveting
Lead Frames

Applications: Smartphones, automobiles, PCs, home appliances, industrial equipment, etc.

IC Packages



Flip-Chip Type
Package



Plastic BGA
Substrates



Heat Spreaders

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

Hermetic Seal Parts



Ceramic Electro
Static Chuck



Glass-to-Metal Seals for Optical
Communications Equipment



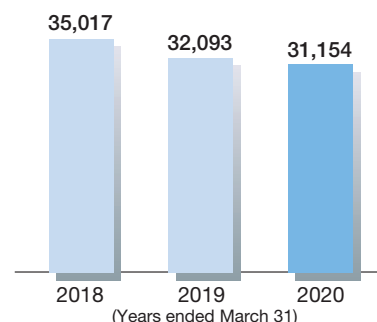
Glass-to-Metal Seals for Optical
Devices

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

Net sales **31,154 million yen** (↓ 2.9% year on year)

Sales of stamping lead frames decreased due to continued sluggish demand for memory and other applications. Revenue from etched lead frames declined due to the heavy impact of inventory adjustments for the QFN-type in the first half of the fiscal year. Accordingly, consolidated net sales in this segment were 31,154 million yen (down 2.9% year on year).

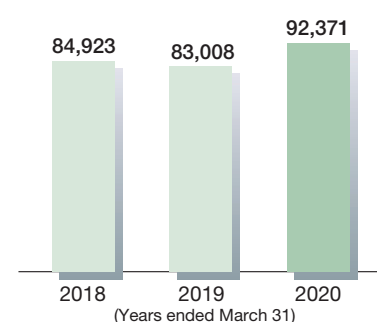
Net sales by product category (Millions of yen)



Net sales **92,371 million yen** (↑ 11.3% year on year)

Sales of flip-chip type packages increased, mainly for PCs. Revenue from heat spreaders for CPUs, including for servers expanded. On the other hand, demand for plastic BGA substrates, including for smartphone memories, decreased, and revenue from IC assemblies fell with inventory adjustments for the high-end smartphones, despite an increase in orders for the automotive market. As a result, consolidated net sales in this segment were 92,371 million yen (up 11.3% year on year).

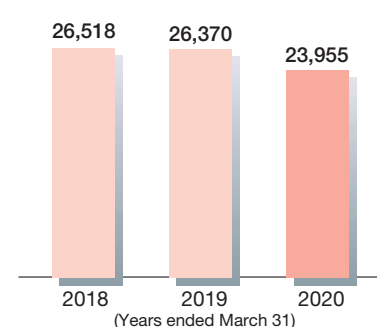
Net sales by product category (Millions of yen)



Net sales **23,955 million yen** (↓ 9.2% year on year)

Sales of ceramic electro static chucks for semiconductor manufacturing equipment decreased due to the impact of investment restraints stemming from factors including a memory market that struggled by the second quarter, despite a significant recovery in demand since the third quarter. Although sales of glass-to-metal seals increased for optical communications equipment on stronger demand driven by 5G, revenue from sales for optical devices decreased due to inventory adjustments. As a result, consolidated net sales in this segment were 23,955 million yen (down 9.2% year on year).

Net sales by product category (Millions of yen)

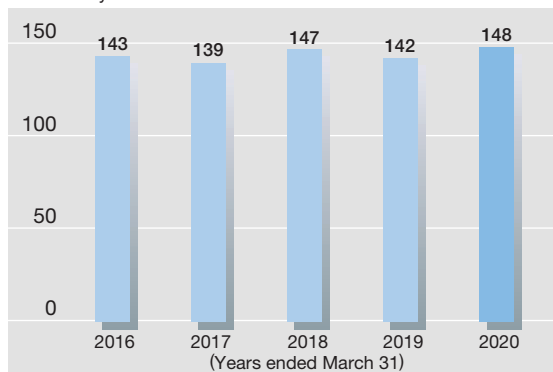


Financial Highlights

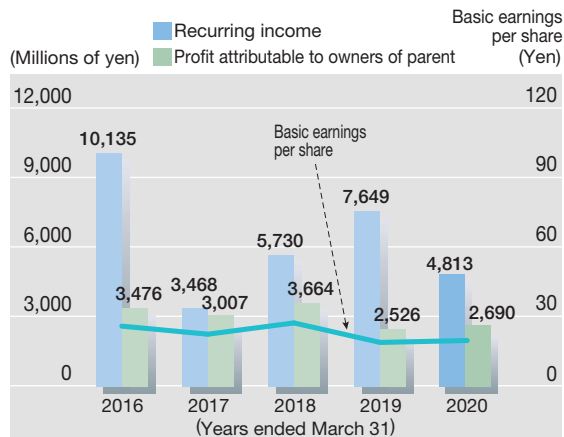
Consolidated

Net sales

(Billions of yen)

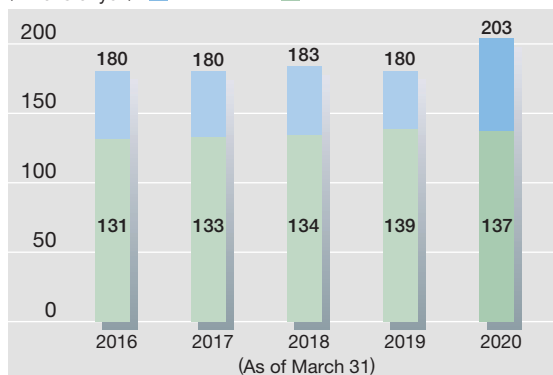


Recurring income / Profit attributable to owners of parent



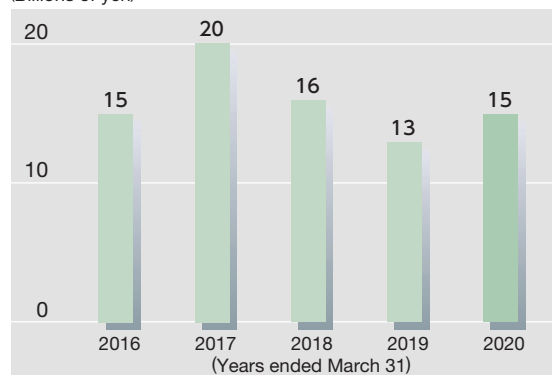
Total assets / Net assets

(Billions of yen) ■ Total assets ■ Net assets



Capital expenditure

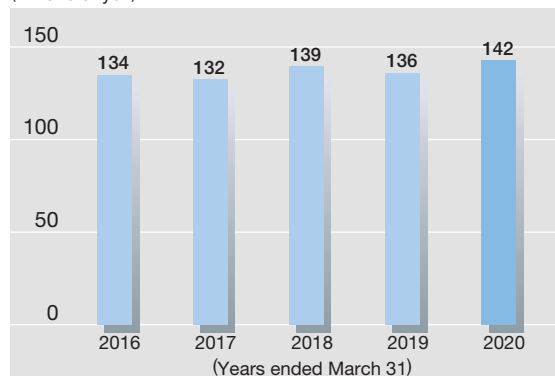
(Billions of yen)



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	2016	2017	2018	2019	2020
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Consolidated

Net sales	(Millions of yen)	143,453	139,890	147,113	142,277	148,332
Recurring income	(Millions of yen)	10,135	3,468	5,730	7,649	4,813
Profit attributable to owners of parent	(Millions of yen)	3,476	3,007	3,664	2,526	2,690
Basic earnings per share	(Yen)	25.74	22.26	27.13	18.70	19.92
Total assets	(Millions of yen)	180,886	180,339	183,759	180,793	203,979
Net assets	(Millions of yen)	131,834	133,435	134,606	139,200	137,658
Net assets per share	(Yen)	975.90	987.75	996.42	1,030.43	1,019.01
Capital expenditure	(Millions of yen)	15,508	20,973	16,813	13,937	15,031
Research & development	(Millions of yen)	3,643	3,499	3,440	3,221	2,849

Non-consolidated

Net sales	(Millions of yen)	134,960	132,504	139,464	136,003	142,823
Recurring income	(Millions of yen)	9,319	3,247	5,466	8,584	5,547
Net income	(Millions of yen)	2,958	3,173	3,502	3,572	3,519

Financial Statements (Consolidated)

■ Balance sheets

As of March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2020	2019	2020
Assets	203,979	180,793	1,877,226
Current assets	104,656	103,961	963,156
Fixed assets	99,322	76,831	914,069
Property, plant and equipment	93,365	70,397	859,247
Intangible assets	1,167	1,234	10,747
Investments and other assets	4,789	5,199	44,074
Total assets	203,979	180,793	1,877,226
Liabilities	66,320	41,592	610,353
Current liabilities	61,774	36,477	568,512
Long-term liabilities	4,546	5,115	41,840
Net assets	137,658	139,200	1,266,872
Shareholders' equity	142,572	143,259	1,312,098
Common stock	24,223	24,223	222,924
Capital surplus	24,129	24,129	222,064
Retained earnings	94,312	94,999	867,958
Treasury stock	(92)	(92)	(850)
Accumulated other comprehensive income	(4,914)	(4,058)	(45,225)
Total liabilities and net assets	203,979	180,793	1,877,226

■ Statements of income

Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2020	2019	2020
Net sales	148,332	142,277	1,365,103
Cost of goods sold	132,771	125,095	1,221,895
Gross profit	15,561	17,182	143,208
Selling, general and administrative expenses	12,333	12,334	113,502
Operating income	3,227	4,848	29,705
Non-operating income	1,639	2,828	15,090
Non-operating expenses	54	26	497
Recurring income	4,813	7,649	44,298
Extraordinary losses	873	3,860	8,036
Income before income taxes	3,940	3,789	36,261
Income taxes—current	731	1,851	6,736
Income taxes—deferred	517	(588)	4,765
Profit attributable to owners of parent	2,690	2,526	24,759

■ Statements of cash flows

Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2020	2019	2020
Cash flows from operating activities	12,696	18,456	116,846
Cash flows from investing activities	(35,591)	(15,105)	(327,546)
Cash flows from financing activities	16,939	(3,441)	155,896
Effect of exchange rate changes on cash and cash equivalents	(314)	739	(2,890)
Net increase (decrease) in cash and cash equivalents	(6,269)	648	(57,693)
Cash and cash equivalents at beginning of year	46,315	45,666	426,238
Cash and cash equivalents at end of year	40,046	46,315	368,544

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥108.66 = U.S. \$1.00 on March 31, 2020.

Corporate Data

(As of March 31, 2020)

■ 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 plastic laminated packages (PLPs), lead frames, glass-to-metal seals, heat spreaders, and ceramic electro static chucks IC assembly
■ Number of employees	4,132 (Consolidated: 4,936)
■ 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 24, 2020)

President and Representative Director

Masami Fujita

Representative Director and Executive Managing Corporate Officer

Hiroshi Hasebe

Director and Executive Managing Corporate Officer

Tadashi Kodaira

Director and Managing Corporate Officer

Takashi Ozawa

Outside Director

Jun Niimi

Director, Standing Audit and Supervisory Committee Member

Akihiko Ito

Outside Directors, Audit and Supervisory Committee Members

Namiko Araki

Kunikazu Kobayashi

Shareholders' Data

(As of March 31, 2020)

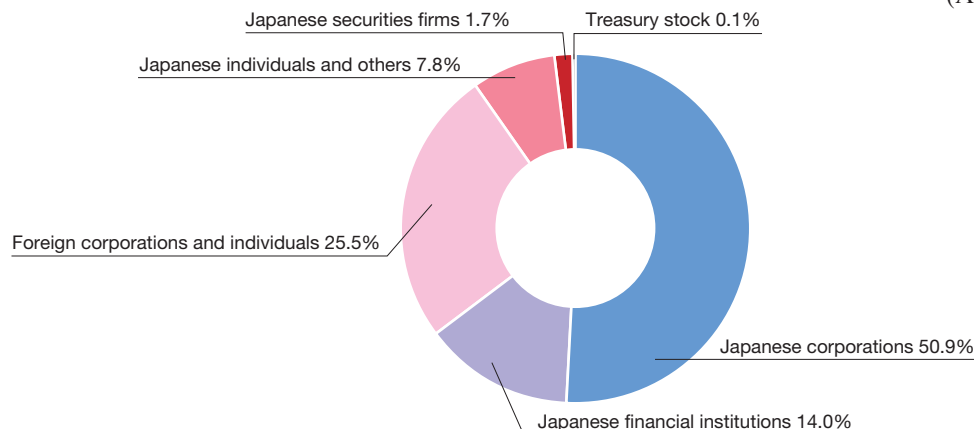
■ Total number of authorized shares	540,000,000 shares
■ Total number of shares issued	135,171,942 shares
■ Paid-in capital	24,223,020,480 yen
■ Number of shareholders	12,180
■ Principal shareholders	

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Fujitsu Limited	67,587	50.03
Japan Trustee Services Bank, Ltd. (Trust Account)	5,160	3.82
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,951	2.93
GOLDMAN SACHS INTERNATIONAL	2,765	2.05
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	2,319	1.72
CGML PB CLIENT ACCOUNT/COLLATERAL	2,222	1.65
The Hachijuni Bank, Ltd.	1,836	1.36
J. P. MORGAN BANK LUXEMBOURG S. A. 1300000	1,782	1.32
GOLDMAN,SACHS& CO.REG	1,616	1.20
GOVERNMENT OF NORWAY	1,560	1.16

Note: The investment ratio is calculated after exclusion of treasury stock holdings.

Distribution of stock by type of shareholder

(As of March 31, 2020)



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:
<https://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: Lake Midorigaike in a fresh, green season (Togakushi Highland)



SHINKO

SHINKO ELECTRIC INDUSTRIES CO., LTD.

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Tel: 81 (26) 283-1000 Fax: 81 (26) 284-8861

<https://www.shinko.co.jp>