

# ANNUAL REVIEW 2017

Fiscal year ended  
January 31, 2017

*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 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. Meanwhile, in our information and communication technology (ICT) and solutions business, we handle a diverse range of solutions that 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.

By merging the products and services offered in its core semiconductor and device business and ICT and solutions business, the Ryoyo Group is currently deploying an Internet of Things (IoT) approach to help customers implement their strategies and resolve the issues they face. Furthermore, we will differentiate our lineup with new services and solutions arising from both businesses in order to raise the value of our business and subsequently increase our corporate value.

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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.”

## Basic Policy

# Create new strengths with IoT approach to contribute to customers' value improvements



Smartphone



Office automation equipment



New generation of vehicles



Industry and factory automation



Tablet



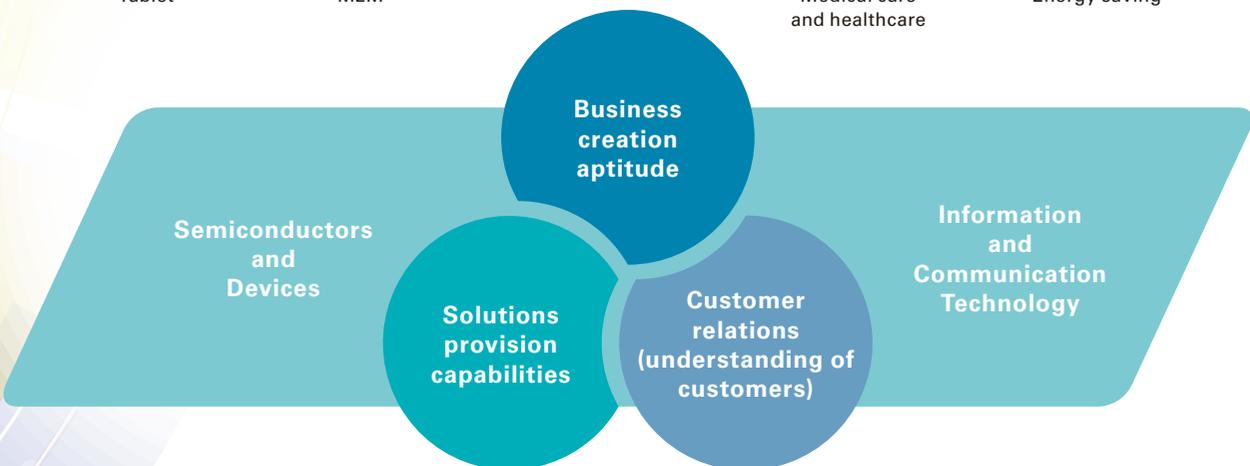
M2M



Medical care and healthcare



Energy saving



## To Our Shareholders



## Progress of the Medium-Term Business Plan

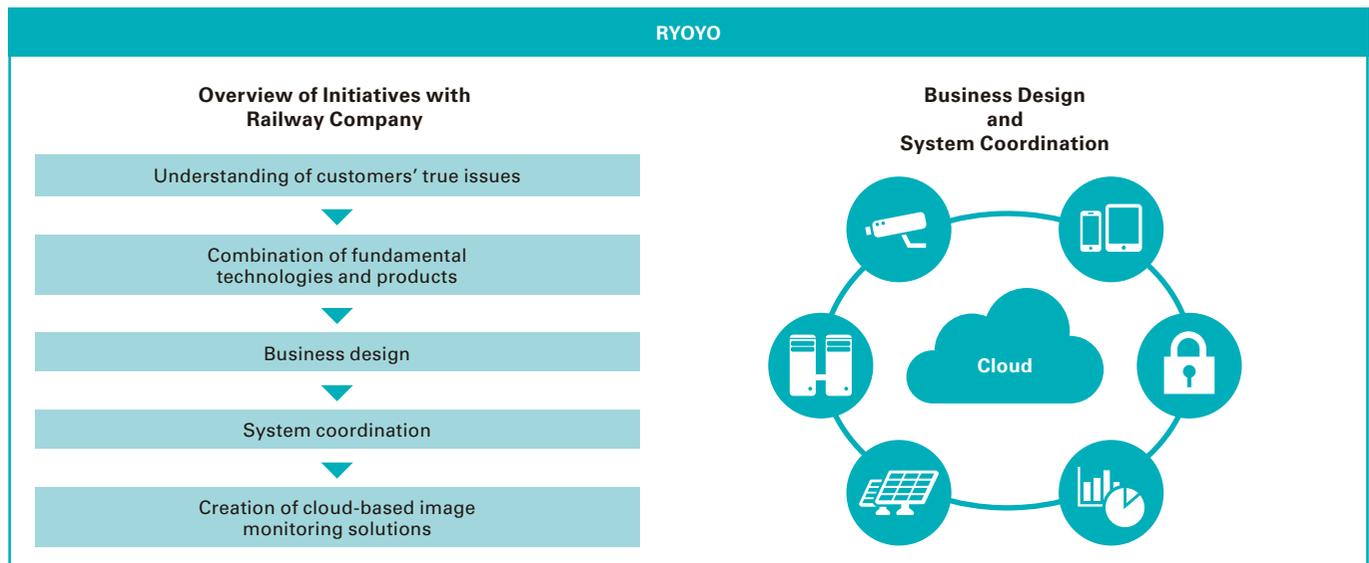
### Creating New Strengths with an IoT Approach

The Ryoyo Group kicked off a new medium-term business plan in the fiscal year ended January 31, 2017. Under this plan, we will pursue higher corporate value through measures to expand core businesses with an IoT approach, make strategic investments in growing areas, accelerate global strategies, reinforce business bases for sustainable growth, and promote CSR management.

The IoT approach, positioned as the core of our growth strategies, represents a high-value-added business model

that merges the products and services of our core semiconductor and device business and ICT and solutions business to help customers implement their strategies and resolve the issues they face. Through initiatives based on this approach, we have sought out key devices and services and steadily stepped up cooperation with partner companies.

To serve the railway industry, for example, we aim to provide solutions to address customer issues related to abnormality sensors for level crossings and safety and anti-terrorism



# We will continue to pursue higher corporate value.

measures for trains and train stations with an IoT approach. To this end, we created a cloud-based image monitoring system by coordinating with partner companies to supply comprehensive support that encompasses everything from the provision of solutions and the selection of products that incorporate IoT concepts to system coordination. The next step in our efforts to cater to the railway industry will be to package this system with the Group's original solutions. In addition to aiding railway companies, we also plan to utilize these solutions to serve other industries and customers with unmet image monitoring needs, such as convenience stores and drugstores.

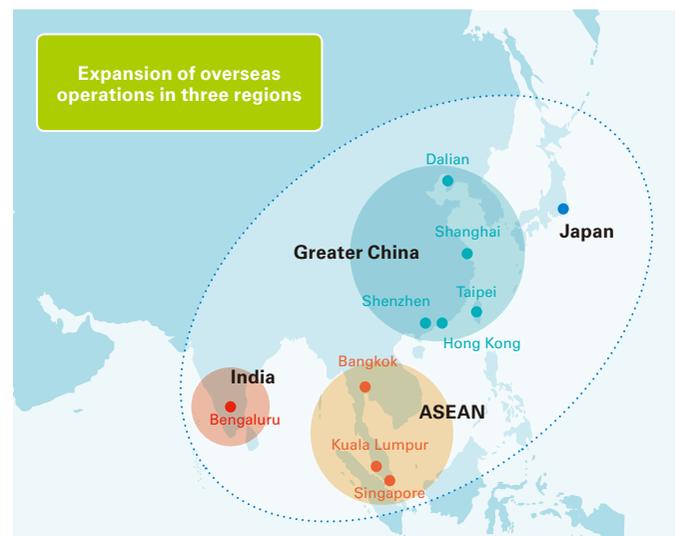
A common challenge faced in IoT approach initiatives is that projects generally require more time to come to fruition than initially anticipated, as the adoption of IoT concepts is often a new undertaking for customers. For this reason, we are conducting mergers and acquisitions and other strategic investments and working to link these efforts to quicker results in order to accelerate our IoT approach.

## Accelerated Development of Global Operations

Our overseas operations are undergoing a major transformation, stimulated by the shrinkage of the domestic market amid sluggish consumer spending and the trend toward customers developing their operations globally. These operations were initially focused on supporting customers seeking to expand

into the Greater China and ASEAN regions. Recently, we have been working to enhance the support services we provide for such business relocations while also turning our attention to creating unique, new businesses at overseas sites to acquire local customers, uncover viable local products, and develop ICT businesses.

In addition, we established a new subsidiary in Bengaluru, India, in October 2016. With our entry into this market, we will strive to expand overseas operations in three regions: Greater China, ASEAN, and now India. Our operating site in the United States, which is positioned as a base for gathering information, will be utilized to contribute to enhanced service quality across the Group.



## To Our Shareholders

### Returns to Shareholders

It is the Company's policy to target a total return ratio of 100% of profit attributable to owners of parent for the foreseeable future by issuing dividend payments and conducting share buybacks. In the year under review, we increased dividend payments by ¥10, making for an annual cash dividend of ¥40 per share of common stock, and also acquired 150,000 shares of treasury stock. For the fiscal year ending January 31, 2018, we plan to raise dividend payments by another ¥20 for an annual cash dividend of ¥60 per share. We will also consider the possibility of additional share buybacks and dividend increases based on performance trends.

	2015.1	2016.1	2017.1	2018.1 (Forecast)
Annual Cash Dividend (Yen)	30.00	30.00	40.00	60.00
Payout Ratio (%)	44.9	100.0	119.2	133.7

### Pursuit of Higher Corporate Value

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 and are advancing various measures to realize our vision—the Ryoyo Group will act as a solutions-providing partner that leaves an impression on the intrinsically interconnected "smart society."

Going forward, we will continue to pursue higher corporate value. Measures to this end will include quickly transitioning to a higher-value-added business model and reinforcing business bases for sustainable growth through work style reforms and CSR management.

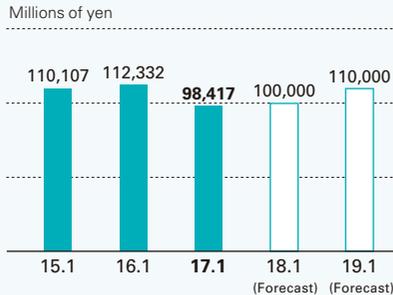
## Overview of Business Performance

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

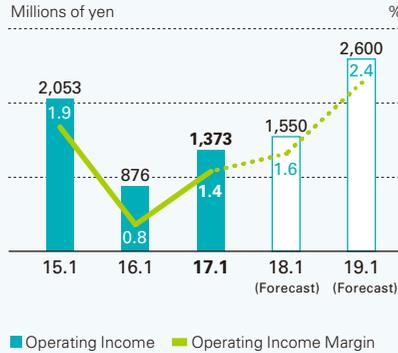
In the electronics industry, where the Ryoyo Group operates, we are seeing the acceleration of the movement to realize practical application of IoT technologies. However, the semiconductor and device market was impacted by a slowdown in China and the major earthquake that struck Kumamoto Prefecture in April 2016. In this environment, the Ryoyo Group worked to reinforce and expand the foundations of its core semiconductor and device and ICT and solutions businesses. We also stepped up initiatives targeting the IoT field.

In regard to performance in the year under review, the conclusion of large-scale orders led to a year-on-year decrease in net sales. However, operating income and profit attributable to owners of parent rose due to the absence of losses on disposal and the write-down of inventories recorded in the previous fiscal year.

## Net Sales



## Operating Income / Operating Income Margin



## ROE



## Outlook for the Fiscal Year Ending January 31, 2018

Looking ahead, we expect to see proactive investments in the electronics industry in preparation for the full-fledged spread of IoT and the upcoming Tokyo 2020 Olympic and Paralympic Games. However, there is a rising sense of uncertainty in the industry stemming from lingering concerns related to foreign exchange circumstances and unstable global economic and political trends.

For the fiscal year ending January 31, 2018, we forecast net sales of ¥100.0 billion, up 1.6% year on year; operating income of ¥1.5 billion, up 12.9%; and profit attributable to owners of parent of ¥1.1 billion, up 33.7%. Sales in the semiconductor and device business are projected to decrease, primarily due to the impacts of the transfer of distribution rights. Also, traditional operations in the ICT and solutions business, such as those dealing in standalone hardware, are expected to face a difficult operating environment. In the focus area of IoT-related businesses, meanwhile, we anticipate that several businesses centered around high-margin products will get off the ground in the fiscal year ending January 31, 2018. These

products include the Wi-Fi solutions we began offering in 2016 as well as products with competitive advantages in relation to artificial intelligence and deep learning.

## Revision of the Medium-Term Business Plan Performance Targets

The operating environment has undergone substantial changes since the current medium-term business plan was established in August 2015. Based on a comprehensive evaluation of these changes and the progress of the plan's various measures, we chose to revise the performance targets of the medium-term business plan. The new targets for the fiscal year ending January 31, 2019, call for net sales of ¥110.0 billion, down from the previous target of ¥150.0 billion. Likewise, the operating income target was lowered from ¥5.0 billion to ¥2.6 billion and the return on equity target was lowered from 5.0% to 2.7%. While we have revised our target for ROE, we will continue to aim to promptly raise ROE to over 5%.

Kenhachiro Ogawa

Takayoshi Oouchi

# Corporate Governance

## Board of Directors, Audit & Supervisory Board, and Corporate Officers

As of April 27, 2017



**Kenhachiro Ogawa**  
Chairman and CEO



**Takayoshi Oouchi**  
President and COO



**Nobuo Kikutsugi**  
Director



**Masaaki Tanabe**  
Director



**Kiyoshi Waki**  
Director



**Yoshitsugu Tamakoshi**  
Director



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



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

Audit & Supervisory Board Member

**Yutaka Horikiri**

Outside Audit & Supervisory Board Members

**Ryoji Kimura**

**Tsutomu Nobechi**

**Kazumi Akiyama**

Managing Executive Officer

**Nobuo Kikutsugi**

Senior Executive Officers

**Masaaki Tanabe**

**Kiyoshi Waki**

**Yoshitsugu Tamakoshi**

**Shigeharu Hanazaki**

Executive Officers

**Takumi Tokunaga**

**Seiju Yasuda**

### Basic Corporate Governance Philosophy

At the Company, we recognize enhancing corporate governance as an important task for 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

Outline of the Corporate Governance Framework

Organizational format	Company with Audit & Supervisory Board
Chairman of the Board of Directors	Chairman and CEO
Number of directors	8 (including 2 outside directors)
Number of Audit & Supervisory Board Members	4 (including 3 outside Audit & Supervisory Board Members)
Independent officers	2 outside directors and 3 outside Audit & Supervisory Board Members
Number of Board of Directors' meetings held during the fiscal year ended January 31, 2017	12
Number of Audit & Supervisory Board meetings held during the fiscal year ended January 31, 2017	15

### Directors and Board of Directors

The Board of Directors, which consists of eight directors (as of April 27, 2017), 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.

### Audit & Supervisory Board Members and Audit & Supervisory Board

The Company is a Company with an Audit & Supervisory Board as defined by the Companies Act of Japan, whereby Audit & Supervisory Board Members act independently of directors and oversee directors' execution of operations. The Audit & Supervisory Board consists of four Audit & Supervisory Board Members (as of April 27, 2017), of whom three are outside Audit & Supervisory Board Members. In principle, the Audit & Supervisory Board meets once a month and met a total of 15 times during the year under review.

### Policy for Appointment of Independent Directors

The Company's basic policy is to appoint two or more independent directors, and the Company currently has two independent directors. These directors are selected based on the Company's own criteria for judging independence in order to ensure that they are able to effectively fulfill their role and responsibilities in facilitating the ongoing growth of the Company and the medium-to-long-term improvement of its corporate value.

## Board of Directors, Outside Directors, and Outside Audit & Supervisory Board Members

Directors	Reason for appointment
Kenhachiro Ogawa	Kenhachiro Ogawa has extensive business experience at the Company and, having been involved in the management of the Company as a director for many years, he possesses broad insight into the overall management of electronics trading companies and has demonstrated strong leadership. For these reasons, the Company believes that he is suited to the position of director and capable of improving the Company's corporate value.
Takayoshi Oouchi	Takayoshi Oouchi has extensive management experience across a wide range of areas, including that gained in sales and technology divisions and the Company's Corporate Strategy Division, and he possesses broad insight into the overall management of electronics trading companies. For these reasons, the Company believes that he is suited to the position of director and capable of improving the Company's corporate value.
Nobuo Kikutsugi	Nobuo Kikutsugi has many years of management experience in the semiconductor and device business and possesses extensive experience and broad insight into the Company's business. For these reasons, the Company believes that he is suited to the position of director and capable of improving the Company's corporate value.
Masaaki Tanabe	Masaaki Tanabe has many years of management experience in the ICT and solutions business and possesses extensive experience and broad insight into the Company's business. For these reasons, the Company believes that he is suited to the position of director and capable of improving the Company's corporate value.
Kiyoshi Waki	Kiyoshi Waki has cultivated a wealth of experience in Japan and overseas by working for a financial institution. Since joining the Company, he has gained management experience through positions in the Corporate Strategy Division, the Overseas Marketing Division, and the Administration Division. He also possesses highly specialized knowledge and broad insight into accounting and finance. For these reasons, the Company believes that he is suited to the position of director and capable of improving the Company's corporate value.
Yoshitsugu Tamakoshi	Yoshitsugu Tamakoshi has many years of experience in the semiconductor and device business of Mitsubishi Electric Corporation and, having been involved in management as a general manager responsible for the semiconductor and device business since joining the Company, he possesses extensive experience and broad insight into this business area. For these reasons, the Company believes that he is suited to the position of director and capable of improving the Company's corporate value.

Outside directors	Reason for appointment	Attendance at meetings of the Board of Directors
Yoshiharu Hayakawa	Yoshiharu Hayakawa was selected to be an outside director with the aim of utilizing his expert knowledge as Certified Public Accountant, as well as his extensive experience and broad insight as a management consultant, to help strengthen the corporate governance systems of the Company.	10/12
Tsumiko Nakahara	Tsumiko Nakahara was selected to be an outside director with the aim of utilizing her sophisticated expertise with regard to all areas of corporate legal affairs based on her long history as Attorney and related scholarly knowledge and experience to help strengthen the corporate governance systems of the Company.	12/12

Outside Audit & Supervisory Board Members	Reason for appointment	Attendance at meetings of the Board of Directors and the Audit & Supervisory Board	
		Board of Directors	Audit & Supervisory Board
Ryoji Kimura	Ryoji Kimura was selected to be an outside Audit & Supervisory Board Member due to his highly professional insight into all areas of corporate legal affairs based on his long career as Attorney and related scholarly knowledge and experience, as well as the extensive corporate management insight he gained through this experience.	11/12	15/15
Tsutomu Nobechi	Tsutomu Nobechi was selected to be an outside Audit & Supervisory Board Member due to his considerable insight into financial and accounting matters gained through his experience at accounting firms as well as the extensive corporate management insight he gained through this experience.	12/12	15/15
Kazumi Akiyama	Kazumi Akiyama was selected to be an outside Audit & Supervisory Board Member due to his wealth of insight based on his employment experience at central government offices as well as the extensive corporate management insight he gained through this experience.	10/10	11/11

## Criteria for the Selection of Outside Officers

In order to ensure the independence of the candidates it recommends for positions as outside officers (outside directors and outside Audit & Supervisory Board Members), the Company has formulated criteria for the selection of outside officers. Please see the following website for more details: <http://www.ryoyo.co.jp/english.html>

## Compensation of Directors and Audit & Supervisory Board Members

	Compensation by type (millions of yen)					Number of applicable individuals
	Total compensation	Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	122	122	—	—	—	7
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	12	12	—	—	—	2
Outside officers	30	30	—	—	—	6

Note: The amount for compensation of directors does not include the portion paid to directors who serve concurrently as employees.

In regard to compensation decision policies and calculation methods, compensation amounts for directors and Audit & Supervisory Board Members are to be less than the upper limit approved at the general shareholders' meeting. Compensation amounts for directors are

decided based on the responsibilities of directors and their individual performance as well as the performance of the Company as a whole. Compensation amounts for Audit & Supervisory Board Members are decided by the Audit & Supervisory Board.

## Corporate Governance

### Analysis of Board of Directors' Effectiveness and Results of Evaluation

The Company implements self-surveys to analyze the overall effectiveness of the Board of Directors.

The most recent survey evaluated the structure of the Board of Directors, how it is operated, how outside officers are treated, and other matters. Through this survey, the Company confirmed that the Board of Directors was generally functioning appropriately and that it was indeed effective. Furthermore, directors and Audit & Supervisory Board Members provided various suggestions through the survey regarding factors such as materials for Board of Directors' meetings, the amount of time allocated to discussions of agenda items, and training opportunities.

The Board of Directors will discuss these suggestions going forward and continue to improve its effectiveness with the aim of creating an ideal corporate governance system.

### 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 Audit & Supervisory Board 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 Audit & Supervisory Board and other systems concerning reports submitted to the Audit & Supervisory Board
- (8) Other systems for ensuring effective auditing by the Audit & Supervisory Board

### 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 that 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 minimize the impact on operations.

### Policy for Proactive Communication with Shareholders

The Company endeavors to ensure that disclosure of management information is conducted accurately, impartially, and promptly. In addition, we recognize that facilitating mutual understanding through proactive communication with shareholders and incorporating feedback from shareholders into management decision making is crucial to the Company's ongoing growth and to the medium-to-long-term improvement of corporate value. Accordingly, the following provisions have been put in place to support proactive communications activities.

- (1) The director in charge of the Corporate Strategy Division oversees shareholder communications activities, receiving assistance from the general manager of the Corporate Strategy Division.
- (2) The Corporate Planning Department functions as a venue for communication with shareholders while preparations for communications activities are advanced through coordination between the Corporate Planning, General Affairs and Human Resources, and Accounting departments.
- (3) Explanatory forums are held for institutional investors and analysts twice a year in conjunction with the release of second quarter and annual financial reviews at which we report on and explain current business conditions and the future direction of the Company.
- (4) Systems are in place to ensure that feedback received through shareholder communications activities is shared with management in a timely manner.
- (5) In-house workshops regarding insider information are held and other steps are taken to ensure the appropriate management of insider information.

Note: The Company strives to ensure timely and appropriate disclosure of management information through its corporate website and other venues.  
<http://www.ryoyo.co.jp/english.html>

# Consolidated Financial Highlights

Ryoyo Electro Corporation and Consolidated Subsidiaries  
For the years ended January 31, 2017, 2016, 2015, 2014, and 2013

Thousands of  
U.S. dollars\*

	Millions of yen					Thousands of U.S. dollars*
	2017.1	2016.1	2015.1	2014.1	2013.1	2017.1
<b>For the Year</b>						
Net sales	¥ 98,417	¥ 112,332	¥ 110,107	¥ 97,887	¥ 87,183	\$864,756
Gross profit	8,099	7,852	8,801	8,279	7,373	71,170
Selling, general and administrative expenses	6,726	6,976	6,747	6,627	6,651	59,106
Operating income	1,373	876	2,053	1,651	722	12,064
Net income	822	743	1,683	1,342	423	7,228
Free cash flows	6,874	4,392	467	(1,369)	328	60,401
<b>At Year-End</b>						
Total assets	¥ 77,973	¥ 76,865	¥ 82,937	¥ 79,893	¥ 72,490	\$685,124
Total net assets	64,859	63,921	65,583	63,112	61,303	569,894
<b>Per Share of Common Stock (Yen / U.S. dollars)</b>						
Net income	¥ 33.54	¥ 30.01	¥ 66.74	¥ 52.17	¥ 16.41	\$ 0.29
Total net assets	2,644.10	2,591.70	2,595.83	2,498.70	2,371.67	23.23
Cash dividends	40.00	30.00	30.00	30.00	30.00	0.35
<b>Ratios (%)</b>						
Gross profit margin	8.2	7.0	8.0	8.5	8.5	
Operating margin	1.4	0.8	1.9	1.7	0.8	
Net income margin	0.8	0.7	1.5	1.4	0.5	
Equity ratio	83.1	83.1	79.0	78.9	84.5	
Return on equity	1.3	1.1	2.6	2.2	0.7	
<b>Other Information</b>						
Number of shares issued**	24,507,328	24,636,009	25,237,095	25,226,060	25,826,926	
Number of employees	498	501	510	513	517	

\* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥113.81=U.S.\$1.00, the exchange rate prevailing on January 31, 2017.

\*\* 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.

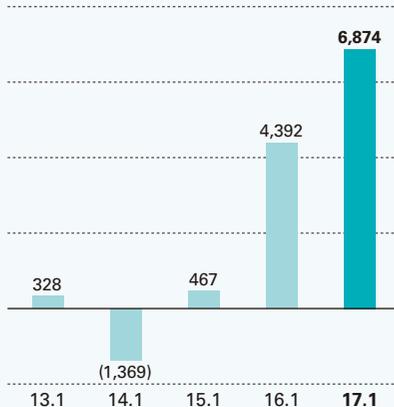
## Net Sales

Millions of yen



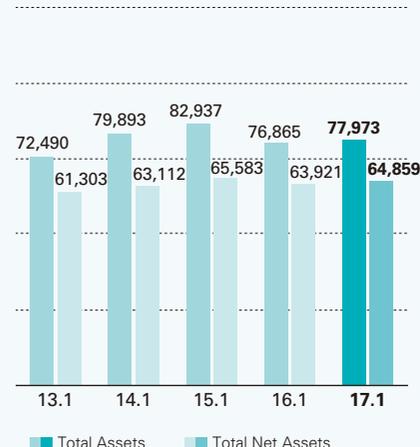
## Free Cash Flows

Millions of yen



## Total Assets / Total Net Assets

Millions of yen



# Consolidated Financial Review

## Operating Environment

During the year under review, the fiscal year ended January 31, 2017, the domestic economy witnessed a recovery with regard to corporate earnings and the job market. However, the outlook continued to warrant caution given the foreign exchange circumstances and the unstable global economic and political trends.

In the electronics industry, where the Ryoyo Group operates, the movement to realize practical application of IoT technologies accelerated and other trends contributing to a positive outlook emerged. However, the semiconductor and device sector was impacted by a slowdown in China and the major earthquake that struck Kumamoto Prefecture. In ICT-related sectors, performance was firm in the service, support, and software fields, despite sluggish capital investment in hardware.

## Results for the Fiscal Year Ended January 31, 2017

Under these conditions, the Ryoyo Group worked to reinforce and expand the foundations of its core businesses—namely, its semiconductor and device business and its ICT and solutions business. At the same time, we focused efforts on shifting to higher-value-added business models while positioning IoT as a central aspect of future growth strategies.

As a result of these factors, consolidated net sales decreased 12.4% year on year, to ¥98.4 billion. Operating income meanwhile increased 56.6%, to ¥1.3 billion, due to the absence of losses on disposal and the write-down of inventories recorded in the previous fiscal year. Also, ordinary income increased 41.0%, to ¥1.5 billion. Similarly, profit attributable to owners of parent rose 10.7%, to ¥0.8 billion.

### Semiconductors and Devices

Net sales of semiconductors and devices decreased ¥13.9 billion year on year, or 19.2%, to ¥58.4 billion.

Sales of products for communications systems decreased 43.5%, to ¥8.6 billion, because of the conclusion of large-scale orders for LCDs that contributed to sales in the previous fiscal year.

Sales of products for digital consumer electronics and other home electronics fell 21.2%, to ¥8.0 billion, following a decline in sales for televisions and amusement equipment.

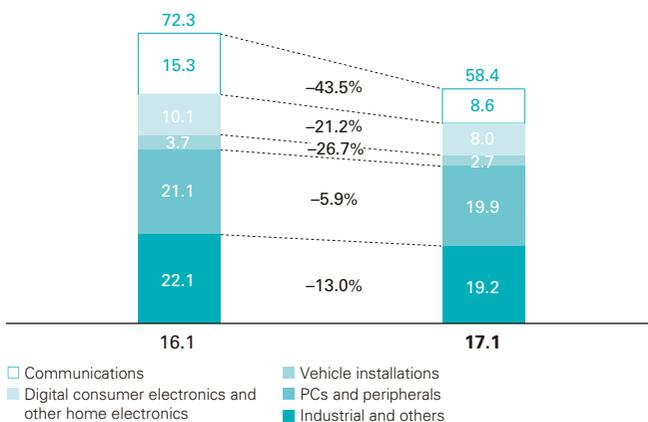
Sales of vehicle installations were down 26.7%, to ¥2.7 billion, following the conclusion of certain orders.

Sales of products for PCs and peripherals decreased 5.9%, to ¥19.9 billion, as a result of the persistence of difficult conditions in the PC market.

Sales of products for industrial and other applications were down 13.0%, to ¥19.2 billion, as performance struggled due to the impacts of the Kumamoto earthquake and the postponement of certain orders.

### Sales by Applications

Billions of yen



### ICT and Solutions

Net sales of ICT and solutions were relatively unchanged year on year at ¥40.0 billion.

Sales of PC, server, and network products decreased 13.0%, to ¥10.0 billion, as the drop in large-scale system orders and the decline in selling prices, which exceeded forecasts, outweighed strong performance in service, support, and other business operations.

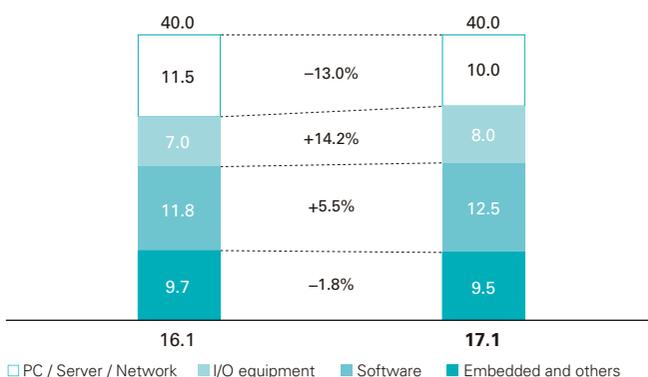
Sales of I/O equipment increased 14.2%, to ¥8.0 billion, due in part to contributions from large-scale printer-related projects.

Sales of software were up 5.5%, to ¥12.5 billion, as a result of robust corporate demand for PCs.

Sales of embedded products decreased 1.8%, to ¥9.5 billion, as the impacts of the contraction of businesses related to financial terminals offset the brisk growth in sales of graphics-related products.

### Sales by Products

Billions of yen



## Sales by Region

### Japan

In the year under review, sales to external customers in Japan decreased ¥11.1 billion year on year, or 12.4%, to ¥79.2 billion, following a decline in sales of LCDs for communications equipment and semiconductors for industrial applications. The operating income of this regional segment was up ¥0.5 billion, or 70.4%, to ¥1.2 billion, as a result of the absence of losses on disposal and the write-down of inventories recorded in the previous fiscal year.

### Asia

Sales to external customers in Asia decreased ¥2.7 billion year on year, or 12.5%, to ¥19.1 billion, as a result of lower sales of embedded products for financial terminals and semiconductors for televisions. However, the operating income of this segment increased ¥6 million, or 4.7%, to ¥0.1 billion.

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

## Financial Position

Total assets at the end of the fiscal year amounted to ¥77.9 billion, ¥1.1 billion higher than at the previous fiscal year-end. This was primarily due to increases in cash and deposits and investment securities.

Total liabilities were up ¥0.1 billion, to ¥13.1 billion, mainly due to an increase in deferred tax liabilities.

Total net assets increased ¥0.9 billion, to ¥64.8 billion. This was largely due to an increase attributable to valuation difference on available-for-sale securities.

## Cash Flows

Cash and cash equivalents totaled ¥19.3 billion at the fiscal year-end, a ¥5.8 billion year-on-year increase. Major factors included a decrease in working capital.

Net cash provided by operating activities was ¥6.6 billion, compared with ¥1.1 billion in the previous fiscal year. This outcome was a result of income before income taxes of ¥1.3 billion being recorded and of working capital declining due to the ¥3.8 billion decrease in notes and accounts receivable–trade.

Net cash provided by investing activities was ¥0.1 billion, compared with ¥3.2 billion in the previous fiscal year. This was largely because proceeds from sales of investment securities totaling ¥1.8 billion offset outflows for the purchase of investment securities of ¥3.1 billion.

Net cash used in financing activities amounted to ¥1.0 billion, compared with ¥1.6 billion in the previous fiscal year. Major outflows included cash dividends paid.

## 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

profits 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. The Company plans to target a total return (dividend payments and share buy-backs) ratio of 100% of profit attributable to owners of parent for the foreseeable future. Returns will be issued in the form of dividend payments and treasury stock acquisitions.

### Dividend Payments in the Fiscal Year Ended January 31, 2017, and the Fiscal Year Ending January 31, 2018

For the fiscal year ended January 31, 2017, the Company paid ¥20 per share of common stock for the year-end cash dividend, making for an annual cash dividend of ¥40 per share of common stock when combined with the interim dividend. In the fiscal year ending January 31, 2018, the Company is planning to issue a total annual cash dividend of ¥60 per share of common stock, comprising an interim dividend and a year-end dividend of ¥30 each.

### Acquisition and Cancellation of Treasury Stock

The Company acquired a total of 150,000 shares of its own stock worth ¥0.1 billion over the period from March 10 to April 15, 2016. The goal of this acquisition was to facilitate the implementation of more flexible capital measures in response to operating environment changes.

It is the Company's basic policy to maintain treasury stock holdings equivalent to roughly 10% of the total number of shares issued to be used for future business base reinforcement measures. The portion of treasury stock exceeding that level will be canceled in a single batch at the end of each fiscal year, in principle. Accordingly, the Company canceled 800,000 shares of treasury stock (or 2.90% of issued shares prior to the cancellation) on March 17, 2017.

## Risks Pertaining to the Company's Business

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

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

# Consolidated Balance Sheets

Ryoyo Electro Corporation and Consolidated Subsidiaries  
At January 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017.1	2016.1	2017.1
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	¥19,517	¥13,535	\$171,494
Notes and accounts receivable–trade	29,291	33,523	257,373
Securities	1,000	1,538	8,786
Merchandise and finished goods	10,582	11,184	92,985
Deferred tax assets	291	354	2,561
Other	1,247	2,110	10,957
Allowance for doubtful accounts	(5)	(5)	(46)
<b>Total current assets</b>	<b>61,925</b>	<b>62,241</b>	<b>544,112</b>
<b>Noncurrent assets</b>			
<b>Property, plant and equipment</b>			
Tools, furniture and fixtures, net	92	102	809
Land	5	5	50
Other, net	63	71	556
<b>Total property, plant and equipment</b>	<b>161</b>	<b>180</b>	<b>1,415</b>
<b>Intangible assets</b>	<b>630</b>	<b>669</b>	<b>5,540</b>
<b>Investments and other assets</b>			
Investment securities	13,368	11,670	117,462
Net defined benefit asset	1,216	1,075	10,691
Other	716	1,064	6,291
Allowance for doubtful accounts	(44)	(36)	(389)
<b>Total investments and other assets</b>	<b>15,256</b>	<b>13,774</b>	<b>134,055</b>
<b>Total noncurrent assets</b>	<b>16,048</b>	<b>14,624</b>	<b>141,011</b>
<b>Total assets</b>	<b>¥77,973</b>	<b>¥76,865</b>	<b>\$685,124</b>

	Millions of yen		Thousands of U.S. dollars
	2017.1	2016.1	2017.1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable–trade	¥ 9,633	¥ 9,565	\$ 84,646
Income taxes payable	205	142	1,807
Accrued consumption taxes	25	6	221
Provision for bonuses	186	130	1,637
Other	910	1,150	7,997
<b>Total current liabilities</b>	<b>10,961</b>	10,994	<b>96,311</b>
<b>Noncurrent liabilities</b>			
Net defined benefit liability	778	802	6,843
Deferred tax liabilities	1,162	542	10,212
Other	211	603	1,862
<b>Total noncurrent liabilities</b>	<b>2,153</b>	1,948	<b>18,918</b>
<b>Total liabilities</b>	<b>13,114</b>	12,943	<b>115,229</b>
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock	13,672	13,672	120,130
Capital surplus	13,336	13,336	117,182
Retained earnings	38,244	38,997	336,035
Treasury stock	(3,649)	(4,178)	(32,070)
<b>Total shareholders' equity</b>	<b>61,602</b>	61,827	<b>541,277</b>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	2,446	1,085	21,495
Deferred gains or losses on hedges	(0)	9	(2)
Foreign currency translation adjustment	528	743	4,644
Remeasurements of defined benefit plans	222	183	1,953
<b>Total accumulated other comprehensive income</b>	<b>3,197</b>	2,021	<b>28,091</b>
<b>Subscription rights to shares</b>	<b>59</b>	72	<b>525</b>
<b>Total net assets</b>	<b>64,859</b>	63,921	<b>569,894</b>
<b>Total liabilities and net assets</b>	<b>¥77,973</b>	¥76,865	<b>\$685,124</b>

# Consolidated Statements of Income and Consolidated Comprehensive Statements of Income

Ryoyo Electro Corporation and Consolidated Subsidiaries  
For the years ended January 31, 2017 and 2016

Consolidated Statement of Income	Millions of yen		Thousands of U.S. dollars
	2017.1	2016.1	2017.1
<b>Net sales</b>	<b>¥98,417</b>	¥112,332	<b>\$864,756</b>
Cost of sales	90,318	104,479	793,585
<b>Gross profit</b>	<b>8,099</b>	7,852	<b>71,170</b>
<b>Selling, general and administrative expenses</b>			
Provision of allowance for doubtful accounts	7	20	70
Salaries and bonuses	2,750	2,869	24,171
Provision for bonuses	187	130	1,648
Retirement benefit expenses	136	107	1,195
Rent expenses	334	339	2,940
Depreciation	249	197	2,195
Other	3,059	3,311	26,885
<b>Total selling, general and administrative expenses</b>	<b>6,726</b>	6,976	<b>59,106</b>
<b>Operating income</b>	<b>1,373</b>	876	<b>12,064</b>
<b>Non-operating income</b>			
Interest income	65	96	571
Dividend income	111	113	981
Purchase discounts	10	11	91
Gain on valuation of investment securities	66	–	580
Gain on investments in partnership	71	179	631
Other	28	19	246
<b>Total non-operating income</b>	<b>353</b>	420	<b>3,102</b>
<b>Non-operating expenses</b>			
Sales discounts	4	4	35
Loss on redemption of securities	50	–	441
Loss on valuation of investment securities	–	73	–
Foreign exchange losses	108	103	956
Commission fee	11	14	97
Loss on abandonment of noncurrent assets	0	2	7
Other	5	2	49
<b>Total non-operating expenses</b>	<b>180</b>	201	<b>1,587</b>
<b>Ordinary income</b>	<b>1,545</b>	1,096	<b>13,579</b>
<b>Extraordinary income</b>			
Gain on sales of investment securities	105	370	926
<b>Total extraordinary income</b>	<b>105</b>	370	<b>926</b>
<b>Extraordinary losses</b>			
Loss on sales of investment securities	100	101	886
Loss on valuation of investment securities	104	–	917
Impairment loss	–	141	–
Loss on valuation of shares of subsidiaries and associates	99	–	869
Other	4	–	41
<b>Total extraordinary losses</b>	<b>309</b>	243	<b>2,715</b>
<b>Income before income taxes and minority interests</b>	<b>1,341</b>	1,222	<b>11,790</b>
Income taxes—current	396	611	3,486
Income taxes—deferred	122	(132)	1,075
<b>Total income taxes</b>	<b>519</b>	479	<b>4,561</b>
<b>Profit</b>	<b>822</b>	743	<b>7,228</b>
<b>Profit attributable to owners of parent</b>	<b>¥ 822</b>	¥ 743	<b>\$ 7,228</b>
Consolidated Comprehensive Statement of Income			
<b>Profit attributable to owners of parent</b>	<b>822</b>	743	<b>7,228</b>
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities	1,360	(758)	11,958
Deferred gains or losses on hedges	(9)	9	(84)
Foreign currency translation adjustment	(214)	(161)	(1,885)
Remeasurements of defined benefit plans, net of tax	38	(28)	338
<b>Total other comprehensive income</b>	<b>1,175</b>	(937)	<b>10,327</b>
<b>Comprehensive income</b>	<b>1,998</b>	(194)	<b>17,555</b>
(Details)			
Comprehensive income attributable to owners of parent	1,998	(194)	17,555
Comprehensive income attributable to non-controlling interests	–	–	–

# Consolidated Statements of Changes in Net Assets

Ryoyo Electro Corporation and Consolidated Subsidiaries  
For the years ended January 31, 2017 and 2016

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, 2016 to January 31, 2017											
<b>Balance at January 31, 2016</b>	¥13,672	¥13,336	¥38,997	¥(4,178)	¥61,827	¥1,085	¥9	¥743	¥183	¥72	¥63,921
Changes of items during the period											
Dividends from surplus			(859)		(859)						(859)
Profit attributable to owners of parent			822		822						822
Purchase of treasury stock				(200)	(200)						(200)
Retirement of treasury stock			(703)	703	—						—
Exercise subscription rights to shares			(13)	25	12						12
Net changes of items other than shareholders' equity						1,360	(9)	(214)	38	(12)	1,162
Total changes of items during the period	—	—	(753)	528	(224)	1,360	(9)	(214)	38	(12)	937
<b>Balance at January 31, 2017</b>	¥13,672	¥13,336	¥38,244	¥(3,649)	¥61,602	¥2,446	¥0	¥528	¥222	¥59	¥64,859

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, 2015 to January 31, 2016											
<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
Cumulative effects of changes in accounting policies			188		188						188
<b>Restarted balance</b>	13,672	13,336	39,002	(3,270)	62,740	1,843	(0)	904	211	72	65,772
Changes of items during the period											
Dividends from surplus			(748)		(748)						(748)
Profit attributable to owners of parent			743		743						743
Purchase of treasury stock				(908)	(908)						(908)
Net changes of items other than shareholders' equity					—	(758)	9	(161)	(28)	—	(937)
Total changes of items during the period	—	—	(4)	(908)	(913)	(758)	9	(161)	(28)	—	(1,850)
<b>Balance at January 31, 2016</b>	¥13,672	¥13,336	¥38,997	¥(4,178)	¥61,827	¥1,085	¥9	¥743	¥183	¥72	¥63,921

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, 2016 to January 31, 2017											
<b>Balance at January 31, 2016</b>	\$120,130	\$117,182	\$342,657	\$(36,717)	\$543,251	\$9,537	\$81	\$6,529	\$1,615	\$638	\$561,654
Changes of items during the period											
Dividends from surplus			(7,553)		(7,553)						(7,553)
Profit attributable to owners of parent			7,228		7,228						7,228
Purchase of treasury stock				(1,761)	(1,761)						(1,761)
Retirement of treasury stock			(6,181)	6,181	—						—
Exercise subscription rights to shares			(115)	228	112						112
Net changes of items other than shareholders' equity					—	11,958	(84)	(1,885)	338	(112)	10,214
Total changes of items during the period	—	—	(6,622)	4,647	(1,974)	11,958	(84)	(1,885)	338	(112)	8,240
<b>Balance at January 31, 2017</b>	\$120,130	\$117,182	\$336,035	\$(32,070)	\$541,277	\$21,495	\$ (2)	\$4,644	\$1,953	\$525	\$569,894

# Consolidated Statements of Cash Flows

Ryoyo Electro Corporation and Consolidated Subsidiaries  
For the years ended January 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017.1	2016.1	2017.1
<b>I. Cash flows from operating activities</b>			
Income before income taxes	¥ 1,341	¥ 1,222	\$ 11,790
Depreciation and amortization	249	239	2,195
Loss (gain) on sales and retirement of noncurrent assets	1	2	9
Impairment loss	–	141	–
Loss (gain) on investments in partnership	(71)	(179)	(631)
Foreign exchange losses (gains)	(10)	35	(95)
Increase (decrease) in provision	66	30	582
Increase (decrease) in net defined benefit liability	(24)	(12)	(218)
Interest and dividends income	(176)	(209)	(1,553)
Loss (gain) on redemption of securities	50	–	441
Loss (gain) on sales of investment securities	(4)	(268)	(39)
Loss (gain) on valuation of investment securities	38	73	337
Loss on valuation of shares of subsidiaries and associates	99	–	869
Decrease (increase) in notes and accounts receivable–trade	3,879	802	34,085
Decrease (increase) in inventories	486	3,286	4,278
Increase (decrease) in notes and accounts payable–trade	381	(3,188)	3,348
Increase (decrease) in accrued consumption taxes	19	3	170
Other, net	569	(43)	5,006
<b>Subtotal</b>	<b>6,894</b>	<b>1,936</b>	<b>60,578</b>
Interest and dividends income received	190	235	1,676
Income taxes refund (paid)	(409)	(1,002)	(3,600)
<b>Net cash provided by (used in) operating activities</b>	<b>6,675</b>	<b>1,169</b>	<b>58,653</b>
<b>II. Cash flows from investing activities</b>			
Payments into time deposits	(1,180)	–	(10,368)
Proceeds from withdrawal of time deposits	1,015	750	8,921
Proceeds from redemption of securities	1,470	2,000	12,922
Purchase of property, plant and equipment and intangible assets	(193)	(411)	(1,702)
Proceeds from sales of property, plant and equipment and intangible assets	0	–	0
Purchase of investment securities	(3,149)	(3,290)	(27,673)
Proceeds from sales of investment securities	1,801	2,774	15,826
Proceeds from redemption of investment securities	300	1,200	2,635
Purchase of shares of subsidiaries and associates	–	(204)	–
Payments of loans receivable from subsidiaries and associates	(33)	–	(289)
Proceeds from distribution of investment in partnerships	169	393	1,488
Purchase of insurance funds	(3)	–	(29)
Other, net	1	11	16
<b>Net cash provided by (used in) investing activities</b>	<b>198</b>	<b>3,223</b>	<b>1,747</b>
<b>III. Cash flows from financing activities</b>			
Cash dividends paid	(857)	(746)	(7,534)
Purchase of treasury stock	(201)	(908)	(1,766)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,058)</b>	<b>(1,654)</b>	<b>(9,300)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>(8)</b>	<b>(71)</b>	<b>(72)</b>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	<b>5,807</b>	<b>2,666</b>	<b>51,028</b>
<b>VI. Cash and cash equivalents at beginning of period</b>	<b>13,535</b>	<b>10,868</b>	<b>118,930</b>
<b>VII. Cash and cash equivalents at end of period</b>	<b>¥19,343</b>	<b>¥13,535</b>	<b>\$169,959</b>

# Corporate Data / Investor Information

As of January 31, 2017

## 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.html>

## Date of Incorporation

February 27, 1961

## Paid-in Capital

¥13,672 million

## Authorized Shares

119,628,800

## Shares Issued

27,600,000

## Shareholders

5,063

## 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



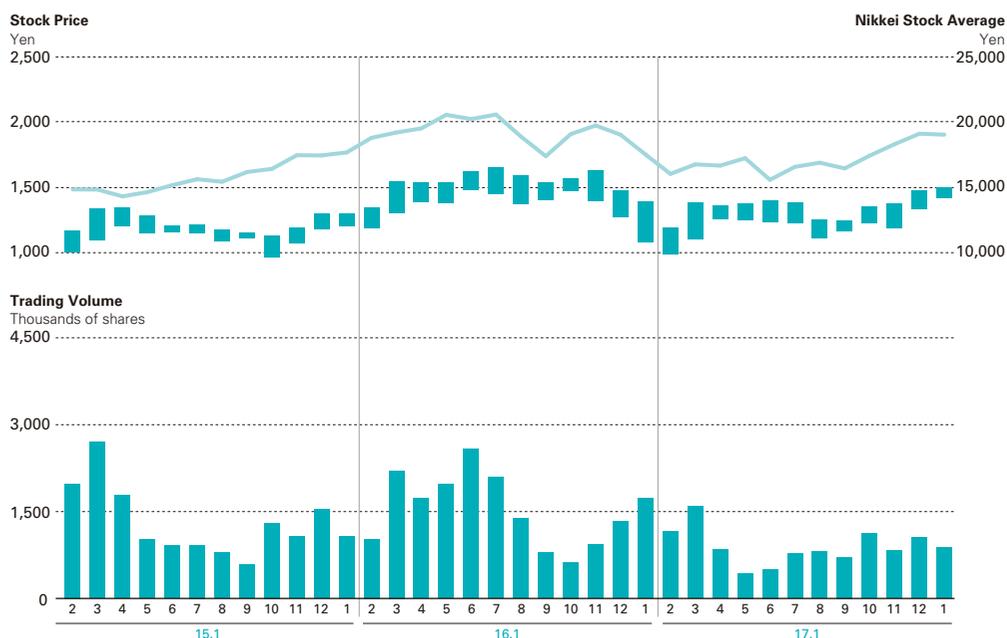
Foreign corporations and other foreign investors	26.4%
Other corporations	23.3%
Individuals and other	19.3%
Financial institutions	19.2%
Treasury stock	11.2%
Securities companies, etc.	0.6%

## Major Shareholders

	Thousands of shares	%
CGML PB CLIENT ACCOUNT/COLLATERAL	3,931	16.04
Mitsubishi Electric Corporation	2,246	9.17
SHC Corporation	2,118	8.64
Japan Trustee Services Bank, Ltd. (Trust account)	1,916	7.82
Aya Nomura	1,110	4.53
The Master Trust Bank of Japan (Trust account)	642	2.62
Sheep Shokai Co.	523	2.14
Nippon Life Insurance Company	409	1.67
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	390	1.59
Japan Trustee Services Bank, Ltd. (Trust account 9)	349	1.43

Note: Calculations for the ownership percentages above did not account for the 3,092,672 shares of treasury stock.

## Stock Price Chart





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

- Registered Offices  
Headquarters  
Branch offices (Sendai, Matsumoto, Omiya,  
Hachioji, Yokohama, Nagoya, Osaka)  
Sales offices (Kyoto, Fukuoka)  
Ryoyo Semicon Corporation  
Ryoyo Security Service Corporation



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.