

# ANNUAL REVIEW 2015

Fiscal year ended  
January 31, 2015

*Change, Challenge, Speed*

ABOUT

# the Ryoyo Group

Ryoyo Electro Corporation was founded in 1961 as a semiconductor trading company. Since its foundation, the Company has continued to expand the range of its operations in step with changes in the electronics industry while maintaining close and functional business relationships with world-leading suppliers. In our core semiconductor and device business, we have established a robust product lineup featuring a wide range of promising products from both Japan and overseas, and we take great pride in our skillful support services, which are backed by the experience accumulated over our long history. The second pillar supporting the Company's operations is its information and communication technology (ICT) and solutions business. The diverse range of solutions we provide in this business begins with kitting services in which we select hardware, operating systems, applications, and other items after providing consultation to determine customer needs. Our solutions do not end with sales, however, as we also provide follow-up support after systems are introduced.

The Ryoyo Group has been guided by its corporate philosophy of "creating value in tune with the times" since its foundation. Exercising this philosophy, we will continue to raise corporate value by creating new business opportunities as we aim to act as a solutions-providing partner that leaves an impression on the intrinsically interconnected "smart society."

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### Caution on Forward-Looking Statements

The contents of this annual review that are not historical fact represent projections based on expectations and plans for the future. These projections contain elements of risk and uncertainty. As a result, forward-looking statements made in this annual review may differ from actual results and performance.

### Notes on Performance Figures in this Annual Review

The performance figures used in this annual review, including those from previous fiscal years, are based on Ryoyo Electro Corporation's audited Japanese financial reviews.

### Notes on the Scope of this Annual Review

With respect to the contents of this annual review, "the Company" refers to Ryoyo Electro Corporation, while "the Ryoyo Group" refers to Ryoyo Electro Corporation and its consolidated subsidiaries Ryoyo Semicon Corporation, Ryoyo Electro (Shanghai) Co., Ltd., Ryoyo Electro Hong Kong Ltd., and Ryoyo Electro Singapore Pte., Ltd.

## CORPORATE PHILOSOPHY

“Creating value in tune with the times”

## MISSION

We shall strive to always be a corporate group that grows together with stakeholders.

## MEDIUM-TERM VISION

The Ryoyo Group will act as a solutions-providing partner that leaves an impression on the intrinsically interconnected “smart society.”



Smartphone



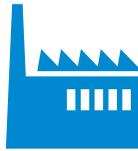
Tablet



New generation of vehicles



M2M



Industry and factory automation



Office automation equipment



Medical care and healthcare



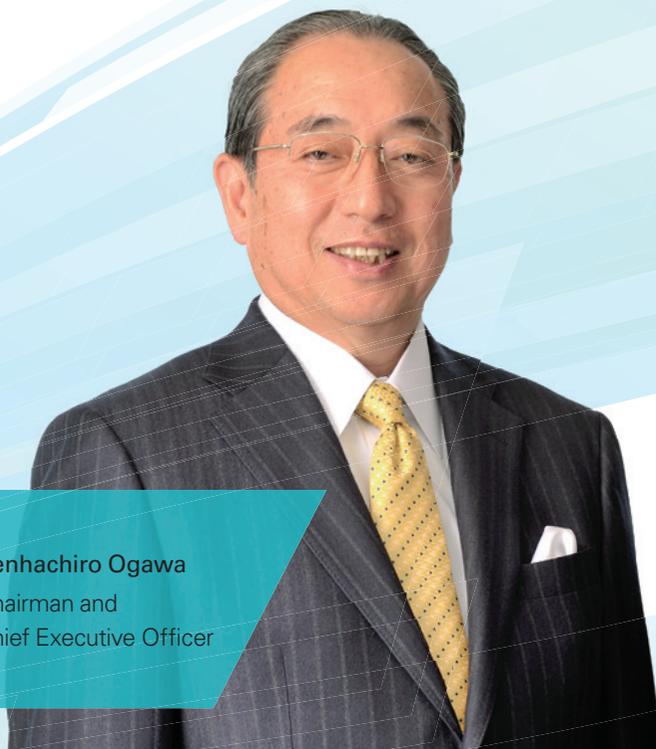
Energy saving

**Semiconductors  
&  
Devices**

**Information and  
Communication  
Technology**

**INTEGRATE**

## To Our Shareholders



**Kenhachiro Ogawa**  
Chairman and  
Chief Executive Officer



**Takayoshi Ouchi**  
President and  
Chief Operating Officer

## ACCELERATING INITIATIVES GEARED TOWARD REALIZING OUR MEDIUM-TERM VISION

### Operating Environment and Performance in the Year Under Review

During the year under review, the fiscal year ended January 31, 2015, the electronics industry, which the Ryoyo Group operates in, saw PC-related products benefit from special demand in early spring 2014. Sales of industrial equipment- and smartphone-related products remained strong after this demand ended.

Under these conditions, the Ryoyo Group promoted sales of its products and services—including its mainstay semiconductors,

devices, and ICT-related products. We also endeavored to develop new high-value-added services and solutions targeting increased revenue in the medium to long term. As a result of these efforts, we witnessed increases in both sales and income as net sales increased 12.5% year on year, to ¥110.1 billion; operating income rose 24.3%, to ¥2.0 billion; and net income was up 25.4%, to ¥1.6 billion.

### Three Basic Strategies for Charting a Course Toward Ongoing Growth

Since its founding, the Ryoyo Group has continued to operate in accordance with its corporate philosophy of “creating value in tune with the times.” Guided by this philosophy, we have defined “Change, Challenge, Speed” as our management principle, based on which we strive to realize our medium-term vision—the Ryoyo Group will act as a solutions-providing

partner that leaves an impression on the intrinsically interconnected “smart society.”

In charting a course toward ongoing growth, the Ryoyo Group has formulated three basic strategies: (1) reinforce and expand the base of core businesses, (2) develop high-value-added businesses, and (3) accelerate global strategies.

The semiconductor / device business and the ICT / solutions business are our two core businesses, and both represent areas in which we have continued to accumulate strength since the Company's founding. Firmly grounded on the foundation formed by these businesses, we will differentiate ourselves from the competition by developing new services and solutions that derive from these core businesses to develop high-value-added businesses as we strive to increase corporate value.

The two core businesses of semiconductors / devices and ICT / solutions have both traditionally extended beyond simply supplying customers with parts. We have always conducted these businesses together with customers, expanding points of contact and positioning the people we serve as "business partners" rather than merely as "one of our customers."

To create such a relationship, we provide support for developing business schemes that begin from the business plan proposal phase, and follow this up with a range of services including sales of products and after sales maintenance.

At the same time, we have worked to link our networks in the device field, where we develop our semiconductor / device business, and in the service field, which is home to our ICT / solutions business. In this manner, we have constructed a business model for providing comprehensive support encompassing devices, networks, services, and everything between.

Leveraging this business model, we are creating new value in tune with the times, which is currently characterized by trends such as seen in the Internet of things (IoT) and machine to machine (M2M) fields. For example, as part of our inter-connectivity growth strategies, we are focusing on field and mobile work innovations, which entail using IoT systems to evolve customers' work styles.

In overseas businesses, meanwhile, we are enhancing our support services for our clientele of Japanese electronics manufacturers amidst the rising trend of these companies shifting manufacturing operations overseas. In addition, we are accelerating efforts to acquire local customers, uncover viable local products, develop ICT businesses, and strengthen design and development functions, especially in the Greater China and ASEAN regions, in order to take advantage of the growth potential of overseas markets. Furthermore, information on leading-edge technologies and industry trends is being collected through bases in the United States to help improve service quality on a global basis.

In the fiscal year ending January 31, 2016, the Company will work to expand and strengthen self-driven business operations while also cooperating with local companies in Thailand and China and developing overseas ICT businesses.

## MEDIUM-TERM VISION

**The Ryoyo Group will act as a solutions-providing partner that leaves an impression on the intrinsically interconnected "smart society."**

Basic Strategy I

Reinforce and expand the base of core businesses



Increase scale of sales

Basic Strategy II

Develop high-value-added businesses



Advance inter-connectivity growth strategies

Basic Strategy III

Accelerate global strategies

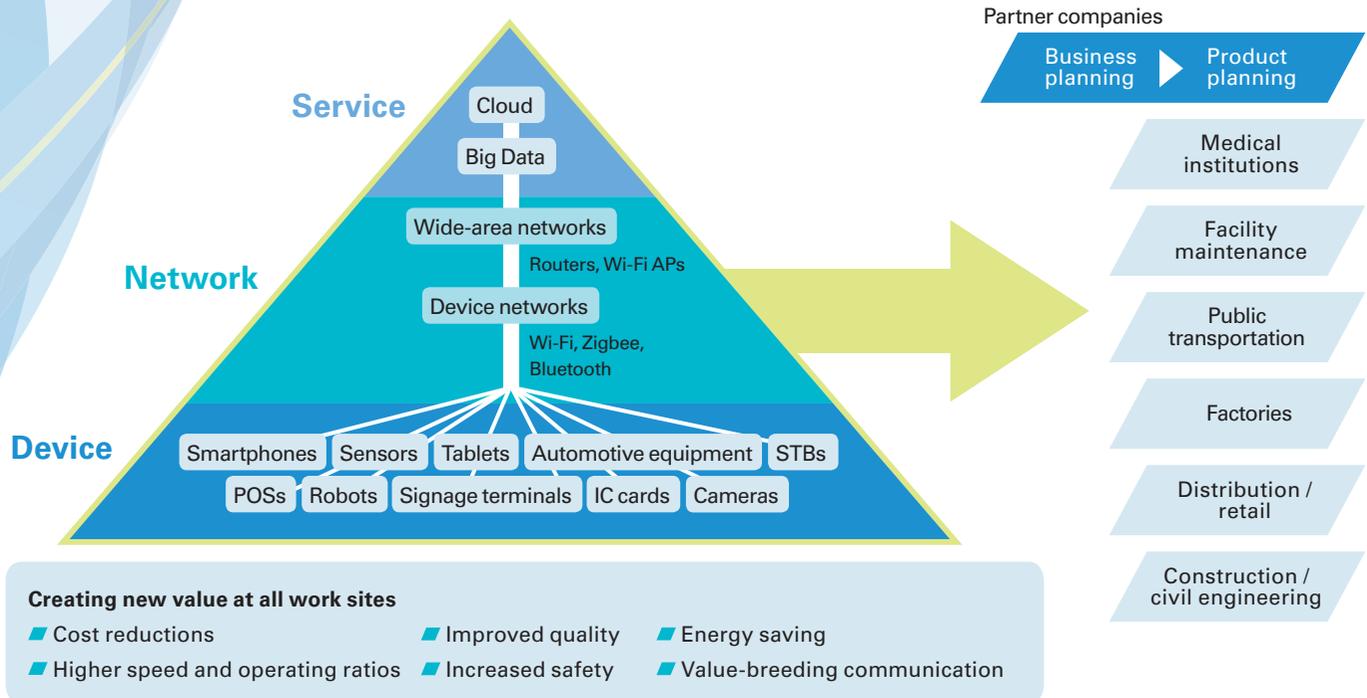


Expand overseas businesses

**Chart a course toward ongoing growth by accelerating initiatives geared toward realizing our medium-term vision**

## DEVELOP HIGH-VALUE-ADDED "IoT BUSINESSES"

Field and mobile work innovations that evolve the businesses of all industries (customers)



## New Trial of Becoming "One Ryoyo"

In the fiscal year ending January 31, 2016, the Ryoyo Group will come together under the corporate ideal of "One Ryoyo" to further accelerate initiatives geared toward realizing our medium-term vision—the Ryoyo Group will act as a solutions-providing partner that leaves an impression on the intrinsically

interconnected "smart society." In particular, we will endeavor to rapidly develop high-value-added businesses by advancing efforts related to field and mobile work innovations as we target our third consecutive year of increases in both sales and income.

## Shareholder Returns

The Company views returning profits to its shareholders as one of its most important management tasks. Accordingly, we issue cash dividend payments in consideration of the Company's financial position and the operating environment, while also retaining internal revenues sufficient enough to maintain a stable operating foundation and pursue future business expansion. Beginning with the fiscal year ending

January 31, 2016, we plan to target a total payout ratio of 100% of net income for the foreseeable future.

I would like to thank our shareholders for their ongoing support and ask for their continued support and understanding.

Kenhachiro Ogawa

Takayoshi Oouchi

# Corporate Governance

As of April 28, 2015



**Kenhachiro Ogawa**  
Chairman and CEO



**Takayoshi Oouchi**  
President and COO



**Yutaka Horikiri**  
Director



**Nobuo Kikutsugi**  
Director



**Kenjiro Kobayashi**  
Director



**Masaaki Tanabe**  
Director



**Yoshiharu Hayakawa**  
Outside Director  
(Independent Director)

Aug. 1973 Registered as Certified Public Accountant  
Apr. 1985 Representative Director, Chuo Coopers and Lybrand Consulting Co., Ltd.  
Jan. 1992 Representative, Chuo Audit Corporation  
Nov. 1997 Representative, Kasumi Empowerment Research Institute (incumbent)  
June 2007 Outside Director, Mitsui Fudosan Co., Ltd.  
June 2012 External Director, Kakaku.com, Inc. (incumbent)  
Apr. 2013 Outside Director, Ryoyo Electro (incumbent)  
June 2014 Outside Director, Sanrio Company, Ltd. (incumbent)

#### Reason for appointment

The Company intends to utilize his expert knowledge as a Certified Public Accountant, as well as his extensive experience and broad insight as a management consultant, to help strengthen the corporate governance of the Company.



**Tsumiko Nakahara**  
Outside Director  
(Independent Director)

Apr. 1990 Joined Tokio Marine & Fire Insurance Co., Ltd. (currently Tokio Marine & Nichido Fire Insurance Co., Ltd.)  
Oct. 2000 Registered as attorney (Yokohama Bar Association)  
Dec. 2000 Joined Shoji Ninpei Law Office (currently Yokohama Kannai Law Office)  
Apr. 2007 Established Yokohama Kaikou Law Firm  
Apr. 2013 Domestic Relations Conciliation Commissioner, Yokohama Family Court  
Apr. 2015 Outside Director, Ryoyo Electro (incumbent)

#### Reason for appointment

Ms. Nakahara possesses sophisticated expertise with regard to all areas of corporate legal affairs based on her long history as an attorney and related knowledge and experience. She was selected to be an outside director with the aim of utilizing this expertise in strengthening the Company's corporate governance systems.

Standing Statutory Auditor

**Akio Tanaka**

Outside Auditors

**Katsumasa Yasui Ryoji Kimura Tsutomu Nobechi**

Senior Managing Executive Officer

**Yutaka Horikiri**

Managing Executive Officer

**Nobuo Kikutsugi**

Senior Executive General Managers

**Kenjiro Kobayashi Masaaki Tanabe Kiyoshi Waki Haruo Nakayama**

Executive General Managers

**Satoru Fukumoto Takumi Tokunaga**

## Basic Corporate Governance Philosophy

At Ryoyo Electro, we recognize enhancing corporate governance as an important task of management. Therefore, in order to continue to guarantee the soundness, transparency, and effectiveness of management, as well as increase corporate value and fulfill our responsibilities to society, we are striving to develop internal systems that ensure the functionality of corporate governance.

## Company Organizations

### Directors and Board of Directors

The Board of Directors, which consists of eight directors (as of April 28, 2015), is responsible for making decisions as stipulated in laws, regulations, and the articles of incorporation; making important management decisions; and overseeing the execution of operations. In principle, the Board of Directors meets once a month, and met a total of 12 times during the year under review.

## Outline of the corporate governance framework

Organizational format	Company with a corporate auditor system
Chairman of the Board of Directors	Chairman and CEO
Number of directors	Eight (including two outside directors)
Number of auditors	Four (including three outside auditors)
Independent officers	Two outside directors and two outside auditors
Number of Board of Directors' meetings held during the fiscal year ended January 31, 2015	12
Number of Board of Auditors' meetings held during the fiscal year ended January 31, 2015	17

## Attendance rate

	Board of Directors' meetings	Board of Auditors' meetings
Outside director	Yoshiharu Hayakawa 75%	—
Outside auditors	Katsumasa Yasui 100%	Katsumasa Yasui 100%
	Ryoji Kimura 100%	Ryoji Kimura 100%
	Tsutomu Nobechi 100%	Tsutomu Nobechi 100%

## Corporate Auditors and Board of Auditors

Ryoyo Electro is a Company with a corporate auditor system, whereby corporate auditors act independently of directors and oversee directors' execution of operations. The Board of Auditors consists of four corporate auditors (as of April 28, 2015), of which three are external corporate auditors. In principle, the Board of Auditors meets once a month, and met a total of 17 times during the year under review.

## The Criteria for the Selection of Outside Officers

In order to ensure the independence of the candidates it recommends for outside officer (outside Director and outside Audit & Supervisory Board Member), the Company has formulated criteria for the selection of outside officers.

The criteria for the selection of outside officers require that candidates shall not fall under any of the following categories.

1. A party who is or has been a Director, an Auditor, or an employee at the Ryoyo Group in the past ten years or a relative within the second degree of kinship of such a party
2. A party that is or has been a Director, an Auditor, or an employee of a major business partner\* of the Ryoyo Group in the past five years
3. A shareholder that holds 10% or more of the voting rights of the Company' shares (in the case of an institutional shareholder, this shall apply to business executives at such an institutional shareholder)
4. A provider of specialist services\*\* that has received ¥10 million or more of remuneration on an annual basis from the Ryoyo Group in the past five years
5. A party that has received a donation of ¥10 million or more on an annual basis from the Ryoyo Group in the past five years
6. A party that has a relationship with the Ryoyo Group in which exchange of Directors is carried out by mutual dispatch
7. Any other party with a significant interest in the Ryoyo Group

\* This signifies a business partner that has a relationship with the Ryoyo Group that constitutes 2% or more of the consolidated net sales of the Ryoyo Group in the most recent fiscal year.

\*\* This signifies an attorney, a certified public accountant, a certified public tax accountant, a judicial scrivener, a consultant, or an advisor.

## Internal Control Systems

The following are our basic principles for establishing internal control systems. These principles help us maintain systems for sound internal control.

1. System for ensuring that the execution of duties by directors and employees is in compliance with all laws, regulations, and the articles of incorporation
2. Items concerning the storage and management of information related to the execution of duties by directors
3. Rules and other systems for containing the risk of damages
4. System for ensuring the efficient execution of duties by directors

5. System for ensuring the appropriateness of operations undertaken by the corporate group consisting of Ryoyo Electro and its subsidiaries
6. System concerning employees requested by the Board of Auditors to serve as assistants and items concerning the independence of these employees from directors
7. System concerning reports submitted by directors and employees to the Board of Auditors and other systems concerning reports to the Board of Auditors
8. Other systems for ensuring effective auditing by the Board of Auditors

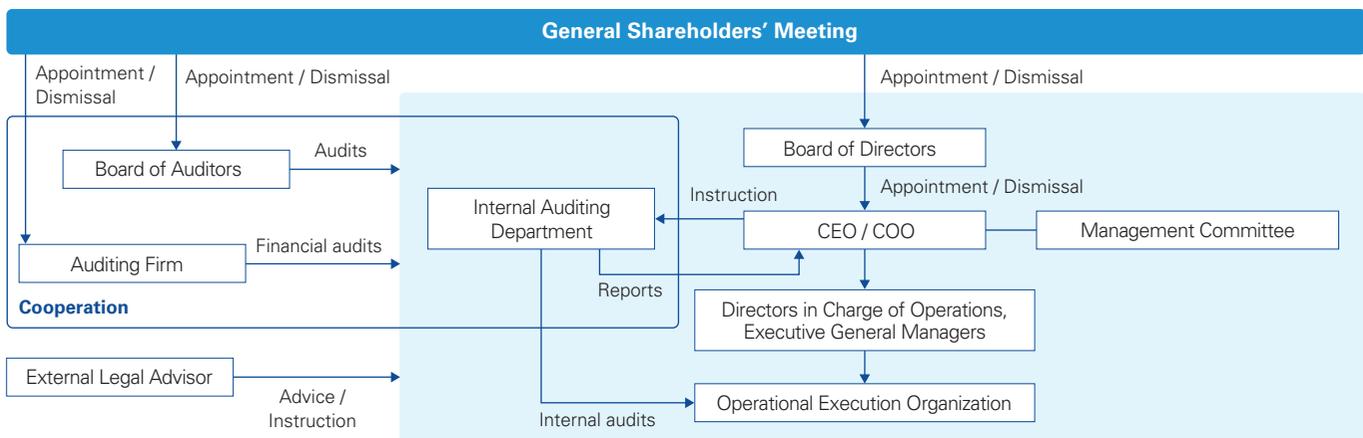
## Risk Management Systems

Risks that may affect our operations include those related to compliance, the environment, disasters, information security, product quality, foreign exchange rates, and financial reporting. Each department maintains effective risk management systems managed by employees who are responsible for risk management. In the event that any disruption occurs, these employees will guide their department in responding quickly and effectively to those disruptions in order to reduce the impact on operations.

## Investor Relations Activities

Ryoyo Electro recognizes that disclosing accurate, unbiased, and timely information about the management of the Company to our shareholders and other investors is an important function of management. In correspondence with the release of second quarter and annual financial reviews, we also offer information about the current business situation and future direction of the Company through our website\* as well as at information sessions held for analysts and institutional investors. Through these efforts, we will continue to disclose accurate unbiased information in a timely manner.

\* <http://www.ryoyo.co.jp/english>



# Corporate Social Responsibility

## Outlining our Basic CSR Philosophy

In accordance with our corporate philosophy of “creating value in tune with the times,” the Ryoyo Group conducts its business with high ethical standards for the greater good of society. In order to fulfill our responsibilities toward society in every aspect of our business, we will continue to act in compliance with this philosophy, as well as with all laws and regulations, throughout our domestic and overseas operations.

## Promoting Compliance

In 2007, we established the Ryoyo Group Codes of Conduct, which serves as a foundation for our operations moving forward.

We have also set up the “Ryoyo Group Compliance Hotline” so that we can quickly identify violations of the Ryoyo Group Codes of Conduct and carry out the necessary steps to rectify such issues. This hotline serves as a communication channel for employees to discuss and report compliance-related concerns.

## Implementing Environmental Protection, Quality Control, and Information Security Initiatives

All domestic Ryoyo Group companies (excluding the satellite office) have acquired ISO 14001, ISO 9001, and ISO 27001 certification, and the Group effectively employs an integrated management system that collectively functions as an environmental management system, a quality management system, and an information security management system. This integrated management system allows us to contribute to the protection of the environment by reducing the environmental impact and the environmental risks of our operations, respond to customer needs through ongoing efforts to improve the quality of our

products, and raise awareness regarding information security within the Company. This will help to further enhance the trust placed in us by our customers, our business partners, and society as a whole.

## Implementing Green Procurement Initiatives

In selecting business partners, we assess them on the basis of their compatibility with Ryoyo’s Green Procurement Guidelines. In this way, we are actively promoting green procurement throughout the supply chain. Additionally, we are working to reduce the environmental impact of the products and secondary supplies that we use by examining their compatibility with our Management Standards on Chemical Substances from the procurement stage onward. We will continue to promote environmental consideration in our operations and strive to be an increasingly environment-friendly corporation.

## Addressing Conflict Mineral Issues

While the Dodd–Frank Act enacted by the United States does not apply to the Company directly, Ryoyo Electro is supportive of the Act’s goal of protecting human rights. Accordingly, the Company is supporting this Act through activities in two different areas. First of all, we are addressing this issue throughout the supply chain by encouraging suppliers to refrain from using conflict minerals. Secondly, we are responding to conflict mineral inspections of products delivered to companies to which the Dodd–Frank Act applies.

## Ryoyo’s CSR website

<http://www.ryoyo.co.jp/english/csr.html>

## Advancing the Women’s Diversity Plan

Conditions in Japan’s labor market have changed substantially against the backdrop of an aging population and a declining birth rate. Consequently, it will be important for the Company to promote female employees to management positions, including those in senior management, in order to keep growing in a sound manner. To accomplish this goal, the Company is advancing the Women’s Diversity Plan as a voluntary initiative. Under this plan, we have established a special in-house women’s empowerment taskforce, and are taking steps to actively utilize the skills of female employees, steadily increase the number of female managers, and otherwise assist female employees in shaping their careers.

Specifically, we are conducting measures focused on the following key areas: proactively employing women, broadening the range of work fields (roles) in which female employees are able to work actively, providing training to support these employees in their career development, and improving the Company’s workplace environment and systems in order to give all employees peace of mind when going through life events, such as child birth, child rearing, and nursing relatives.



# Consolidated Financial Highlights

Ryoyo Electro Corporation

For the years ended January 31, 2015, 2014, 2013, 2012, and 2011

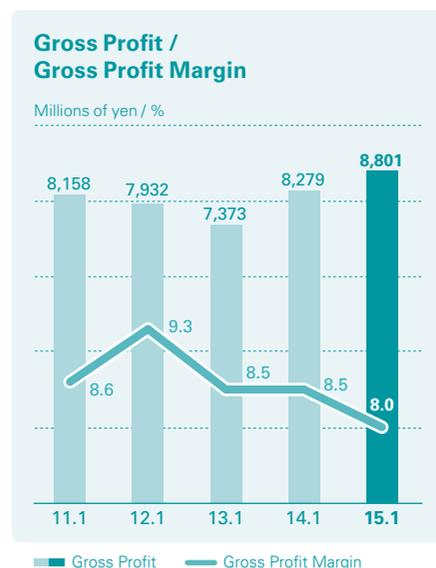
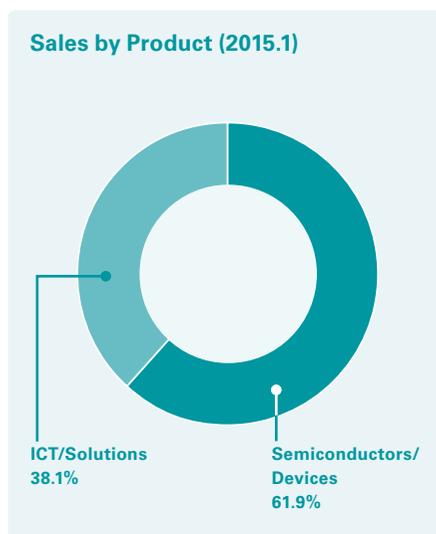
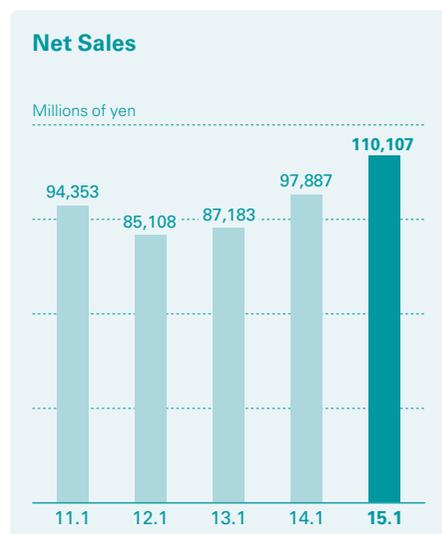
	Millions of yen					Thousands of U.S. dollars*
	2015.1	2014.1	2013.1	2012.1	2011.1	2015.1
<b>For the Year</b>						
Net sales	¥ 110,107	¥ 97,887	¥ 87,183	¥ 85,108	¥ 94,353	\$931,140
Gross profit	8,801	8,279	7,373	7,932	8,158	74,428
Selling, general and administrative expenses	6,747	6,627	6,651	6,559	6,790	57,061
Operating income	2,053	1,651	722	1,372	1,368	17,367
Net income	1,683	1,342	423	879	1,112	14,239
Free cash flows	467	(1,369)	328	3,359	(8,145)	3,955
<b>At Year-End</b>						
Total assets	¥ 82,937	¥ 79,893	¥ 72,490	¥ 70,602	¥ 72,857	\$701,374
Total net assets	65,583	63,112	61,303	61,155	62,227	554,619
<b>Per Share of Common Stock (Yen / U.S. dollars)</b>						
Net income	¥ 66.74	¥ 52.17	¥ 16.41	¥ 33.00	¥ 40.48	\$ 0.56
Total net assets	2,595.83	2,498.70	2,371.67	2,367.83	2,329.00	21.95
Cash dividends	30.00	30.00	30.00	30.00	30.00	0.25
<b>Ratios (%)</b>						
Gross profit margin	8.0	8.5	8.5	9.3	8.6	
Operating margin	1.9	1.7	0.8	1.6	1.5	
Net income margin	1.5	1.4	0.5	1.0	1.2	
Equity ratio	79.0	78.9	84.5	86.6	85.4	
Return on equity	2.6	2.2	0.7	1.4	1.8	
<b>Other Information</b>						
Number of shares issued**	25,237,095	25,226,060	25,826,926	25,827,768	26,718,436	
Number of employees	510	513	517	504	528	

\* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118.25=U.S.\$1.00, the exchange rate prevailing on January 31, 2015.

\*\* Number of shares issued does not include treasury stock.

Notes: 1. The financial section is a translation of the Japanese financial statements. The Japanese version will be used for matters of a legal nature.

2. Unless otherwise noted, figures are rounded down to the nearest million.



# Consolidated Financial Review

## OPERATING ENVIRONMENT

During the year under review, the fiscal year ended January 31, 2015, the Japanese economy saw an improved export market and increased internal demand stemming from the benefits of the economic stimulus measures instituted by the Japanese government and the depreciated yen. These factors offset the negative impact of the consumption tax hike on consumer spending, and the overall economy continued to display a modest recovery trend as a result.

In the electronics industry, which the Ryoyo Group operates in, PC-related products benefited from special demand in early spring 2014, and sales of industrial equipment- and smartphone-related products remained strong after this demand ended.

## RESULTS FOR THE FISCAL YEAR ENDED

### JANUARY 31, 2015

Under these conditions, the Ryoyo Group promoted sales of its products—including its mainstay semiconductors, devices, and ICT-related products. We also endeavored to develop high-value-added services and solutions to increase revenue in the medium to long term.

As a result of these efforts, net sales increased 12.5% year on year, to ¥110.1 billion; operating income rose 24.3%, to ¥2.0 billion; and net income was up 25.4%, to ¥1.6 billion.

## Semiconductors/Devices

Net sales of semiconductors increased ¥9.1 billion year on year, or 15.6%, to ¥68.1 billion.

Sales of products for communications systems increased 68.8%, to ¥13.5 billion, due to the expansion of our LCD business that deals with communications equipment.

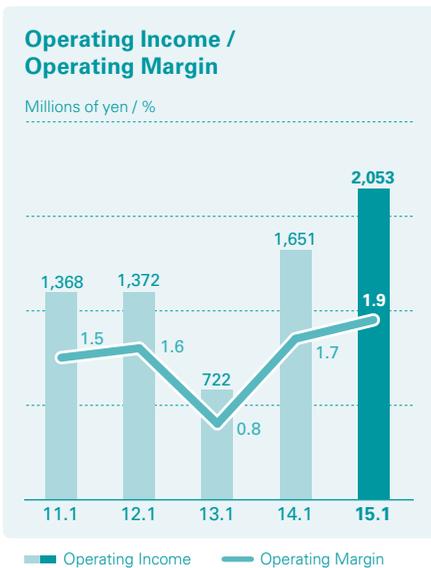
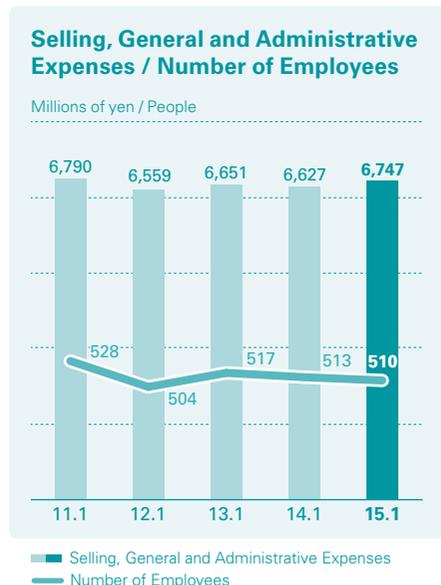
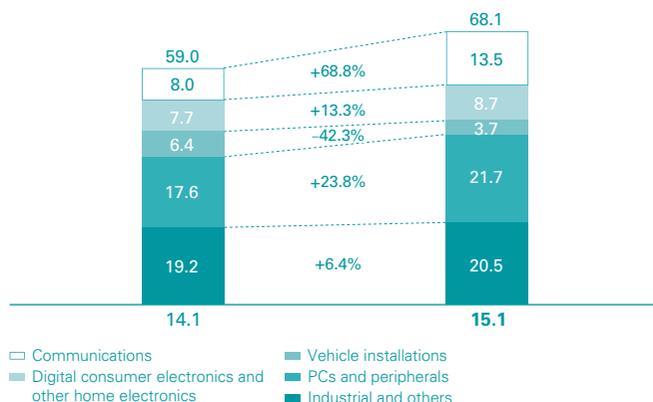
Sales of products for digital consumer electronics and other home electronics grew 13.3%, to ¥8.7 billion, due to higher sales of semiconductors for use in gaming devices and televisions.

Sales of vehicle installations decreased 42.3%, to ¥3.7 billion, following the transfer of certain sales channels.

Sales of products for PCs and peripherals grew 23.8%, to ¥21.7 billion, as sales of PC-use products rose on the back of special demand while sales of semiconductors for use in office automation equipment and other peripherals also increased.

### Sales by Applications

Billions of yen



Sales of products for industrial and other applications were up 6.4%, to ¥20.5 billion, following strong sales of products for use in factory automation equipment and heavy electric machinery.

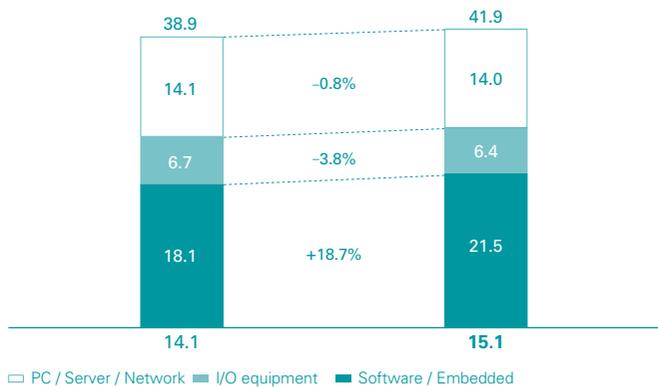
**ICT/Solutions**

Net sales of ICT and solutions increased ¥3.0 billion year on year, or 7.8%, to ¥41.9 billion.

Sales of PC, server, and network products were relatively unchanged year on year, decreasing only 0.8%, to ¥14.0 billion. This outcome was a result of the full-year sales contributions of our enterprise business being counteracted by a decline in large-scale orders and by certain orders being delayed until the fiscal year ending January 31, 2016.

**Sales by Products**

Billions of yen



Sales of I/O equipment decreased 3.8%, to ¥6.4 billion, due in part to certain suppliers withdrawing from their business operations.

Sales of software and embedded products were up 18.7%, to ¥21.5 billion, as a result of higher sales of PC software coupled with a rise in sales of embedded products for industrial applications.

**Sales by Region**

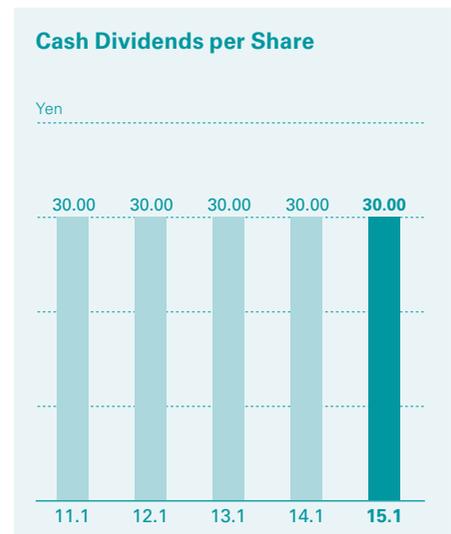
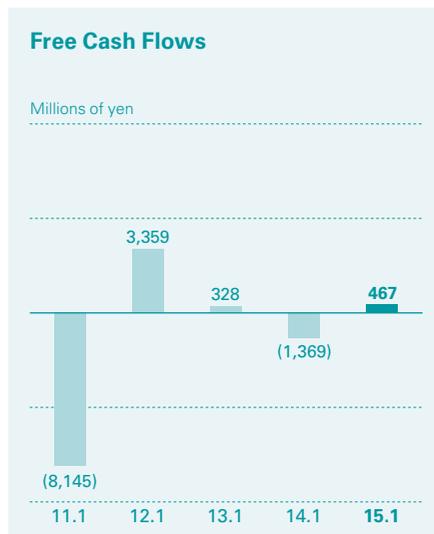
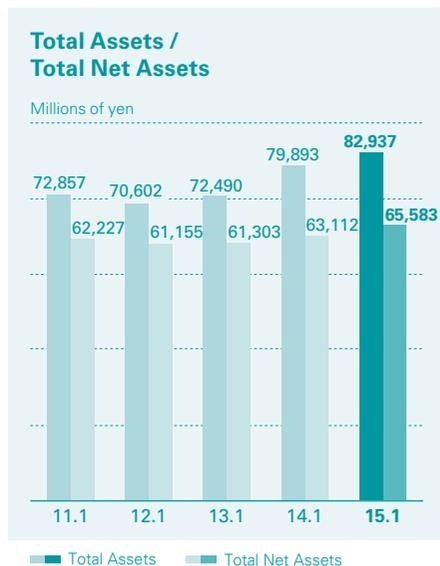
**Japan**

In the year under review, sales to external customers in Japan increased ¥9.7 billion year on year, or 12.0%, to ¥90.7 billion, due to higher sales of LCDs for communications equipment and semiconductors for industrial equipment. The operating income of this regional segment was up ¥0.4 billion, or 30.3%, to ¥1.8 billion.

**Asia**

Sales to external customers in Asia increased ¥2.5 billion year on year, or 14.8%, to ¥19.4 billion, as a result of an increase in sales of semiconductors for gaming devices and LCDs for communications equipment. However, the operating income of this segment decreased ¥27 million, or 12.6%, to ¥187 million.

The figure for operating income presented on the consolidated statements of income includes operating income from each segment as well as from intersegment transactions.



## OUTLOOK FOR THE FISCAL YEAR ENDING

### JANUARY 31, 2016

As of March 11, 2015, the Company forecasts net sales of ¥122.0 billion, up 10.8% year on year, in the fiscal year ending January 31, 2016, which will result in operating income of ¥2.5 billion, up 21.7%, and net income of ¥1.9 billion, up 12.8%. This performance will make for our third consecutive year of higher sales and income, a feat that is expected to be achieved due to the expansion of semiconductor and device operations as well as ICT and solutions operations.

## FINANCIAL POSITION

Total assets at the end of the fiscal year amounted to ¥82.9 billion, ¥3.0 billion higher than at the previous fiscal year-end. This was primarily due to an increase in notes and accounts receivable–trade.

Total liabilities rose ¥0.5 billion, to ¥17.3 billion, mainly due to an increase in deferred tax liabilities.

Total net assets increased ¥2.4 billion, to ¥65.5 billion. This was largely due to a rise in foreign currency translation adjustment.

## CASH FLOWS

Cash and cash equivalents totaled ¥10.8 billion at the fiscal year-end, a ¥0.1 billion year-on-year decrease. Major factors included an increase in working capital.

Net cash used in operating activities was ¥4.8 billion, compared with ¥3.0 billion in the previous fiscal year. Income before income taxes of ¥2.6 billion was recorded, but this was outweighed by the rise in working capital resulting from increase in notes and accounts receivable–trade of ¥3.6 billion, which was due to higher net sales.

Net cash provided by investing activities was ¥5.2 billion, a ¥3.5 billion year-on-year increase. This was because proceeds from redemption of securities of ¥9.5 billion counteracted outflows for purchase of investment securities of ¥5.7 billion.

Net cash used in financing activities amounted to ¥0.7 billion, compared with ¥1.4 billion in the previous fiscal year. Major outflows included cash dividends paid of ¥0.7 billion.

## RETURNING PROFITS TO SHAREHOLDERS

### Shareholder Returns Policy

The Company views returning profits to its shareholders as one of its most important management tasks. Accordingly, we return profit to shareholders while considering the Company's financial position and the operating environment,

while also retaining internal revenues sufficient enough to maintain a stable operating foundation and pursue future business expansion.

## Dividend Payments in the Fiscal Year Ended January 31, 2015, and the Fiscal Year Ending January 31, 2016

For the fiscal year ended January 31, 2015, the Company will pay ¥15 per share of common stock for the year-end cash dividend, making for an annual cash dividend of ¥30 per share of common stock when combined with the interim dividend.

In regard to the fiscal year ending January 31, 2016, and subsequent fiscal years, the Company plans to target a total payout ratio of 100% of net income for the foreseeable future. Returns will be issued in the form of dividend payments and treasury stock acquisitions.

In the fiscal year ending January 31, 2016, the Company intends to pay ¥15 per share of common stock for both the interim and year-end cash dividends, for an annual cash dividend of ¥30 per share of common stock, the same as in the fiscal year ended January 31, 2015. We will examine options for enhancing shareholder returns going forward based on future trends in business performance.

## RISKS PERTAINING TO THE COMPANY'S BUSINESS

Risks that may affect the business performance, stock price, and financial condition of the Company include, however are not limited to, the following.

- (1) Abrupt changes in economic conditions
- (2) Fall in the price of products
- (3) Contracts with suppliers
- (4) Fluctuation in foreign exchange rates
- (5) Customers moving operations overseas
- (6) Country-based risks
- (7) Product defects and delivery issues and problems related to services
- (8) Natural disasters and other Acts of God
- (9) Collection of accounts receivable
- (10) Retirement benefit obligations
- (11) Impairment losses on write-down of investment securities

More information pertaining to business risks can be found on the Company's website.

<http://www.ryoyo.co.jp/english/ir-library/business-risk.html>

# Consolidated Balance Sheets

Ryoyo Electro Corporation  
At January 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015.1	2014.1	2015.1
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	¥11,616	¥11,215	\$ 98,235
Notes and accounts receivable–trade	34,446	30,185	291,302
Short-term investment securities	2,000	8,500	16,913
Merchandise and finished goods	14,482	13,313	122,472
Deferred tax assets	214	218	1,814
Other	2,438	934	20,623
Allowance for doubtful accounts	(20)	(17)	(175)
<b>Total current assets</b>	<b>65,177</b>	<b>64,350</b>	<b>551,186</b>
<b>Noncurrent assets</b>			
<b>Property, plant and equipment</b>			
Tools, furniture and fixtures, net	81	95	687
Land	5	5	48
Other, net	109	139	925
<b>Total property, plant and equipment</b>	<b>196</b>	<b>240</b>	<b>1,660</b>
<b>Intangible assets</b>	<b>645</b>	<b>536</b>	<b>5,457</b>
<b>Investments and other assets</b>			
Investment securities	14,979	12,558	126,673
Net defined benefit asset	798	–	6,753
Other	1,141	2,209	9,655
Allowance for doubtful accounts	(1)	(1)	(12)
<b>Total investments and other assets</b>	<b>16,917</b>	<b>14,766</b>	<b>143,069</b>
<b>Total noncurrent assets</b>	<b>17,759</b>	<b>15,543</b>	<b>150,187</b>
<b>Total assets</b>	<b>¥82,937</b>	<b>¥79,893</b>	<b>\$701,374</b>

Thousands of  
U.S. dollars

	Millions of yen		Thousands of U.S. dollars
	2015.1	2014.1	2015.1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable—trade	¥12,753	¥13,022	\$107,855
Income taxes payable	573	620	4,847
Accrued consumption taxes	3	36	27
Provision for bonuses	119	128	1,010
Other	1,356	727	11,473
<b>Total current liabilities</b>	<b>14,806</b>	<b>14,534</b>	<b>125,214</b>
<b>Noncurrent liabilities</b>			
Provision for retirement benefits	—	917	—
Net defined benefit liability	895	—	7,569
Deferred tax liabilities	948	477	8,021
Other	703	851	5,949
<b>Total noncurrent liabilities</b>	<b>2,547</b>	<b>2,246</b>	<b>21,540</b>
<b>Total liabilities</b>	<b>17,353</b>	<b>16,781</b>	<b>146,755</b>
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock	13,672	13,672	115,619
Capital surplus	13,336	13,336	112,782
Retained earnings	38,813	38,555	328,234
Treasury stock	(3,270)	(3,945)	(27,658)
<b>Total shareholders' equity</b>	<b>62,551</b>	<b>61,618</b>	<b>528,977</b>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	1,843	1,248	15,590
Deferred gains or losses on hedges	(0)	(0)	(4)
Foreign currency translation adjustment	904	166	7,649
Remeasurements of defined benefit plans	211	—	1,792
<b>Total accumulated other comprehensive income</b>	<b>2,959</b>	<b>1,413</b>	<b>25,028</b>
<b>Subscription rights to shares</b>	<b>72</b>	<b>79</b>	<b>614</b>
<b>Total net assets</b>	<b>65,583</b>	<b>63,112</b>	<b>554,619</b>
<b>Total liabilities and net assets</b>	<b>¥82,937</b>	<b>¥79,893</b>	<b>\$701,374</b>

# Consolidated Statements of Income and Consolidated Comprehensive Statements of Income

Ryoyo Electro Corporation  
For the years ended January 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
Consolidated Statements of Income	<b>2015.1</b>	2014.1	<b>2015.1</b>
<b>Net sales</b>	<b>¥110,107</b>	¥97,887	<b>\$931,140</b>
Cost of sales	101,306	89,607	856,711
<b>Gross profit</b>	<b>8,801</b>	8,279	<b>74,428</b>
<b>Selling, general and administrative expenses</b>			
Provision of allowance for doubtful accounts	3	(3)	27
Salaries and bonuses	2,842	2,791	24,039
Provision for bonuses	119	128	1,010
Retirement benefit expenses	137	137	1,161
Rent expenses	349	356	2,951
Depreciation	153	180	1,296
Other	3,142	3,036	26,573
<b>Total selling, general and administrative expenses</b>	<b>6,747</b>	6,627	<b>57,061</b>
	<b>2,053</b>	1,651	<b>17,367</b>
<b>Non-operating income</b>			
Interest income	145	191	1,230
Dividends income	137	59	1,166
Purchase discounts	12	11	102
Gain on investments in partnership	205	137	1,734
Other	22	32	191
<b>Total non-operating income</b>	<b>523</b>	432	<b>4,425</b>
<b>Non-operating expenses</b>			
Sales discounts	3	3	26
Loss on valuation of investment securities	49	–	421
Foreign exchange losses	15	–	132
Commission fee	7	0	67
Loss on abandonment of noncurrent assets	1	0	13
Other	0	1	3
<b>Total non-operating expenses</b>	<b>78</b>	6	<b>666</b>
<b>Ordinary income</b>	<b>2,498</b>	2,077	<b>21,126</b>
<b>Extraordinary income</b>			
Gain on sales of investment securities	212	20	1,796
Gain on bad debts recovered	1	–	16
Surrender value of insurance	78	–	660
<b>Total extraordinary income</b>	<b>292</b>	20	<b>2,474</b>
<b>Extraordinary losses</b>			
Loss on sales of investment securities	11	–	94
Special extra retirement payments	70	–	594
Settlement package	20	–	169
<b>Total extraordinary losses</b>	<b>101</b>	–	<b>858</b>
<b>Income before income taxes and minority interests</b>	<b>2,689</b>	2,097	<b>22,742</b>
Income taxes—current	980	830	8,289
Income taxes—deferred	25	(75)	213
<b>Total income taxes</b>	<b>1,005</b>	755	<b>8,502</b>
<b>Income before minority interests</b>	<b>1,683</b>	1,342	<b>14,239</b>
<b>Net income</b>	<b>¥ 1,683</b>	¥ 1,342	<b>\$ 14,239</b>
Consolidated Comprehensive Statements of Income			
<b>Income before minority interests</b>	<b>¥ 1,683</b>	¥ 1,342	<b>\$ 14,239</b>
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities	595	733	5,034
Deferred gains or losses on hedges	0	(0)	0
Foreign currency translation adjustment	738	1,128	6,244
<b>Total other comprehensive income</b>	<b>1,333</b>	1,861	<b>11,279</b>
<b>Comprehensive income</b>	<b>3,017</b>	3,204	<b>25,519</b>
(Details)			
Comprehensive income attributable to owners of the parent	3,017	3,204	25,519
Comprehensive income attributable to minority interests	–	–	–

# Consolidated Statements of Changes in Net Assets

Ryoyo Electro Corporation  
For the years ended January 31, 2015 and 2014

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
From January 31, 2014 to January 31, 2015											
<b>Balance at January 31, 2014</b>	¥13,672	¥13,336	¥38,555	¥(3,945)	¥61,618	¥1,248	¥(0)	¥166	¥ -	¥79	¥63,112
Net increase (decrease) during the fiscal year											
Cash dividends			(756)		(756)						(756)
Net income for the fiscal year			1,683		1,683						1,683
Purchase of treasury stock				(1)	(1)						(1)
Retirement of treasury stock			(662)	662	-						-
Exercise subscription rights to shares			(6)	13	6						6
Net increase (decrease) other than shareholders' equity					-	595	0	738	211	(6)	1,538
Total increase (decrease) during the fiscal year	-	-	258	674	932	595	0	738	211	(6)	2,471
<b>Balance at January 31, 2015</b>	¥13,672	¥13,336	¥38,813	¥(3,270)	¥62,551	¥1,843	¥(0)	¥904	¥211	¥72	¥65,583

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
From January 31, 2013 to January 31, 2014											
<b>Balance at January 31, 2013</b>	¥13,672	¥13,336	¥37,987	¥(3,295)	¥61,700	¥ 514	¥ 0	¥ (962)		¥50	¥61,303
Net increase (decrease) during the fiscal year											
Cash dividends			(774)		(774)						(774)
Net income for the fiscal year			1,342		1,342						1,342
Purchase of treasury stock				(649)	(649)						(649)
Disposal of treasury stock				(0)	0						0
Net increase (decrease) other than shareholders' equity					-	733	(0)	1,128		28	1,890
Total increase (decrease) during the fiscal year	-	-	567	(649)	(82)	733	(0)	1,128		28	1,808
<b>Balance at January 31, 2014</b>	¥13,672	¥13,336	¥38,555	¥(3,945)	¥61,618	¥1,248	¥(0)	¥ 166		¥79	¥63,112

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
From January 31, 2014 to January 31, 2015											
<b>Balance at January 31, 2014</b>	\$115,619	\$112,782	\$326,047	\$(33,362)	\$521,087	\$10,555	\$(4)	\$1,405	\$ -	\$673	\$533,716
Net increase (decrease) during the fiscal year											
Cash dividends			(6,399)		(6,399)						(6,399)
Net income for the fiscal year			14,239		14,239						14,239
Purchase of treasury stock				(9)	(9)						(9)
Retirement of treasury stock			(5,600)	5,600	-						-
Exercise subscription rights to shares			(52)	112	59						59
Net increase (decrease) other than shareholders' equity					-	5,034	0	6,244	1,792	(58)	13,013
Total increase (decrease) during the fiscal year	-	-	2,186	5,703	7,889	5,034	0	6,244	1,792	(58)	20,902
<b>Balance at January 31, 2015</b>	\$115,619	\$112,782	\$328,234	\$(27,658)	\$528,977	\$15,590	\$(4)	\$7,649	\$1,792	\$614	\$554,619

# Consolidated Statements of Cash Flows

Ryoyo Electro Corporation  
For the years ended January 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015.1	2014.1	2015.1
<b>I. Cash flows from operating activities</b>			
Income before income taxes	¥ 2,689	¥ 2,097	\$ 22,742
Depreciation and amortization	217	192	1,836
Loss (gain) on sales and retirement of noncurrent assets	(0)	0	(0)
Loss (gain) on investments in partnership	(205)	(137)	(1,734)
Foreign exchange losses (gains)	146	(29)	1,241
Increase (decrease) in provision	(923)	41	(7,812)
Increase (decrease) in net defined benefit liability	927	–	7,847
Interest and dividends income	(283)	(251)	(2,397)
Loss (gain) on sales of investment securities	(201)	(20)	(1,702)
Loss (gain) on valuation of investment securities	49	–	421
Surrender value of insurance	(78)	–	(660)
Decrease (increase) in notes and accounts receivable–trade	(3,645)	(6,013)	(30,829)
Decrease (increase) in inventories	(908)	(1,592)	(7,686)
Increase (decrease) in notes and accounts payable–trade	(998)	3,370	(8,441)
Increase (decrease) in accrued consumption taxes	(33)	13	(282)
Other, net	(837)	(603)	(7,080)
<b>Subtotal</b>	<b>(4,084)</b>	<b>(2,931)</b>	<b>(34,540)</b>
Interest and dividends income received	310	243	2,625
Income taxes refunded (paid)	(1,052)	(397)	(8,898)
<b>Net cash provided by (used in) operating activities</b>	<b>(4,826)</b>	<b>(3,084)</b>	<b>(40,813)</b>
<b>II. Cash flows from investing activities</b>			
Payments into time deposits	(757)	(2,692)	(6,403)
Proceeds from withdrawal of time deposits	315	4,500	2,668
Purchase of short-term investment securities	(1,000)	(3,500)	(8,456)
Proceeds from redemption of securities	9,500	10,500	80,338
Purchase of property, plant and equipment and intangible assets	(287)	(96)	(2,432)
Proceeds from sales of property, plant and equipment and intangible assets	4	0	40
Purchase of investment securities	(5,766)	(7,189)	(48,763)
Proceeds from sales of investment securities	2,066	185	17,479
Purchase of stocks of subsidiaries and affiliates	–	(10)	–
Proceeds from distribution of investment in partnerships	514	111	4,349
Proceeds from cancellation of insurance funds	578	–	4,888
Other, net	125	(92)	1,060
<b>Net cash provided by (used in) investing activities</b>	<b>5,293</b>	<b>1,715</b>	<b>44,768</b>
<b>III. Cash flows from financing activities</b>			
Cash dividends paid	(754)	(772)	(6,382)
Purchase of treasury stock	(1)	(649)	(9)
Other, net	(1)	(2)	(14)
<b>Net cash provided by (used in) financing activities</b>	<b>(757)</b>	<b>(1,425)</b>	<b>(6,405)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>135</b>	<b>591</b>	<b>1,146</b>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	<b>(154)</b>	<b>(2,202)</b>	<b>(1,303)</b>
<b>VI. Cash and cash equivalents at the beginning of the period</b>	<b>11,023</b>	<b>13,226</b>	<b>93,218</b>
<b>VII. Cash and cash equivalents at the end of the period</b>	<b>¥10,868</b>	<b>¥11,023</b>	<b>\$ 91,914</b>

# Corporate Data / Investor Information

As of January 31, 2015

## Corporate Name

Ryoyo Electro Corporation

## Address

Konwa Building, 1-12-22  
Tsukiji, Chuo-ku, Tokyo  
104-8408, Japan

## Phone

+81-3-3543-7711

## Fax

+81-3-3545-3507

## Website

<http://www.ryoyo.co.jp/english>

## Date of Incorporation

February 27, 1961

## Paid-in Capital

¥13,672 million

## Authorized Shares

119,628,800

## Shares Issued

28,200,000

## Shareholders

6,461

## Stock Trading Unit

100 shares

## Stock Listing

Tokyo Stock Exchange,  
First Section

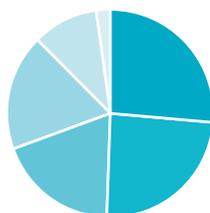
## Ticker Code

8068

## Transfer Agent

Mitsubishi UFJ Trust and  
Banking Corporation

## Composition of Shareholders



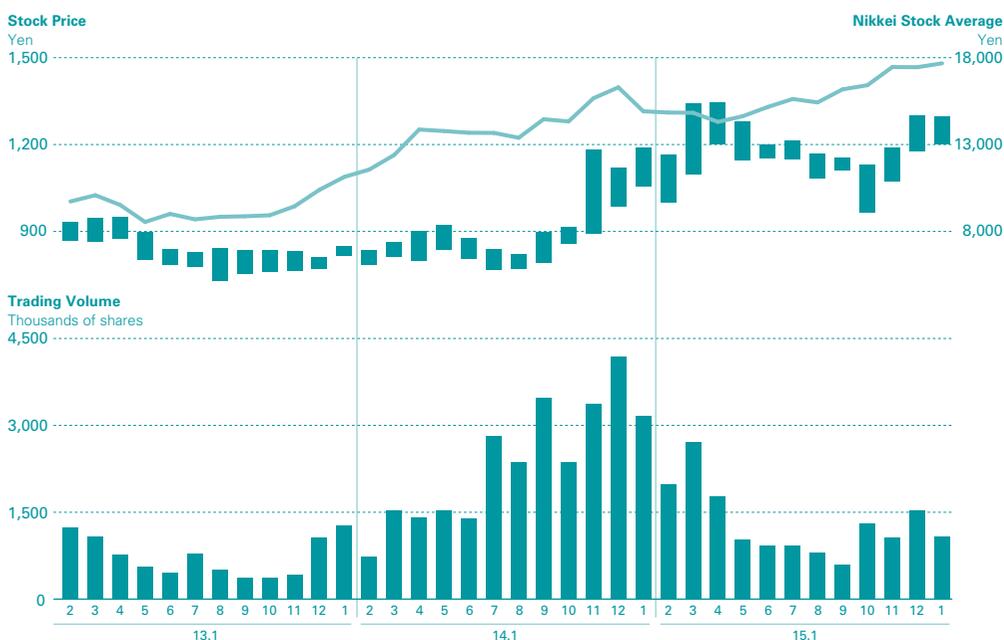
Foreign corporations and other foreign investors	26.4%
Individuals and other	24.3%
Other corporations	18.8%
Financial institutions	18.0%
Treasury stock	10.5%
Securities companies, etc.	2.0%

## Major Shareholders

	Thousands of shares	%
CGML PB CLIENT ACCOUNT/COLLATERAL	2,725	10.80
Mitsubishi Electric Corporation	2,246	8.90
SHC Corporation	2,118	8.39
Japan Trustee Services Bank, Ltd. (Trust account)	1,559	6.18
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	767	3.04
The Master Trust Bank of Japan (Retail trust account)	552	2.19
Sheep Shokai Co.	523	2.07
The Master Trust Bank of Japan (Trust account)	513	2.03
Nippon Life Insurance Company	409	1.62
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	358	1.42

Notes: 1. Ryoyo Electro Corporation possesses 2,962,905 shares of treasury stock, which represents a 10.51% holding in the Company.  
2. Calculations for the ownership percentages above did not account for treasury stock.

## Stock Price Chart





EMS 576112 / ISO 14001  
FS 576113 / ISO 9001  
IS 511311 / ISO 27001

Ryoyo Electro has acquired the following certification at all offices in Japan (excluding the satellite office).

- ISO 14001 (Environmental management systems)
- ISO 9001 (Quality management systems)
- ISO 27001 (Information security management systems)



In consideration for the environment, this annual review uses paper that has been approved by the Forest Stewardship Council (FSC). Additionally, this annual review is printed using highly biodegradable vegetable oil ink.