

BUSINESS REPORT 2011

(from April 1, 2010 to March 31, 2011)



To Our Shareholders

I would like to take this opportunity to extend my best wishes and to thank everyone for the exceptional support given to us. It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. (the Company) for fiscal year 2010 (April 1, 2010 to March 31, 2011), which marks our 76th business period.

I would also like to extend my heartfelt sympathy to all those affected by the Great East Japan Earthquake and the earthquake that struck the northern part of Nagano Prefecture. I pray that all affected areas may recover within the shortest period possible.

Continued growth is expected in the semiconductor industry over the medium to long term, due to the growing functionality of PCs and portable equipment, market expansion led by developing countries, and growth in new areas of use, such as the increased use of electronic components in automobiles.

On the other hand, however, competition for survival is expected to further intensify on a global basis. Product cycles will accelerate more than ever due to rapidly advancing technological innovation such as high integration and high speed. It will be necessary to establish flexible development and production systems to manufacture at low cost in order to keep up with constantly changing market needs.

Faced with these industry conditions, the Shinko Group is committed to pursuing reforms based on our thorough *genba-shugi* (work site-oriented) philosophy at all stages of the manufacturing process, from development to design, manufacturing, and shipping. In addition to pursuing further efficiency and productivity improvements in all departments, and to achieve a company structure that can respond immediately to changes in market conditions, the Group will continue working to meet customer needs as quickly as possible, making best use of the technological expertise we have accumulated since our establishment. We will also continue to pursue the development and commercial production of clearly differentiated products to improve our competitiveness and secure profits.

Business Results for the Fiscal Year Ended March 31, 2011

Continued rapid increase in the value of the yen and the weakening of the U.S. dollar

Widespread effects of the Great East Japan Earthquake

Although this fiscal period saw a moderate recovery in the economic environment in Japan brought about by increased exports to China and other developing countries, the pace of corporate profit recovery focused on the export industry turned sluggish from the second quarter, owing to continued rapid appreciation of the yen and the weakening U.S. dollar. This, combined with the effects of the lengthening period of deflation, signaled the shift toward a difficult climate. In addition, the Great East Japan Earthquake in March 2011 severely affected economic activities on an extremely large scale.

In the semiconductor industry, overall demand is weakening despite greater demand for PCs and digital home electronics applications in developing countries, together with continued expansion of the market for multifunctional personal devices such as smartphones. This mainly reflects the decelerating pace of economic recovery in developed countries, and its result has been to prolong the sense of uncertainty about the future.

Emphasis on high-volume production systems for new products

Comprehensive adoption of systems that promote improvement and boost efficiency while cutting costs

Against this background, the Shinko Group achieved consolidated net sales amounting to 140,923 million yen for the period under review (up 8.5% year on year). Although certain products were subject to inventory adjustment in the second half of the period, a number of efforts contributed to sales, such as putting greater emphasis on preparing high-volume production systems for new products in the main flip-chip type package line-up. With regard to earnings, we established a comprehensive set of measures to promote improvement

and higher efficiency centered on the entire Group's production reform activities while cutting expenditures. Nevertheless, lower product prices resulting from heightened competition, together with the strong yen and weak U.S. dollar, affected results. We recorded consolidated recurring income of 4,828 million yen (down 11.1% year on year) and net income of 2,404 million yen (down 24.6%).

In terms of non-consolidated financial results, we recorded net sales of 135,161 million yen (up 7.9% year on year), recurring income of 3,984 million yen (down 18.9%), and net income of 1,846 million yen (down 35.8%). The Company paid a year-end dividend of 10 yen and an interim dividend of 10 yen, for a total dividend of 20 yen per share for the period under review.

■ Outlook

Favorable market conditions triggered by heightened demand, etc., in developing countries
Increased competition among companies and a shift in demand to low-cost products

The outlook for the semiconductor industry is an ongoing improvement in market conditions. The market is expected to grow, because of rising demand in developing countries for electronics devices such as PCs and digital home electronics applications, as well as growth in the market for multifunctional personal devices such as smartphones. However, the competitive environment will remain severe as companies battle to survive the expected demand shift to low-cost products and the subsequent further downward pressure on product prices. Additionally, instability in the supply of parts and materials caused by the Great East Japan Earthquake has a wide range of effects both at home and overseas that cannot be ignored. This situation is expected to continue for the foreseeable future.

Plant construction to enhance production capability

Establishment of a strong company structure capable of enduring environmental changes

The Shinko Group is currently emphasizing intensive and effective investment of corporate resources in its development/commercial production systems for products that are expected to record continued growth in the future, so that it can bring to market products that are highly competitive with regard to function, performance, cost, and quality. This effort includes planning the expansion of our Takaoka Plant (Nakano City, Nagano Prefecture) to reinforce our production capability for flip-chip type packages for which—as precision mounted substrates for PCs, servers, and other such equipment—increased demand is expected, and to ensure that we can handle next-generation products. Moreover, to achieve “Progress without Limits” in the fiercely competitive semiconductor market, we are aiming to reinforce the production reforms that the entire company has adopted and produce high-quality products with enhanced productivity. We are also working hard to construct a production environment that is capable of manufacturing superior products while constantly aiming to improve and evolve. With this as our linchpin, we intend to leave no stone unturned in establishing a strong company structure capable of enduring changes in market environments.

I would also like to take this opportunity to announce that I have been appointed to the position of Chairman and that Executive Managing Corporate Officer Fumio Kuraishi has been appointed to the position of President. I can assure you that we will continue to strive for even higher levels of corporate development in the future, and would therefore like to request the continued support of our esteemed shareholders.

June 2011



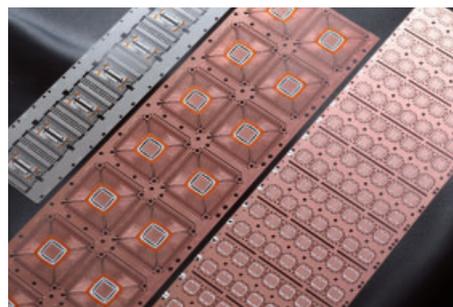
M. Kuroiwa

Mamoru Kuroiwa
Chairman and
Representative Director

Summary of Operations by Product Category

■ IC Lead Frames

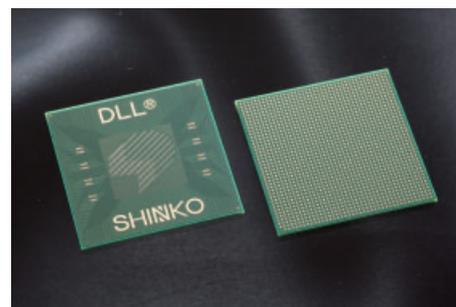
LOC (Lead on Chip)-type lead frames for memory products were affected by the inventory adjustment carried out in the second half of the period, but stamping lead frames and etching lead frames performed well. As a result, consolidated sales in this segment were 24,463 million yen (up 5.8% year on year).



Lead frames

■ IC Packages

Sales of flip-chip type packages rose significantly, owing to the steady performance in the PC and server markets and our emphasis on the increased production of new products. Expanding demand for plastic BGA (Ball Grid Array) substrates also resulted in higher earnings on a year-on-year basis. In the assembly business, however, demand remained sluggish for products for mobile telephones, and the order climate for heat spreaders turned harsh. As a result, consolidated sales in this segment were 99,448 million yen (up 7.1% year on year).



Flip-chip type package

Hermetic Seal Parts

Sales of glass-to-metal seals for optical devices suffered lowered demand in the second half of the period, and as a result sales stalled at levels similar to those of the previous fiscal year. Orders for ceramic electrostatic chucks, on the other hand, experienced a recovery in the market for semiconductor manufacturing equipment, and sales increased. As a result, consolidated sales in this segment were 17,012 million yen (up 22.9% year on year).



Glass-to-metal seals for optical devices

Sales by product category (Millions of yen)

Hermetic Seal Parts

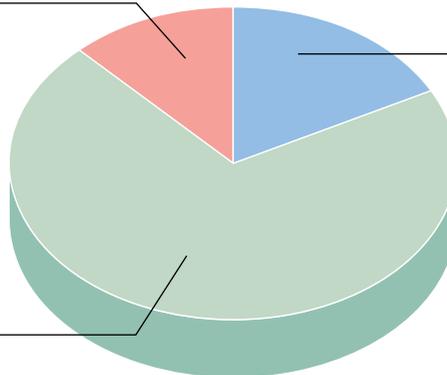
17,012 (12.1%)

IC Lead Frames

24,463 (17.3%)

IC Packages

99,448 (70.6%)



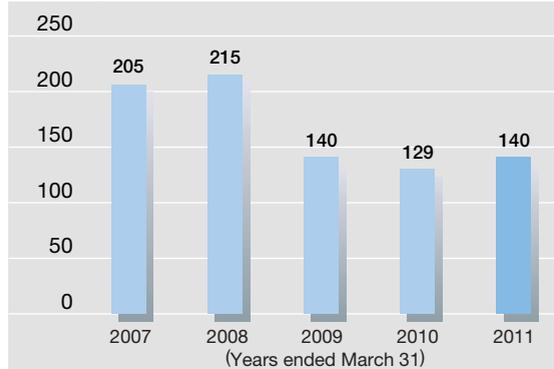
*Figures in () represent % to total sales.

Financial Highlights

Consolidated

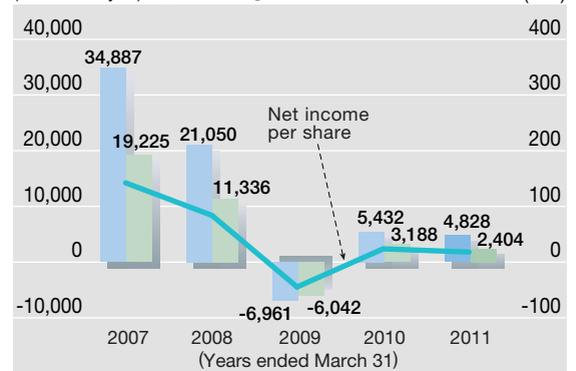
Net sales

(Billions of yen)



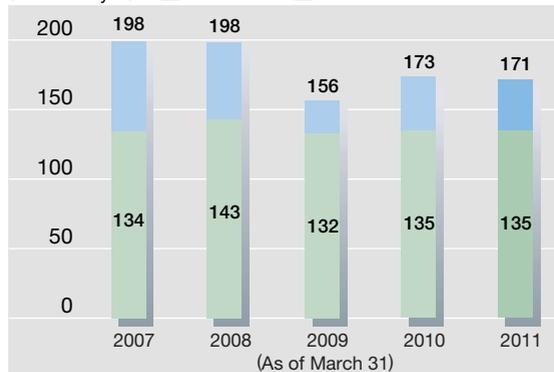
Recurring income / Net income

(Millions of yen)



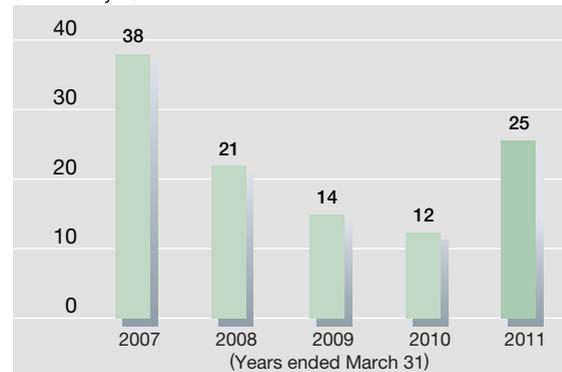
Total assets / Net assets

(Billions of yen)



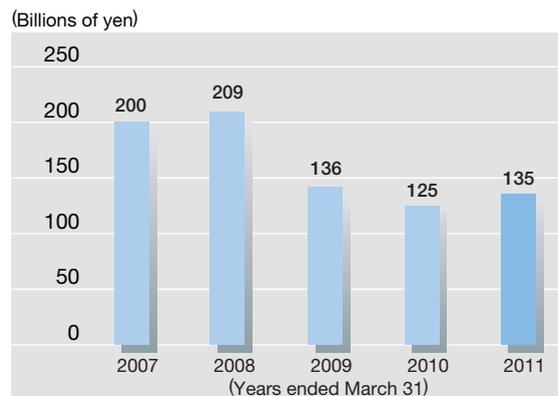
Capital expenditure

(Billions of yen)

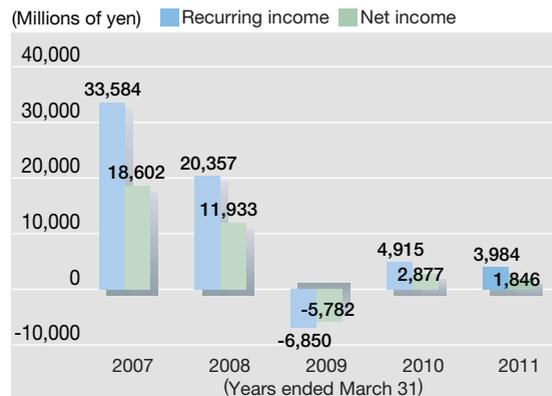


Non-consolidated

Net sales



Recurring income / Net income



Business performance and assets

Years ended March 31	2007	2008	2009	2010	2011
Consolidated					
Net sales (Millions of yen)	205,859	215,007	140,510	129,836	140,923
Recurring income (loss) (Millions of yen)	34,887	21,050	(6,961)	5,432	4,828
Net income (loss) (Millions of yen)	19,225	11,336	(6,042)	3,188	2,404
Net income (loss) per share (Yen)	142.32	83.92	(44.73)	23.60	17.80
Total assets (Millions of yen)	198,862	198,475	156,266	173,690	171,921
Net assets (Millions of yen)	134,193	143,193	132,959	135,420	135,198
Net assets per share (Yen)	1,000.33	1,059.98	984.22	1,002.45	1,000.80
Capital expenditure (Millions of yen)	38,038	21,930	14,923	12,340	25,683
Research & development (Millions of yen)	3,975	4,396	4,651	4,019	4,081

Non-consolidated

Net sales (Millions of yen)	200,100	209,582	136,336	125,232	135,161
Recurring income (loss) (Millions of yen)	33,584	20,357	(6,850)	4,915	3,984
Net income (loss) (Millions of yen)	18,602	11,933	(5,782)	2,877	1,846

Financial Statements (Consolidated)

Balance sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2011	2010	2011
Assets	171,921	173,690	2,067,610
Current assets	106,863	109,083	1,285,184
Cash and time deposits	23,625	17,475	284,136
Receivables, trade: notes and accounts	31,185	36,825	375,055
Marketable securities	—	3,582	—
Merchandise and finished goods	2,722	1,613	32,741
Work in process	3,721	3,538	44,752
Raw materials and supplies	1,232	1,069	14,824
Money deposited	40,000	40,000	481,058
Other current assets	4,379	5,046	52,667
Allowance for doubtful receivables	(4)	(67)	(51)
Fixed assets	65,058	64,606	782,425
Property, plant and equipment	58,990	58,793	709,447
Intangible assets	983	963	11,833
Investments and other assets	5,084	4,849	61,145
Total assets	171,921	173,690	2,067,610
Liabilities	36,722	38,269	441,645
Current liabilities	32,029	33,544	385,206
Payables, trade	18,563	20,321	223,249
Short-term borrowings	600	600	7,215
Other current liabilities	12,866	12,623	154,740
Long-term liabilities	4,692	4,724	56,438
Net assets	135,198	135,420	1,625,964
Shareholders' equity	138,052	137,809	1,660,279
Common stock	24,223	24,223	291,317
Capital surplus	24,129	24,129	290,193
Retained earnings	89,791	89,548	1,079,878
Treasury stock	(92)	(92)	(1,109)
Accumulated other comprehensive income	(2,853)	(2,388)	(34,314)
Unrealized gains on securities	55	123	667
Deferred profits (losses) on hedges	—	(18)	—
Foreign currency translation adjustments	(2,908)	(2,492)	(34,982)
Total liabilities and net assets	171,921	173,690	2,067,610

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥83.15 = U.S.\$1.00 on March 31, 2011.

Statements of income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2011	2010	2011
Net sales	140,923	129,836	1,694,811
Cost of goods sold	124,614	112,703	1,498,667
Gross profit	16,309	17,133	196,144
Selling, general and administrative expenses	11,660	11,775	140,232
Operating income	4,649	5,358	55,912
Non-operating income	938	876	11,282
Non-operating expenses	759	802	9,129
Recurring income	4,828	5,432	58,064
Extraordinary expenses	727	746	8,744
Income before income taxes and minority interests	4,100	4,685	49,320
Income taxes—current	326	263	3,927
Income taxes—deferred	1,369	1,233	16,475
Net income	2,404	3,188	28,917

Statements of cash flows

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2011	2010	2011
Cash flows from operating activities	26,172	24,245	314,759
Cash flows from investing activities	(20,636)	(13,633)	(248,187)
Cash flows from financing activities	(2,226)	(1,210)	(26,780)
Effect of exchange rate changes on cash and cash equivalents	(554)	(106)	(6,663)
Net increase in cash and cash equivalents	2,754	9,294	33,128
Cash and cash equivalents at beginning of year	60,071	50,776	722,443
Cash and cash equivalents at end of year	62,825	60,071	755,571

■ Statement of changes in net assets

Year ended March 31, 2011

(Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance of March 31, 2010	24,223	24,129	89,548	(92)	137,809
Changes in the term:					
Dividends from surplus			(2,161)		(2,161)
Net income			2,404		2,404
Net changes of items other than shareholders' equity					
Total changes in the term	—	—	243	—	243
Balance of March 31, 2011	24,223	24,129	89,791	(92)	138,052

	Accumulated other comprehensive income				Total net assets
	Unrealized gains on securities	Deferred profits (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	
Balance of March 31, 2010	123	(18)	(2,492)	(2,388)	135,420
Changes in the term:					
Dividends from surplus					(2,161)
Net income					2,404
Net changes of items other than shareholders' equity	(67)	18	(415)	(464)	(464)
Total changes in the term	(67)	18	(415)	(464)	(221)
Balance of March 31, 2011	55	—	(2,908)	(2,853)	135,198

Financial Statements (Non-consolidated)

Balance sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2011	2010	2011
Assets	170,274	172,252	2,047,801
Current assets	100,227	102,578	1,205,379
Fixed assets	70,047	69,674	842,421
Property, plant and equipment	57,116	56,994	686,911
Intangible assets	982	962	11,820
Investments and other assets	11,947	11,717	143,690
Total assets	170,274	172,252	2,047,801
Liabilities	35,968	37,583	432,572
Current liabilities	31,285	32,880	376,248
Long-term liabilities	4,683	4,703	56,324
Net assets	134,306	134,669	1,615,228
Shareholders' equity	134,250	134,565	1,614,560
Common stock	24,223	24,223	291,317
Capital surplus	24,129	24,129	290,193
Retained earnings	85,990	86,304	1,034,159
Treasury stock	(92)	(92)	(1,109)
Valuation and translation adjustments	55	104	667
Total liabilities and net assets	170,274	172,252	2,047,801

Statements of income

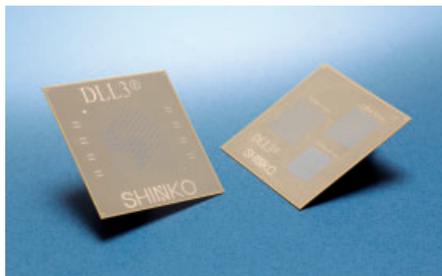
Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2011	2010	2011
Net sales	135,161	125,232	1,625,509
Cost of goods sold	119,620	108,690	1,438,613
Gross profit	15,540	16,542	186,895
Selling, general and administrative expenses	11,968	11,969	143,935
Operating income	3,572	4,572	42,959
Non-operating income	1,192	1,075	14,336
Non-operating expenses	779	732	9,374
Recurring income	3,984	4,915	47,922
Extraordinary expenses	724	744	8,709
Income before income taxes	3,260	4,171	39,213
Income taxes—current	61	43	742
Income taxes—deferred	1,351	1,251	16,258
Net income	1,846	2,877	22,212

High-volume production of coreless substrate DLL3®

The Shinko Group has commenced the high-volume production of coreless substrate DLL3® with improved electrical characteristics, high-design flexibility, enhanced thinness, and other superior features.

The flip-chip type packages (build-up substrates for semiconductors) that represent Shinko's main products are formed by sandwiching a core layer in multiple, extremely fine wiring layers (build-up layers).



Coreless substrate DLL3®

Coreless substrate DLL3® eliminates the need for a core layer and is formed only from build-up layers, enabling it to both be thin and contain even higher densities of wiring, which shortens the manufacturing process, thereby providing the benefit of better production efficiency.

We expect this substrate to be suitable for use in equipment where electrical characteristics are important, including the ASICs used in high-end servers, and the processors and memory used in multifunctional personal devices, which are becoming thinner and thinner.

Expansion of the Takaoka Plant (Nakano City, Nagano Prefecture)

The Shinko Group's Takaoka Plant is located in Nakano City, in northern Nagano Prefecture.

Nakano City is blessed with an abundant natural environment that changes subtly with the arrival of each season, against a background of beautiful mountains, including Mt. Kosha—which is affectionately known as the “Takai Fuji” in Nagano Prefecture—and amid orchards of apples, grapes, peaches, and other fruits as well as vegetable fields.

The Takaoka Plant is located at the Takaoka Industrial Estate, which is adjacent to the Shinshu Nakano Interchange on the Joshinetsu Expressway—the gateway to Nakano City. The Takaoka Plant is our largest factory and currently manufactures a wide range of products, including lead frames and glass-to-metal seals.

We are currently planning to build a new factory building within the precincts of the Takaoka Plant to enhance production of flip-chip type packages, which are used for high-performance semiconductors mounted onto PCs, servers, and other such equipment for which demand is expected to grow, and to handle the production of next-generation products.



Takaoka Plant

Corporate Data

(as of March 31, 2011)

■ 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), glass-to-metal seals, and precision contact parts IC assembly
■ Number of employees	4,200 (Consolidated: 5,028)
■ Plants & facilities	Kohoku Plant Wakaho Plant Takaoka Plant Arai Plant Kyogase Plant SHINKO R&D Center Kurita Sogo Center
■ Sales office network	Tokyo, Osaka, Sendai, Nagano, Nagoya, Oita, Fukuoka, Frankfurt, Shanghai, Chengdu, 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. SHINKO ELECTRONICS (SINGAPORE) PTE. LTD.
■ Affiliated company	SHINKO MICROELECTRONICS (THAILAND) CO., LTD.

Cover: Kyogase Plant in Agano City, Niigata Prefecture

Shareholders' Data

(as of March 31, 2011)

■ 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	16,212
■ Principal shareholders	

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
Japan Trustee Services Bank, Ltd. (Trust Accounts)	5,731	4.24
The Bank of New York-JASDEC Treaty Account	4,943	3.66
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,375	3.24
State Street Bank and Trust Company 505225	2,451	1.81
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,380	1.76
The Hachijuni Bank, Ltd.	1,836	1.36
CBNY-Orbis SICAV	1,440	1.07
National Mutual Insurance Federation of Agricultural Cooperatives	1,436	1.06
Nipponvest	1,350	1.00

Board of Directors and Auditors

(as of June 29, 2011)

Chairman and Representative Director	Mamoru Kuroiwa
President and Representative Director	Fumio Kuraishi
Directors and Managing Corporate Officers	Yoshihiro Asano
	Mitsuharu Shimizu
Directors and Senior Corporate Officers	Toshihisa Yoda
	Hiroshi Hasebe
Standing Auditor	Akira Fujimoto
Auditors	Koji Kitazawa
	Yuichi Sakai

Corporate Officers

(as of June 29, 2011)

Managing Corporate Officers	Corporate Officers
Yoshihiko Ogawa	Junichi Kobayashi
Kunihiko Imai	Takato Kikuchi
Senior Corporate Officers	Katsuo Minamisawa
Kazuharu Iguchi	Masashi Obinata
Seizo Mitsui	Tadashi Kodaira
Toshihiko Ogiwara	Haruo Sorimachi
Takahiro Kiyono	Hidenori Takayanagi

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

URL <http://www.shinko.co.jp>