

# **ANNUAL REVIEW 2018**

Fiscal year ended  
January 31, 2018

# 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.

Today, Ryoyo Electro has grown into an electronics trading company with both a semiconductor and device business and an ICT and solutions business, and we are currently focusing on our Internet of Things (IoT) operations that take advantage of the strengths of these two businesses. The Company is moving forward with the development of a service-oriented business model that offers comprehensive support encompassing everything from semiconductor devices to networks, cloud computing, servers, and operation and maintenance services. With this business model, we support companies in a broad spectrum of industries in transforming their business models through the introduction of IoT.



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### 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.

## Message from Management



The Ryoyo Group operates in the electronics industry, which is seeing ongoing, brisk investment by companies in the Internet of Things, or IoT, field. At the same time, there is a rising sense of anticipation with regard to the practical application of artificial intelligence and deep learning.

In this environment, we moved forward with the medium-term management plan set to conclude with the fiscal year ending January 31, 2019. We thus sought to transform Ryoyo Electro into a high-value-adding company by implementing the plan's five basic strategies: 1) expand core businesses through an IoT approach; 2) strategically focus investments on areas anticipated to contribute to future growth; 3) accelerate global strategies; 4) strengthen operating foundations to achieve ongoing growth; and 5) promote CSR management.

Regardless of these efforts, net sales in the year under review declined 6.3% year on year, to ¥92.2 billion; operating income was down 81.7%, to ¥0.2 billion; ordinary income decreased 72.0%, to ¥0.4 billion; and profit attributable to owners of parent fell 74.1%, to ¥0.2 billion. Factors behind this outcome included lower sales of semiconductors and devices resulting from changes in the policies of a semiconductor manufacturer and downward pressure placed on income by inventory write-downs.

Given the recent business trends and relatively slow progress in our IoT business, we instituted a downward revision to the medium-term management plan's performance targets for the fiscal year ending January 31, 2019.

It was against this backdrop that the Ryoyo Group began operating under the guidance of a new management team following the appointment of Moritaka Nakamura as president and chief operating officer of Ryoyo Electro Corporation on April 26, 2018. The new management team will lead the Group in overcoming the current adversity to achieve further growth and improved performance going forward. We look forward to the ongoing support of our stakeholders as we tackle the challenges to come.

Kenhachiro Ogawa

Moritaka Nakamura



## To Our Shareholders



**Moritaka Nakamura**  
President and  
Chief Operating Officer

Moritaka Nakamura joined Isetan Co., Ltd., in 1984, where he gained experience in corporate planning, sales planning, human resources, and IT strategies. After joining the Company in May 2017, he was primarily engaged in management reforms, becoming a managing executive officer in August 2017 and then being appointed president and chief operating officer of the Company in April 2018.

Greetings. I am Moritaka Nakamura, the new president and COO of Ryoyo Electro Corporation. I would like to take this opportunity to thank all of our stakeholders for their ongoing support of the Ryoyo Group.

The Ryoyo Group strives to provide stakeholders with satisfaction exceeding their expectations and to inspire them by offering unique value in any era. We see this mission as the very meaning for our existence.

To accomplish this mission, it will be crucial for us to organically merge the strengths we have cultivated in our core semiconductor and device business and ICT and solutions

business over the course of our history in order to create new value in the IoT field, among others.

The Ryoyo Group recently put forth a new slogan for its transformation: “Connect Everything. With Technology. With Ideas.” Guided by this slogan, I will work together with our employees as we aspire to make the Group into an entity that is always deemed to have value by the stakeholders that support us, including our shareholders, customers, and business partners. I hope we can look forward to your ongoing support as we make strides toward this goal.

## Initiatives for Creating Unique Value

### Expand Core Businesses through an IoT Approach

The Ryoyo Group’s IoT approach entails a high-value-added business model that merges the products and services of its core semiconductor and device business and ICT and solutions business to help its customers advance their strategies and resolve their issues.

Although it has taken longer than initially anticipated to launch our IoT field initiatives, we are still committed to steadily growing our IoT business into a third pillar of operations.

In the year under review, we moved ahead with “field and

mobile work innovations,” which involve utilizing ICT and the IoT to reform frontline work styles. As one facet of these activities, we commenced a business that serves corporate clients engaged in airport handling operations, which often include traveler services and operational support. In this business, we have already made comprehensive proposals for helping customers accomplish tasks such as ensuring safety and timely operation. These proposals encompass everything from on-site confirmation of conditions by stationed Company representatives to identify operational issues and preliminary verification of improvement measures utilizing ICT and IoT technologies to the actual introduction of related systems.

**New transformation slogan:**

**“Connect Everything.  
With Technology. With Ideas.”**

### **Strategically Focus Investments on Areas Anticipated to Contribute to Future Growth**

One of the Ryoyo Group's policies is to step up strategic investments in mergers, acquisitions, research and development, and human resources with the aim of expanding its IoT business and cultivating new strengths. In the year under review, such investments included the commencement of business and capital alliances with companies possessing solutions that will be key to augmenting and expanding the Company's IoT business. In addition, we invested in development activities for purposes such as bolstering the functionality of solutions that have already been embraced by customers.

#### **Investments in the Fiscal Year Ended January 31, 2018**

##### **Business and Capital Alliances**

###### **◆ Uhuru Corporation**

Development and provision of solutions based on Uhuru's nebular IoT platform for swiftly transforming customers' proofs of concept into IoT businesses

###### **◆ Afero, Inc.**

Deployment of fast, easy, and safe platforms for the non-IP devices anticipated to become a growing presence in the IoT market

###### **◆ otta inc.**

Commencement of IoT monitoring services that use beacons to address the social issue presented by a lack of people to look after children and senior citizens

##### **Solutions Development Investment**

◆ Increased adoption anticipated for store operation IT portal (work order management system) currently installed at drug and other stores in conjunction with the proliferation of cloud technologies

◆ Start of development activities for expediting transition from proof of concept to practical service in relation to the environmental data collection and monitoring technologies of Libelium Comunicaciones Distribuidas S.L.

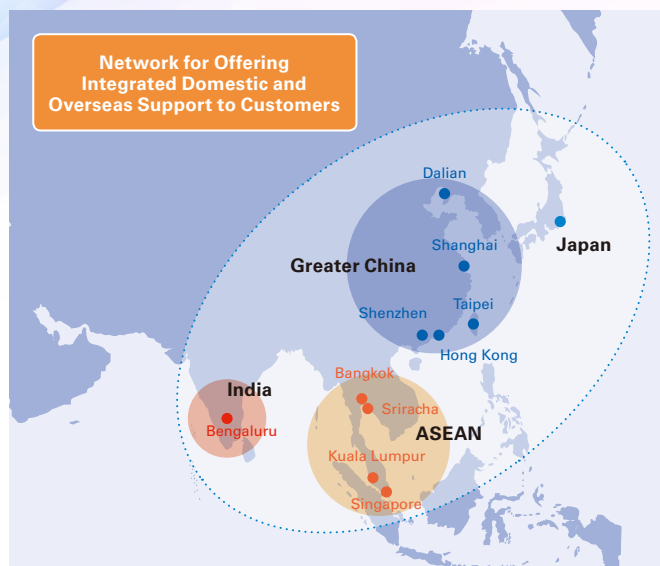
## To Our Shareholders

### Accelerate Global Strategies

Our business relocation support services, which have traditionally been a pillar of overseas operations, are facing a major turning point brought about by the transference of commercial rights and the expansion of customers' production areas. We are currently working to accommodate customers shifting production activities overseas by entering new markets, as we did with the establishment of a base in India in 2016. At the same time, we are constructing systems for offering comprehensive domestic and overseas support in order to assist with such business relocations.

Furthermore, we are preparing for the further expansion of overseas operations by accelerating the business activities that individual overseas bases advance autonomously while leveraging their unique aptitudes. We have already generated results through certain projects in our efforts to uncover local customers and products in the Greater China region, among others. In Thailand, meanwhile, we have established a new

company to launch a business that will entail the rental of forklifts and other transporting equipment and the provision of factory automation solutions.



### CSR Activity

#### Development of Stable, High-Speed Communications Network around the “Miracle Pine”

Ryoyo Electro was responsible for installing the infrastructure necessary to create Wi-Fi access points in the area around the “Miracle Pine,”\* which is a symbol of post-Great East Japan Earthquake reconstruction in Iwate Prefecture's city of Rikuzentakata.

In the area surrounding the “Miracle Pine,” it has been difficult to install wired communications infrastructure in conjunction with the reconstruction effort, resulting in a lack of communications networks. Ryoyo Electro sought to address this situation by providing access points through wireless backhaul technologies, which represent one of the key solutions of its IoT business.

We were thereby successful in creating a stable, high-speed wireless communications network.

This network is currently being used for reconstruction purposes and by tourists. In the future, we hope to utilize the network to establish infrastructure for disaster prevention centers. One way we envision accomplishing this goal is by installing Internet surveillance cameras to monitor waves in real time.

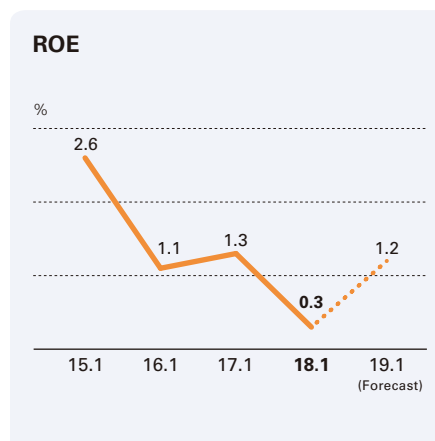
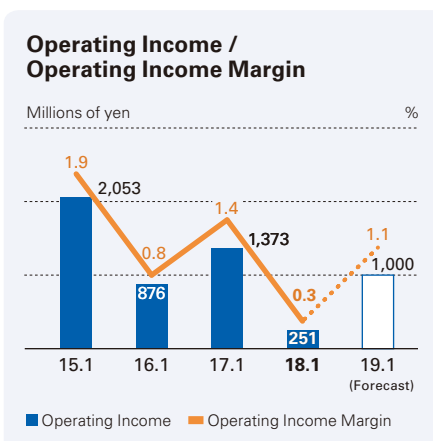
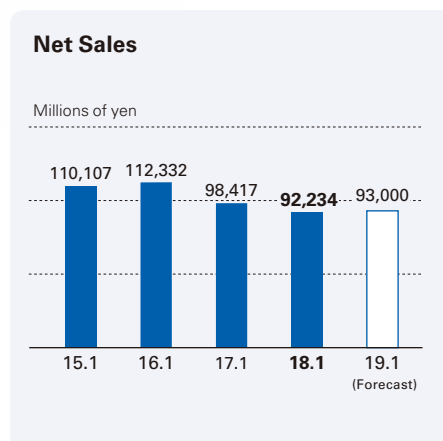


\* The tsunamis that followed the Great East Japan Earthquake washed away approximately 70,000 pine trees in Rikuzentakata. Only one pine tree remained after the tsunamis. Although this tree withered due to the severe damage sustained from exposure to seawater, it has been preserved as a symbol of the effort to reconstruct from the impacts of the earthquake.

## Outlook for the Fiscal Year Ending January 31, 2019

In the fiscal year ending January 31, 2019, we expect that our semiconductor and device business will continue to face a difficult operating environment due to the impacts of changes in the policies of a semiconductor manufacturer. The ICT and solutions business, meanwhile, is anticipated to see profitability improve in conjunction with the launch of high-value-added

operations. These factors, together with the absence of certain one-time inventory write-downs recorded in the year under review, are projected to result in massive improvements in operating income, ordinary income, and profit attributable to owners of parent.



## Shareholder Returns

Ryoyo Electro views returning profits to its shareholders as one of its most important management tasks. With an emphasis on stable dividends, it is our basic policy to target a total return ratio of 100% of profit attributable to owners of parent. In the year under review, we increased dividend payments by ¥20, making for an annual cash dividend of ¥60 per share of common stock. For the fiscal year ending January 31, 2019,

we plan to issue an annual cash dividend of ¥60 per share, the same as in the year under review.

	2016.1	2017.1	2018.1	2019.1 (Forecast)
Annual Cash Dividend (Yen)	30.00	40.00	60.00	60.00
Payout Ratio (%)	100.0	119.2	691.0	183.8

## Pursuit of Higher Corporate Value

The Ryoyo Group possesses a wealth of assets, including its commercial rights, client base, operating bases, funds, and talented and dedicated human resources. However, we are currently failing to take full advantage of these resources, an issue that will need to be addressed going forward. By transforming these assets into effective management resources,

we will grow the Ryoyo Group into a conglomerate that can win out against the competition. Furthermore, we hope to become a valuable partner bridging the gaps between all of our stakeholders in order to become the driving force behind value creation and the provision of inspiration to stakeholders.

# Corporate Governance

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

As of June 1, 2018



**Kenhachiro Ogawa**  
Chairman and CEO



**Moritaka Nakamura**  
President and COO



**Takayoshi Oouchi**  
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**

Senior Executive Officers

**Masaaki Tanabe**

**Kiyoshi Waki**

**Yoshitsugu Tamakoshi**

**Yasushi Okazaki**

Executive Officers

**Seiju Yasuda**

**Hideki Suzuki**

**Atsuyuki Ohashi**

**Mitsuru Tsukuba**

### 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, 2018	12
Number of Audit & Supervisory Board meetings held during the fiscal year ended January 31, 2018	12

### Directors and Board of Directors

The Board of Directors, which consists of eight directors (as of April 26, 2018), of whom two are outside directors, 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 26, 2018), of whom three are outside Audit & Supervisory Board Members.

In principle, the Audit & Supervisory Board meets once a month and met a total of 12 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.



## Directors and Audit & Supervisory Board Member

Directors	Reason for appointment
Kenhachiro Ogawa	Kenhachiro Ogawa has been involved in the management of the Company for many years, possesses broad insight into the overall management of electronics trading companies, and has demonstrated strong leadership.
Moritaka Nakamura	Moritaka Nakamura possesses wide-ranging experience, broad insight, and an extensive network of corporate relationships cultivated at his previous position. At the Company, he has been engaged in the comprehensive management of sales-, technology-, and overseas marketing-related activities while promoting management reforms. For these reasons, the Company believes that he is capable of contributing to the improvement of 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.
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.
Kiyoshi Waki	Kiyoshi Waki has cultivated a wealth of expertise in Japan and overseas through his experience 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.
Yoshitsugu Tamakoshi	Yoshitsugu Tamakoshi has many years of experience in the semiconductor and device businesses of Mitsubishi Electric Corporation and the Company, and he thus possesses extensive expertise and broad insight into this business area.

Audit & Supervisory Board Member	Reason for appointment
Yutaka Horikiri	Yutaka Horikiri has accumulated accounting and management experience through his years of service in the Company's Administration Division and Corporate Strategy Division and possesses extensive insight related to finance and accounting.

## Outside Directors and Audit & Supervisory Board Members

Outside directors	Reason for appointment	Attendance at meetings of the Board of Directors
Yoshiharu Hayakawa	Yoshiharu Hayakawa possesses expert knowledge as a certified public accountant as well as extensive experience and broad insight as a management consultant. For these reasons, the Company believes that he is suited to help strengthen the corporate governance systems and improve the corporate value of the Company.	12/12
Tsumiko Nakahara	Tsumiko Nakahara has specialized expertise with regard to all areas of corporate legal affairs based on her long history as an attorney and her related scholarly knowledge and experience. For these reasons, the Company believes that she is suited to help strengthen the corporate governance systems and improve the corporate value 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 possesses specialized insight into all areas of corporate legal affairs based on his long career as an attorney and his related scholarly knowledge and experience.	12/12	12/12
Tsutomu Nobeche	Tsutomu Nobeche possesses considerable insight into financial and accounting matters gained through his years of experience at auditing firms.	12/12	12/12
Kazumi Akiyama	Kazumi Akiyama gained a wealth of insight through his years of employment at central government offices.	12/12	12/12

## 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/csr.html>

## Compensation of Directors and Audit & Supervisory Board Members

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.

	Compensation by type (millions of yen)					Number of applicable individuals
	Total compensation	Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	123	123	—	—	—	7
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	14	14	—	—	—	1
Outside officers	33	33	—	—	—	5

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

# 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, the survey indicated that the quality of discussion at Board of Directors' meetings was improving as seen in the readiness of members to pose questions and voice opinions. At the same time, directors and Audit & Supervisory Board Members provided various suggestions through the survey regarding factors such as the timing of provision of materials pertaining to Board of Directors' meetings, the medium-to-long-term management issues and other items requiring examination by the Board of Directors, and the cultivation of mutual understanding between outside officers and management.

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 Group 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 to the Group
- (4) System for ensuring the efficient execution of duties by Group directors
- (5) System for ensuring the appropriateness of operations undertaken by the corporate group consisting of Ryoyo Electro and its subsidiaries and for facilitating reporting to the Company with regard to the execution of duties by directors and other individuals at subsidiaries
- (6) Items concerning employees requested by the Audit & Supervisory Board to serve as assistants, the independence of these employees from directors, and the effectiveness of the orders issued to such employees by Audit & Supervisory Board Members
- (7) System concerning reports submitted by directors and employees of the Company and by directors, audit & supervisory board members, and employees of subsidiaries to the Audit & Supervisory Board of the Company; other systems concerning reports submitted to the Audit & Supervisory Board; and systems for ensuring that individuals issuing such reports do not suffer disadvantageous treatment due to reporting
- (8) Items related to policies concerning the procedures through which Audit & Supervisory Board Members may receive reimbursement,

prior to or after the fact, for expenses incurred during the execution of their duties as well as the treatment of other expenses and liabilities incurred as part of the execution of duties

- (9) 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. For more information on business risks, please refer to the following section of the Company's corporate website.

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

## 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 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, 2018, 2017, 2016, 2015, and 2014

Thousands of  
U.S. dollars\*

	Millions of yen					
	2018.1	2017.1	2016.1	2015.1	2014.1	2018.1
<b>For the Year</b>						
Net sales	¥ 92,234	¥ 98,417	¥ 112,332	¥ 110,107	¥ 97,887	\$847,826
Gross profit	7,591	8,099	7,852	8,801	8,279	69,778
Selling, general and administrative expenses	7,339	6,726	6,976	6,747	6,627	67,467
Operating income	251	1,373	876	2,053	1,651	2,311
Profit attributable to owners of parent	212	822	743	1,683	1,342	1,956
Free cash flows	(4,162)	6,874	4,392	467	(1,369)	(38,262)
<b>At Year-End</b>						
Total assets	¥ 78,111	¥ 77,973	¥ 76,865	¥ 82,937	¥ 79,893	\$718,004
Total net assets	64,404	64,859	63,921	65,583	63,112	592,010
<b>Per Share of Common Stock</b> (Yen / U.S. dollars)						
Net income	¥ 8.68	¥ 33.54	¥ 30.01	¥ 66.74	¥ 52.17	\$ 0.08
Total net assets	2,625.66	2,644.10	2,591.70	2,595.83	2,498.70	24.14
Cash dividends	60.00	40.00	30.00	30.00	30.00	0.55
<b>Ratios (%)</b>						
Gross profit margin	8.2	8.2	7.0	8.0	8.5	
Operating margin	0.3	1.4	0.8	1.9	1.7	
Net income margin	0.2	0.8	0.7	1.5	1.4	
Equity ratio	82.4	83.1	83.1	79.0	78.9	
Return on equity	0.3	1.3	1.1	2.6	2.2	
<b>Other Information</b>						
Number of shares issued**	24,506,240	24,507,328	24,636,009	25,237,095	25,226,060	
Number of employees	510	498	501	510	513	

\* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥108.79=U.S.\$1.00, the exchange rate prevailing on January 31, 2018.

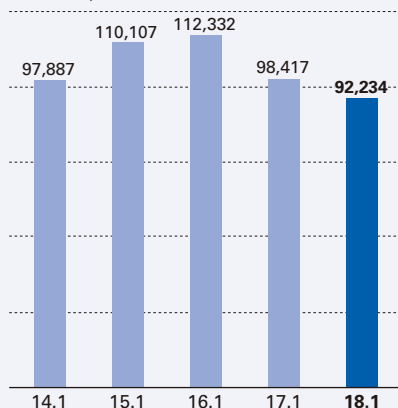
\*\* Number of shares issued does not include treasury stock.

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.

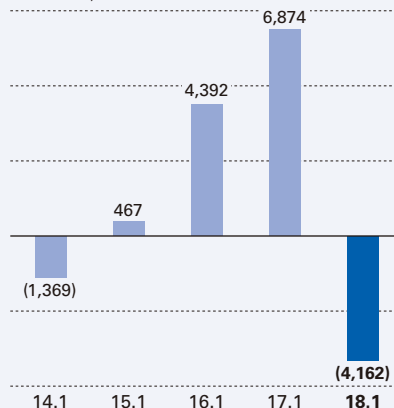
## Net Sales

Millions of yen



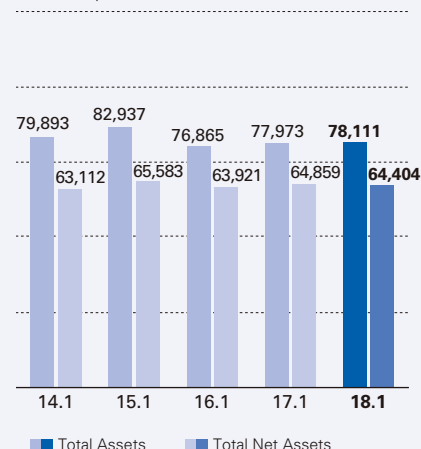
## Free Cash Flows

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, 2018, the domestic economy saw a recovery in corporate earnings and capital investment as well as in the job market. This recovery was supported by stable economic growth centered on the United States and Europe that occurred despite the persistent concerns pertaining to geopolitical risks.

In the electronics industry, where the Ryoyo Group operates, robust semiconductor demand was present in a wide range of sectors, which was largely driven by the recovery of industrial fields. In addition, we witnessed the continuation of brisk investment by companies in the Internet of Things (IoT) field; and the sense of anticipation related to the practical application of artificial intelligence and deep learning is growing on a daily basis.

## ● Results for the Fiscal Year Ended January 31, 2018

Under these conditions, the Ryoyo Group accelerated its initiatives in the IoT field, which have been positioned as part of its growth strategies. However, changes to the policies of semiconductor manufacturers as well as production adjustments by major customers led to sales decreases in the Group's semiconductor and device business. In addition, inventory write-downs were recorded in reflection of revisions to our plans for communications network-related operations, which have been positioned as one part of our IoT field initiatives.

As a result of these factors, consolidated net sales decreased 6.3% year on year, to ¥92.2 billion; operating income decreased 81.7%, to ¥0.2 billion; and ordinary income declined 72.0%, to ¥0.4 billion. Similarly, profit attributable to owners of parent fell 74.1%, to ¥0.2 billion.

### Sales by Segment

#### Semiconductors and Devices

Net sales of semiconductors and devices decreased ¥7.4 billion year on year, or 12.8%, to ¥50.9 billion.

Sales of products for communications applications decreased 6.3%, to ¥8.1 billion, as the Company ceased dealing in certain products.

Sales of products for digital consumer electronics fell 27.5%, to ¥5.8 billion, following a decline in sales of products for use in televisions and amusement equipment.

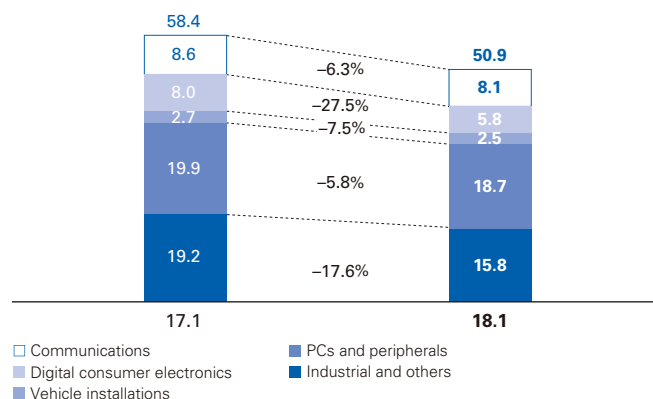
Sales of vehicle installations were relatively unchanged year on year, declining 7.5%, to ¥2.5 billion.

Sales of products for PCs and peripherals decreased 5.8%, to ¥18.7 billion, due to poor performance in operations targeting domestic PC manufacturers as well as a decline in sales of products for use in printers and other peripherals.

Sales of products for industrial and other applications were down 17.6%, to ¥15.8 billion, primarily due to the impacts of the transfer of distribution rights.

### Sales by Applications

Billions of yen



### ICT and Solutions

Net sales of ICT and solutions increased ¥1.3 billion year on year, or 3.3%, to ¥41.3 billion.

Sales of PC, server, and network products decreased 5.7%, to ¥9.4 billion, owing to a delay in the full-fledged launch of an IoT-related business that exceeded initial projections.

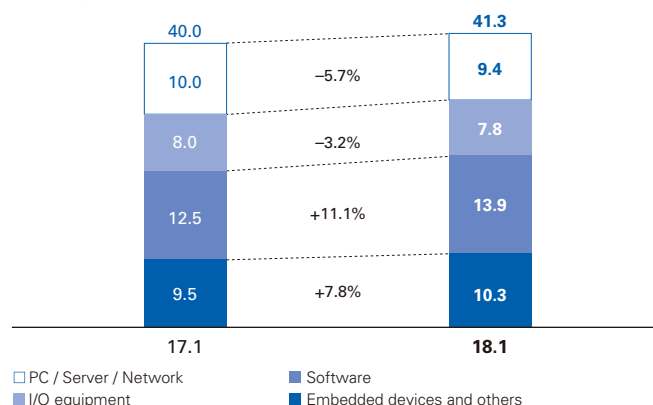
Sales of I/O equipment were down 3.2%, to ¥7.8 billion, as performance was more or less in line with forecasts, primarily in printer operations.

Sales of software were up 11.1%, to ¥13.9 billion, as a result of strong performance in operations targeting overseas PC manufacturers.

Sales of embedded devices and other products increased 7.8%, to ¥10.3 billion, primarily due to 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 ¥3.4 billion year on year, or 4.3%, to ¥75.8 billion, following a decline in sales of semiconductors for industrial applications and PCs. As a result, operating income in this regional segment was down ¥1.0 billion, or 86.6%, to ¥0.1 billion.

### Asia

Sales to external customers in Asia decreased ¥2.7 billion year on year, or 14.5%, to ¥16.4 billion, as a result of a decline in sales of products for use in televisions and amusement equipment. Accordingly, operating income in this regional segment decreased ¥48 million, or 36.2%, to ¥84 million.

The figure for operating income presented in 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 ¥78.1 billion, ¥0.1 billion higher than at the previous fiscal year-end. This was primarily due to an increase in investment securities.

Total liabilities were up ¥0.5 billion, to ¥13.7 billion, mainly due to an increase in deferred tax liabilities.

Total net assets decreased ¥0.4 billion, to ¥64.4 billion. This was largely due to a decline in retained earnings.

## ● Cash Flows

Cash and cash equivalents totaled ¥13.8 billion at the fiscal year-end, a ¥5.4 billion year-on-year decrease. Major factors included outflows for the acquisition of investment securities.

Net cash provided by operating activities came to ¥3.0 billion. This outcome was a result of income before income taxes of ¥0.4 billion being recorded and of working capital declining.

Net cash used in investing activities amounted to ¥7.2 billion. This was largely because outflows for the purchase of investment securities of ¥12.8 billion offset proceeds from sales of investment securities of ¥4.0 billion.

Net cash used in financing activities amounted to ¥1.2 billion. 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. With a focus on stable dividends, the Company plans to target a total return (dividend payments and share buybacks) ratio of 100% for the foreseeable future.

### Dividend Payments in the Fiscal Year Ended January 31, 2018, and the Fiscal Year Ending January 31, 2019

For the fiscal year ended January 31, 2018, the Company paid ¥30 per share of common stock for the year-end cash dividend, making for an annual cash dividend of ¥60 per share of common stock when combined with the interim dividend. In the fiscal year ending January 31, 2019, 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.

## ● 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

For more information, please refer to the Company's corporate website.

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

# Consolidated Balance Sheets

Ryoyo Electro Corporation and Consolidated Subsidiaries  
At January 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018.1	2017.1	2018.1
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	¥14,040	¥19,517	\$129,056
Notes and accounts receivable—trade	25,912	29,291	238,192
Securities	649	1,000	5,967
Merchandise and finished goods	10,857	10,582	99,798
Deferred tax assets	497	291	4,575
Other	1,378	1,247	12,672
Allowance for doubtful accounts	(2)	(5)	(25)
<b>Total current assets</b>	<b>53,332</b>	<b>61,925</b>	<b>490,236</b>
<b>Noncurrent assets</b>			
<b>Property, plant and equipment</b>			
Tools, furniture and fixtures, net	81	92	747
Land	5	5	52
Other, net	76	63	707
<b>Total property, plant and equipment</b>	<b>163</b>	<b>161</b>	<b>1,506</b>
<b>Intangible assets</b>	<b>454</b>	<b>630</b>	<b>4,179</b>
<b>Investments and other assets</b>			
Investment securities	21,930	13,368	201,587
Net defined benefit asset	1,458	1,216	13,411
Other	1,152	716	10,592
Allowance for doubtful accounts	(381)	(44)	(3,507)
<b>Total investments and other assets</b>	<b>24,160</b>	<b>15,256</b>	<b>222,083</b>
<b>Total noncurrent assets</b>	<b>24,778</b>	<b>16,048</b>	<b>227,768</b>
<b>Total assets</b>	<b>¥78,111</b>	<b>¥77,973</b>	<b>\$718,004</b>

	Millions of yen		Thousands of U.S. dollars
	2018.1	2017.1	2018.1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable–trade	¥ 9,653	¥ 9,633	\$ 88,737
Income taxes payable	419	205	3,852
Accrued consumption taxes	87	25	801
Provision for bonuses	205	186	1,890
Other	716	910	6,590
<b>Total current liabilities</b>	<b>11,082</b>	<b>10,961</b>	<b>101,869</b>
<b>Noncurrent liabilities</b>			
Net defined benefit liability	790	778	7,264
Deferred tax liabilities	1,429	1,162	13,136
Other	405	211	3,725
<b>Total noncurrent liabilities</b>	<b>2,624</b>	<b>2,153</b>	<b>24,125</b>
<b>Total liabilities</b>	<b>13,706</b>	<b>13,114</b>	<b>125,994</b>
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock	13,672	13,672	125,673
Capital surplus	13,336	13,336	122,589
Retained earnings	36,287	38,244	333,556
Treasury shares	(2,707)	(3,649)	(24,890)
<b>Total shareholders' equity</b>	<b>60,588</b>	<b>61,602</b>	<b>556,928</b>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	3,013	2,446	27,704
Deferred gains or losses on hedges	(0)	(0)	(8)
Foreign currency translation adjustment	430	528	3,954
Remeasurements of defined benefit plans	313	222	2,882
<b>Total accumulated other comprehensive income</b>	<b>3,756</b>	<b>3,197</b>	<b>34,532</b>
<b>Subscription rights to shares</b>	<b>59</b>	<b>59</b>	<b>550</b>
<b>Total net assets</b>	<b>64,404</b>	<b>64,859</b>	<b>592,010</b>
<b>Total liabilities and net assets</b>	<b>¥78,111</b>	<b>¥77,973</b>	<b>\$718,004</b>

# Consolidated Statements of Income and Consolidated Comprehensive Statements of Income

Ryoyo Electro Corporation and Consolidated Subsidiaries  
For the years ended January 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018.1	2017.1	2018.1
Consolidated Statement of Income			
<b>Net sales</b>	<b>¥92,234</b>	<b>¥98,417</b>	<b>\$847,826</b>
Cost of sales	84,643	90,318	778,048
<b>Gross profit</b>	<b>7,591</b>	<b>8,099</b>	<b>69,778</b>
<b>Selling, general and administrative expenses</b>			
Provision of allowance for doubtful accounts	229	7	2,108
Salaries and bonuses	2,900	2,750	26,666
Provision for bonuses	205	187	1,886
Retirement benefit expenses	119	136	1,097
Rent expenses	345	334	3,178
Depreciation	224	249	2,066
Other	3,314	3,059	30,466
<b>Total selling, general and administrative expenses</b>	<b>7,339</b>	<b>6,726</b>	<b>67,467</b>
<b>Operating income</b>	<b>251</b>	<b>1,373</b>	<b>2,311</b>
<b>Non-operating income</b>			
Interest income	73	65	674
Dividend income	157	111	1,447
Purchase discounts	8	10	76
Gain on valuation of investment securities	—	66	—
Gain on investments in partnership	55	71	509
Other	19	28	178
<b>Total non-operating income</b>	<b>313</b>	<b>353</b>	<b>2,884</b>
<b>Non-operating expenses</b>			
Sales discounts	7	4	72
Loss on redemption of securities	—	50	—
Foreign exchange losses	99	108	912
Commission fee	9	11	86
Loss on abandonment of noncurrent assets	12	0	117
Other	3	5	35
<b>Total non-operating expenses</b>	<b>132</b>	<b>180</b>	<b>1,221</b>
<b>Ordinary income</b>	<b>432</b>	<b>1,545</b>	<b>3,974</b>
<b>Extraordinary income</b>			
Gain on sales of investment securities	242	105	2,227
<b>Total extraordinary income</b>	<b>242</b>	<b>105</b>	<b>2,227</b>
<b>Extraordinary losses</b>			
Loss on sales of investment securities	33	100	307
Loss on valuation of investment securities	28	104	261
Loss on valuation of shares of subsidiaries and associates	—	99	—
Loss on liquidation of subsidiaries and associates	124	—	1,142
Other	—	4	—
<b>Total extraordinary losses</b>	<b>186</b>	<b>309</b>	<b>1,711</b>
<b>Income before income taxes and minority interests</b>	<b>488</b>	<b>1,341</b>	<b>4,491</b>
Income taxes-current	507	396	4,664
Income taxes-deferred	(231)	122	(2,129)
<b>Total income taxes</b>	<b>275</b>	<b>519</b>	<b>2,535</b>
<b>Profit</b>	<b>212</b>	<b>822</b>	<b>1,956</b>
<b>Profit attributable to owners of parent</b>	<b>¥ 212</b>	<b>¥ 822</b>	<b>\$ 1,956</b>
Consolidated Comprehensive Statement of Income			
<b>Profit attributable to owners of parent</b>	<b>212</b>	<b>822</b>	<b>1,956</b>
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities	567	1,360	5,217
Deferred gains or losses on hedges	(0)	(9)	(5)
Foreign currency translation adjustment	(98)	(214)	(905)
Remeasurements of defined benefit plans, net of tax	91	38	838
<b>Total other comprehensive income</b>	<b>559</b>	<b>1,175</b>	<b>5,144</b>
<b>Comprehensive income</b>	<b>772</b>	<b>1,998</b>	<b>7,100</b>
(Details)			
Comprehensive income attributable to owners of parent	772	1,998	7,100
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, 2018 and 2017

From February 1, 2017 to January 31, 2018	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					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	Remeasure- ments of defined benefit plans	Subscription rights to shares	
<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
Changes of items during the period											
Dividends from surplus			(1,225)		(1,225)						(1,225)
Profit attributable to owners of parent			212		212						212
Purchase of treasury shares				(2)	(2)						(2)
Disposal of treasury shares			0	0	0						0
Retirement of treasury shares			(944)	944	-						-
Net changes of items other than shareholders' equity						567	(0)	(98)	91	-	559
Total changes of items during the period	-	-	(1,956)	942	(1,014)	567	(0)	(98)	91	-	(454)
<b>Balance at January 31, 2018</b>	¥13,672	¥13,336	¥36,287	¥(2,707)	¥60,588	¥3,013	¥(0)	¥430	¥313	¥59	¥64,404

From February 1, 2016 to January 31, 2017	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					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	Remeasure- ments of defined benefit plans	Subscription rights to shares	
<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 shares				(200)	(200)						(200)
Retirement of treasury shares			(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

From February 1, 2017 to January 31, 2018	Thousands of U.S. dollars										
	Shareholders' equity					Accumulated other comprehensive income					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	Remeasure- ments of defined benefit plans	Subscription rights to shares	
<b>Balance at January 31, 2017</b>	\$125,673	\$122,589	\$351,541	\$(33,549)	\$566,254	\$22,487	\$(2)	\$4,858	\$2,044	\$550	\$596,191
Changes of items during the period											
Dividends from surplus			(11,263)		(11,263)						(11,263)
Profit attributable to owners of parent			1,955		1,955						1,955
Purchase of treasury shares				(19)	(19)						(19)
Disposal of treasury shares			0	0	0						0
Retirement of treasury shares			(8,678)	8,678	-						-
Net changes of items other than shareholders' equity						5,216	(5)	(904)	837	-	5,144
Total changes of items during the period	-	-	(17,985)	8,659	(9,326)	5,216	(5)	(904)	837	-	(4,181)
<b>Balance at January 31, 2018</b>	\$125,673	\$122,589	\$333,555	\$(24,890)	\$556,928	\$27,704	\$(7)	\$3,953	\$2,881	\$550	\$592,010

# Consolidated Statements of Cash Flows

Ryoyo Electro Corporation and Consolidated Subsidiaries  
For the years ended January 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018.1	2017.1	2018.1
<b>I. Cash flows from operating activities</b>			
Income before income taxes	¥ 488	¥ 1,341	\$ 4,491
Depreciation and amortization	226	249	2,080
Loss (gain) on sales and retirement of noncurrent assets	12	1	117
Loss (gain) on investments in partnership	(55)	(71)	(509)
Foreign exchange losses (gains)	(17)	(10)	(160)
Increase (decrease) in provision	253	66	2,333
Increase (decrease) in net defined benefit liability	0	(24)	8
Interest and dividends income	(230)	(176)	(2,121)
Loss (gain) on redemption of securities	–	50	–
Loss (gain) on sales of investment securities	(208)	(4)	(1,920)
Loss (gain) on valuation of investment securities	28	38	261
Loss on valuation of shares of subsidiaries and associates	–	99	–
Loss on liquidation of subsidiaries and associates	124	–	1,142
Decrease (increase) in notes and accounts receivable–trade	3,308	3,879	30,412
Decrease (increase) in inventories	(291)	486	(2,683)
Increase (decrease) in notes and accounts payable–trade	92	381	852
Increase (decrease) in accrued consumption taxes	62	19	570
Other, net	(604)	569	(5,554)
<b>Subtotal</b>	<b>3,189</b>	<b>6,894</b>	<b>29,319</b>
Interest and dividends income received	231	190	2,131
Income taxes refund (paid)	(346)	(409)	(3,189)
<b>Net cash provided by (used in) operating activities</b>	<b>3,074</b>	<b>6,675</b>	<b>28,261</b>
<b>II. Cash flows from investing activities</b>			
Payments into time deposits	(1,028)	(1,180)	(9,453)
Proceeds from withdrawal of time deposits	1,050	1,015	9,659
Purchase of securities	(552)	–	(5,074)
Proceeds from redemption of securities	2,000	1,470	18,384
Purchase of property, plant and equipment and intangible assets	(81)	(193)	(754)
Proceeds from sales of property, plant and equipment and intangible assets	0	0	0
Purchase of investment securities	(12,876)	(3,149)	(118,360)
Proceeds from sales of investment securities	4,080	1,801	37,511
Proceeds from redemption of investment securities	–	300	–
Payments of loans receivable from subsidiaries and associates	(72)	(33)	(662)
Collection of loans receivable from subsidiaries and affiliates	99	–	910
Proceeds from distribution of investment in partnerships	153	169	1,411
Purchase of insurance funds	(39)	(3)	(359)
Other, net	28	1	264
<b>Net cash provided by (used in) investing activities</b>	<b>(7,236)</b>	<b>198</b>	<b>(66,522)</b>
<b>III. Cash flows from financing activities</b>			
Cash dividends paid	(1,222)	(857)	(11,240)
Purchase of treasury shares	(2)	(201)	(19)
Proceeds from sales of treasury shares	0	–	1
<b>Net cash provided by (used in) financing activities</b>	<b>(1,224)</b>	<b>(1,058)</b>	<b>(11,259)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>(62)</b>	<b>(8)</b>	<b>(576)</b>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	<b>(5,449)</b>	<b>5,807</b>	<b>(50,096)</b>
<b>VI. Cash and cash equivalents at beginning of period</b>	<b>19,343</b>	<b>13,535</b>	<b>177,802</b>
<b>VII. Cash and cash equivalents at end of period</b>	<b>¥ 13,893</b>	<b>¥19,343</b>	<b>\$ 127,706</b>

# Corporate Data / Investor Information

As of January 31, 2018

## 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

26,800,000

## Shareholders

6,211

## Stock Trading Unit

100 shares

## Stock Listing

Tokyo Stock Exchange,  
First Section

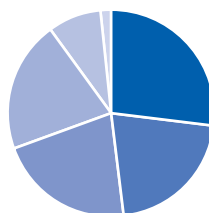
## Ticker Code

8068

## Transfer Agent

Mitsubishi UFJ Trust and  
Banking Corporation

## Composition of Shareholders



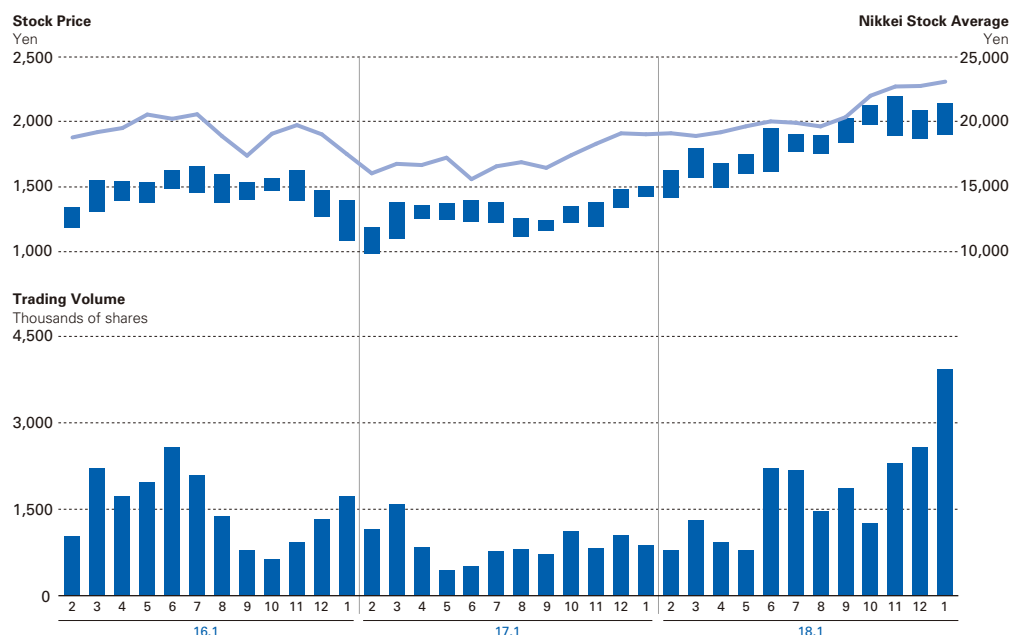
Foreign corporations and other foreign investors	27.0%
Financial institutions	21.8%
Individuals and other	21.5%
Other corporations	20.3%
Treasury stock	8.6%
Securities companies, etc.	0.8%

## Major Shareholders

	Thousands of shares	%
CGML PB CLIENT ACCOUNT/COLLATERAL	3,863	15.77
Mitsubishi Electric Corporation	2,246	9.17
SHC Corporation	2,118	8.65
Japan Trustee Services Bank, Ltd. (Trust account)	2,083	8.50
The Master Trust Bank of Japan (Trust account)	983	4.01
Sheep Shokai Co.	523	2.14
Nippon Life Insurance Company	409	1.67
Japan Trustee Services Bank, Ltd. (Trust account 5)	349	1.42
Japan Trustee Services Bank, Ltd. (Trust account 2)	300	1.22
Japan Trustee Services Bank, Ltd. (Trust account 9)	298	1.22

Note: Calculations for the ownership percentages above did not account for the 2,293,760 shares of treasury stock.

## Stock Price Chart



## 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.



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.