

# ANNUAL REVIEW 2016

Fiscal year ended  
January 31, 2016

*Change, Challenge, Speed*



# ABOUT the Ryoyo Group

Ryoyo Electro Corporation was founded in 1961 as a semiconductor trading company. Since its foundation, the Company has continued to expand the range of its operations in step with changes in the electronics industry while maintaining close and functional business relationships with world-leading suppliers. In our core semiconductor and device business, we have established a robust product lineup featuring a wide range of promising products from both Japan and overseas, and we take great pride in our skillful support services, which are backed by the experience accumulated over our long history. 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.

The Ryoyo Group is currently working to contribute to customers' Internet of Things (IoT) growth strategies while further improving its corporate value. Utilizing the strengths born out of our core businesses—the semiconductor and device business as well as the ICT and solutions business—we make customer value proposals through our business model that provides comprehensive support encompassing devices, networks, services, and everything between (IoT approach).

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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

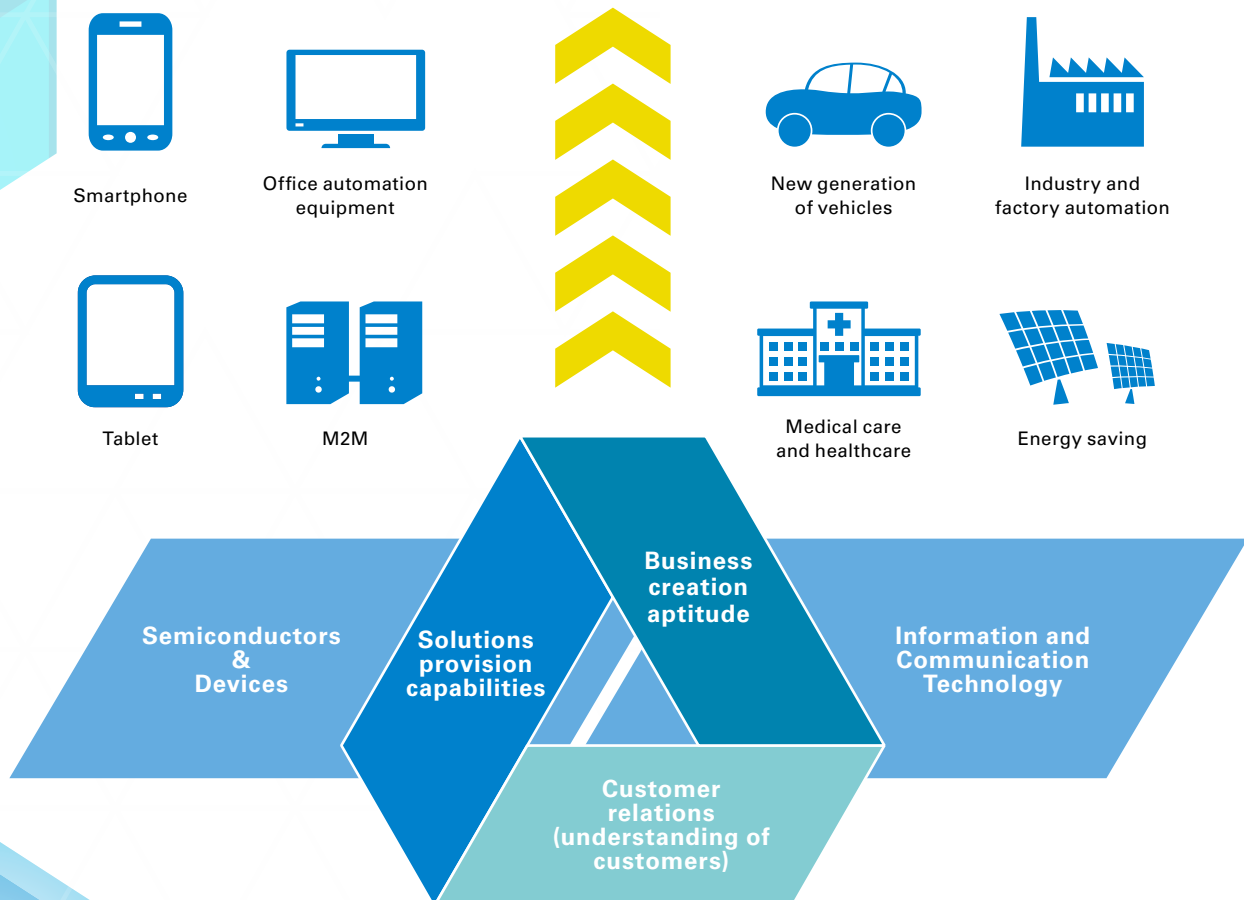
We shall strive to always be a corporate group that grows together with stakeholders.

## 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



## To Our Shareholders



**Kenhachiro Ogawa**  
Chairman and  
Chief Executive Officer

**Takayoshi Ouchi**  
President and  
Chief Operating Officer

**ACCELERATE ALL ACTIONS,  
TARGETING “REFORM TO AN IOT  
SOLUTIONS PARTNER”**



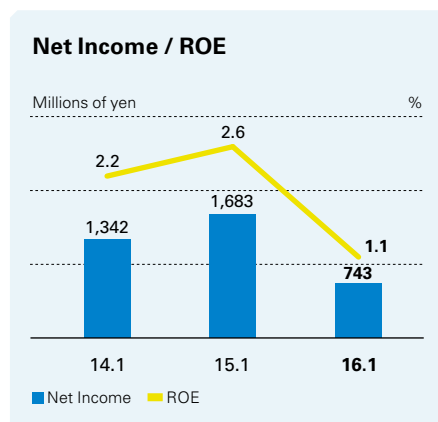
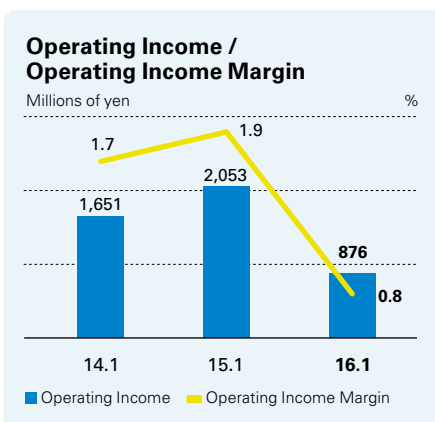
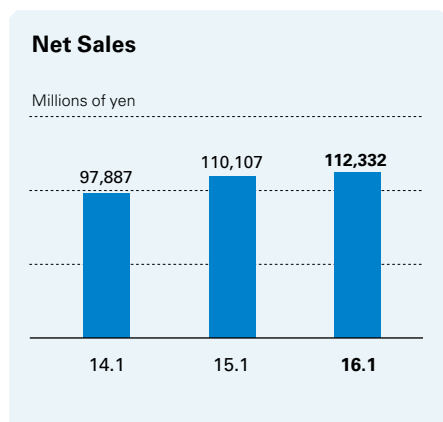


# Operating Environment and Performance in the Year Under Review

During the year under review, the fiscal year ended January 31, 2016, in the electronics industry, where the Ryoyo Group operates, the communications and industrial equipment sectors initially experienced solid conditions that continued on from the beginning of the fiscal year. However, these sectors later came to suffer from demand slumps that accompanied the economic slowdown in China. ICT-related sectors, meanwhile, witnessed market structure changes driven by the trend toward cloud computing technologies.

Under these conditions, the Ryoyo Group worked to reinforce and expand the foundations of its core businesses—

namely, its semiconductor and device business as well as its ICT and solutions business. At the same time, we devoted effort to creating high-value-added business models that merge the products and services of these businesses to aid major customers in advancing their strategies and in resolving any issues they may face. Conversely, we were forced to record disposal and write-off losses due to an inability to secure customer orders for large-sized computers. As a result of these factors, net sales increased 2.0% year on year, to ¥112.3 billion, while operating income decreased 57.3%, to ¥0.8 billion, and net income dropped 55.9%, to ¥0.7 billion.



## Medium-Term Initiatives

The Ryoyo Group's new medium-term business plan, which started in the fiscal year ending January 31, 2017, has a basic policy of "create new strengths with IoT approach to contribute to customers' value improvements." Together with this policy, the Ryoyo Group will advance four basic strategies: "expand core businesses with IoT approach," "make strategic investments in growing areas," "accelerate global strategies," and "reinforce business bases for sustainable growth."

### ● Expand core businesses with IoT approach

Currently, we are pushing forward with efforts to develop even higher levels of value in our business. To this end, we

are differentiating operations based on our core semiconductor and device business as well as our ICT and solutions business, which represent areas of cultivated strength for the Ryoyo Group, by developing new services and solutions that are driven by both business sectors. Specifically, we are focused on expanding proposition of value (IoT approach) through a business model that leverages the strengths of these core businesses to provide comprehensive support encompassing devices, networks, and services.

Looking ahead, we intend to enhance our new value offerings through value chains, which will include proposing business models and creating solutions that are directly linked to customers' issues and strategies. This new value will

## To Our Shareholders

complement the value we offer through our traditional supply chains, which consist of sales agents and commercial rights, distribution functions, and inventory functions. By providing much higher quality solutions, we believe that we will be able to boost our profitability and differentiate the Ryoyo Group from competitors by contributing to customers' value improvements and thereby establish stable and long-term business foundations.

### ● Make strategic investments in growing areas

Our first move on this front will be to actively position human resources in markets in which the IoT trend is expected to advance rapidly. As one fact of these efforts, we have established the IoT Project, a specialized organization for supporting the Companywide deployment of new business models established through our initiatives to date. In the future, we will seek to expand core businesses by accumulating examples of advanced initiatives, applying expertise in a cross-organizational manner, and enhancing product and service offerings. During the year under review, we commenced three business alliances entailing capital investment, and we remain committed to uncovering, cultivating, and commercializing new products and technologies with the potential to serve as future sources of value.

### ● Accelerate global strategies

In regard to overseas businesses, as Japanese electronics manufacturers increasingly shift production operations overseas, we will enhance the support services we provide for such business relocations. In addition, we are working to acquire local customers, uncover viable local products, develop ICT businesses, and strengthen design and development functions, especially in the Greater China and ASEAN regions, in order to expand operations in overseas markets displaying strong growth potential.

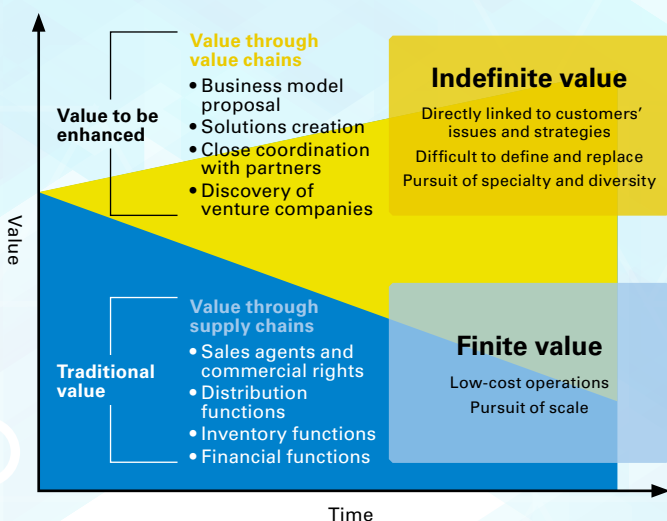
Going forward, we will work to further expand and improve the profitability of locally originated business operations while also cooperating with local companies in Thailand and China and developing overseas ICT businesses.

### ● Reinforce business bases for sustainable growth

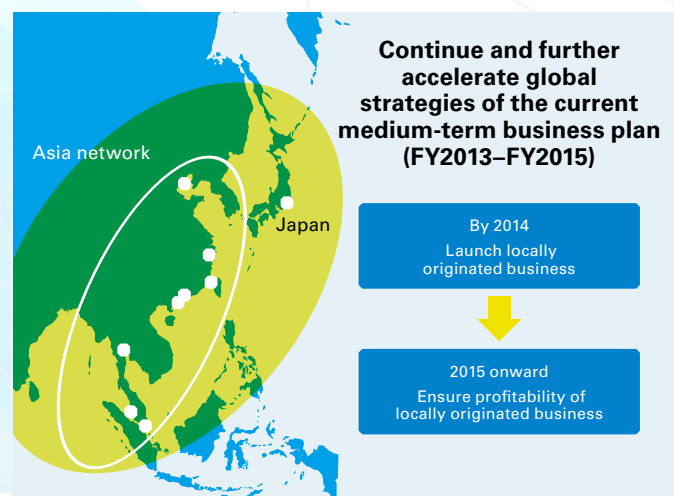
During the period of the new medium-term business plan, which began in 2016, we aim to reinforce operating foundations to achieve ongoing growth.

To establish solid operating foundations, we will promote diversity management and cultivate human resources capable of responding to drastically changing times. Other efforts to this end will include supporting sales activities through the installation of IT infrastructure and the improvement of workflow efficiency and strengthening alliances with partner companies.

#### Vision for the Ryoyo Group



#### Accelerate global strategies



## Outlook for the Fiscal Year Ending January 31, 2017

The electronics industry, where the Ryoyo Group operates, is anticipated to see further growth as the IoT and M2M trends spread. At the same time, however, there is a rising sense of uncertainty resulting from the economic slowdown currently seen in China and other emerging countries as well as the persistence of yen depreciation, stock price declines, and natural resource price drops.

In this environment, we expect consolidated net sales to amount to ¥110.0 billion in the fiscal year ending January 31,

2017, down 2.1% following the closure of large-scale orders for communications equipment. Conversely, we will be freed from the impacts of the losses on disposal and the write-down of inventories recorded during the year under review, potentially resulting in substantial year-on-year increases of 139.5% in operating income and 87.0% in profit attributable to owners of parent, which are expected to come to ¥2.1 billion and ¥1.3 billion, respectively.

## Returns to Shareholders

For the fiscal year ended January 31, 2016, the Company paid ¥15 per share of common stock for the year-end cash dividend, making for an annual cash dividend of ¥30 per share of common stock when combined with the interim dividend.

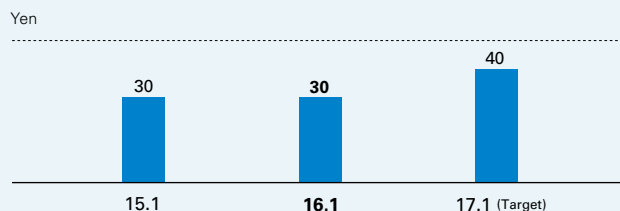
The Company plans to target a total return (dividend payments and share buyback) ratio of 100% of net income for the foreseeable future. Returns will be issued in the form of dividend payments and treasury stock acquisitions.

In the fiscal year ending January 31, 2017, the Company intends to pay a special commemorative dividend of ¥5 per share (celebrating the 55th anniversary of the Company's founding) together with the standard interim dividend of ¥15 per share, and will also increase the year-end dividend to ¥20 per share, up ¥5 from ¥15 in the year under review. Accordingly, the Company is planning to issue a total annual cash dividend

of ¥40 per share of common stock in the fiscal year ending January 31, 2017.

In addition, we bought back 600,000 shares of treasury stock in the year under review. We will examine the possibility of further enhancing shareholder returns in the future while considering performance trends.

### Dividends Per Share



## In Closing

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." In the new era characterized by IoT and M2M, the Ryoyo Group will leverage the strengths it has

cultivated until today to improve its corporate value by creating new forms of value as it pursues ongoing growth.

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

Kenhachiro Ogawa

Takayoshi Oouchi

# Corporate Governance / Corporate Social Responsibility

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

As of April 27, 2016



**Kenhachiro Ogawa**  
Chairman and CEO



**Takayoshi Oouchi**  
President and COO



**Nobuo Kikutsugi**  
Director



**Kenjiro Kobayashi**  
Director



**Masaaki Tanabe**  
Director



**Kiyoshi Waki**  
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 General Managers

**Kenjiro Kobayashi**  
**Masaaki Tanabe**  
**Kiyoshi Waki**  
**Yoshitsugu Tamakoshi**

Executive General Manager  
**Takumi Tokunaga**

### Basic Corporate Governance Philosophy

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

### Company Organizations

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	Eight (including two outside directors)
Number of Audit & Supervisory Board Members	Four (including three outside Audit & Supervisory Board Members)
Independent officers	Two outside directors and three outside Audit & Supervisory Board Members
Number of Board of Directors' meetings held during the fiscal year ended January 31, 2016	12
Number of Audit & Supervisory Board meetings held during the fiscal year ended January 31, 2016	15

### Directors and Board of Directors

The Board of Directors, which consists of eight directors (as of April 27, 2016), 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, 2016), 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.

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

Outside directors	Reason for appointment	Attendance at meetings of the Board of Directors
Yoshiharu Hayakawa	The Company intends to utilize his expert knowledge as a Certified Public Accountant, as well as his extensive experience and broad insight as a management consultant, to help strengthen the corporate governance of the Company.	11/12
Tsumiko Nakahara	The Company intends to utilize her sophisticated expertise with regard to all areas of corporate legal affairs based on her long history as an attorney and related knowledge and experience to help strengthen the corporate governance of the Company.	10/10*

\*Attended all 10 meetings of the Board of Directors held after her appointment

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 with the aim of incorporating his highly professional insight into overall corporate legal affairs based on his scholarly wisdom and professional experience as an attorney into audits of the Company's management.	12/12	15/15
Tsutomu Nobechi	Tsutomu Nobechi was selected with the aim of incorporating his considerable insight into financial and accounting matters gained through his experience at accounting firms into audits of the Company's management.	12/12	15/15
Kazumi Akiyama	Kazumi Akiyama was selected with the aim of incorporating his wealth of insight based on his employment experience at central government offices into audits of the Company's management.	—	—



## 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.

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

1. A party who is or has been a director, an Audit & Supervisory Board Member, or an employee at the Ryoyo Group in the past 10 years or a relative within the second degree of kinship of such a party
2. A party that is or has been a director, an Audit & Supervisory Board Member, or an employee of a major business partner\* of the Ryoyo Group in the past five years

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

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

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

## Compensation of Directors and Audit & Supervisory Board Members

	Compensation by type (millions of yen)					Number of applicable individuals
	Total compensation (millions of yen)	Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	121	121	—	—	—	6
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	12	12	—	—	—	1
Outside officers	27	27	—	—	—	5

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.

## 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 to the Audit & Supervisory Board
8. Items concerning policies for handling of expenses or debts resulting from execution of duties by Audit & Supervisory Board Members, including procedures for advance payment or indemnification of expenses or other matters
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 reduce the impact on operations.

## Corporate Governance / Corporate Social Responsibility

### Investor Relations Activities

Ryoyo Electro recognizes that disclosing accurate, unbiased, and timely information about the management of the Company to its shareholders and other investors is an important function of management. In correspondence with the release of second quarter and annual financial reviews, we also offer

information about the current business situation and future direction of the Company through our website\* as well as at information sessions held for analysts and institutional investors. Through these efforts, we will continue to disclose accurate, unbiased information in a timely manner.

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

## Corporate Social Responsibility

### Outlining Our Basic CSR Philosophy

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

### Promoting Compliance

In 2007, we established the Ryoyo Group Codes of Conduct, which serves as a foundation for our operations moving forward. We have also set up the “Ryoyo Group Compliance Hotline” so that we can quickly identify violations of the Ryoyo Group Codes of Conduct and carry out the necessary steps to rectify such issues. This hotline serves as a communication channel for employees to discuss and report compliance-related concerns.

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

All domestic Ryoyo Group companies (excluding satellite offices) have acquired ISO 14001, ISO 9001, and ISO 27001 certification, and the Group effectively employs an integrated management system that collectively functions as an environmental management system, a quality management system, and an information security management system. This integrated management system allows us to contribute to the protection of the environment by reducing the environmental impact and the environmental risks of our operations, respond to customer needs through ongoing efforts to improve the quality of our products, and raise awareness regarding information security within the Company. This will help to further enhance the trust placed in us by our customers, our business partners, and society as a whole.

### Implementing Green Procurement Initiatives

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

### Addressing Conflict Mineral Issues

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

### Ryoyo’s CSR Website

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

# Consolidated Financial Highlights

Ryoyo Electro Corporation

For the years ended January 31, 2016, 2015, 2014, 2013, and 2012

Thousands of  
U.S. dollars\*

	Millions of yen					Thousands of U.S. dollars*
	2016.1	2015.1	2014.1	2013.1	2012.1	2016.1
<b>For the Year</b>						
Net sales	¥ 112,332	¥ 110,107	¥ 97,887	¥ 87,183	¥ 85,108	\$929,364
Gross profit	7,852	8,801	8,279	7,373	7,932	64,970
Selling, general and administrative expenses	6,976	6,747	6,627	6,651	6,559	57,714
Operating income	876	2,053	1,651	722	1,372	7,255
Net income	743	1,683	1,342	423	879	6,149
Free cash flows	4,392	467	(1,369)	328	3,359	36,344
<b>At Year-End</b>						
Total assets	¥ 76,865	¥ 82,937	¥ 79,893	¥ 72,490	¥ 70,602	\$635,933
Total net assets	63,921	65,583	63,112	61,303	61,155	528,848
<b>Per Share of Common Stock (Yen / U.S. dollars)</b>						
Net income	¥ 30.01	¥ 66.74	¥ 52.17	¥ 16.41	¥ 33.00	\$ 0.25
Total net assets	2,591.70	2,595.83	2,498.70	2,371.67	2,367.83	21.44
Cash dividends	30.00	30.00	30.00	30.00	30.00	0.25
<b>Ratios (%)</b>						
Gross profit margin	7.0	8.0	8.5	8.5	9.3	
Operating margin	0.8	1.9	1.7	0.8	1.6	
Net income margin	0.7	1.5	1.4	0.5	1.0	
Equity ratio	83.1	79.0	78.9	84.5	86.6	
Return on equity	1.1	2.6	2.2	0.7	1.4	
<b>Other Information</b>						
Number of shares issued**	24,636,009	25,237,095	25,226,060	25,826,926	25,827,768	
Number of employees	501	510	513	517	504	

\* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120.87=U.S.\$1.00, the exchange rate prevailing on January 31, 2016.

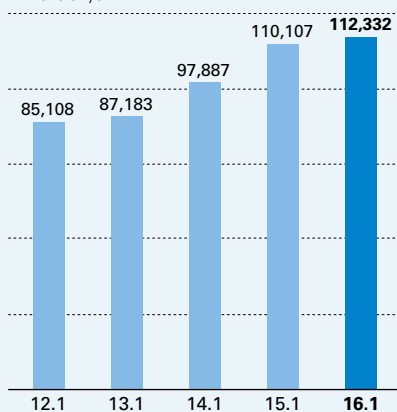
\*\* Number of shares issued does not include treasury stock.

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.

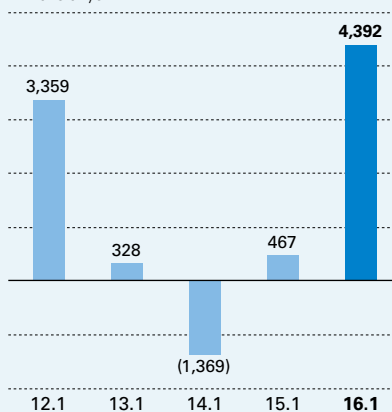
## Net Sales

Millions of yen



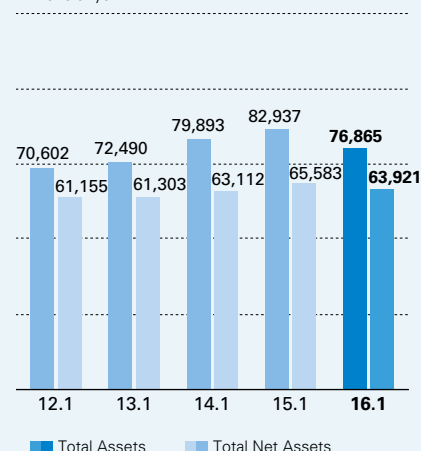
## Free Cash Flows

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, 2016, there was a growing sense of uncertainty in the Japanese economy stemming from the economic slowdown in China. Corporate capital investment, which was anticipated to serve as a growth driver in the domestic economy, was delayed by an increasingly wider scope of companies, and the recovery of consumer spending and exports was sluggish as a result.

In the electronics industry, where the Ryoyo Group operates, the communications and industrial equipment sectors initially experienced solid conditions that continued on from the beginning of the fiscal year. However, these sectors later came to suffer from demand slumps that accompanied the economic slowdown in China. ICT-related sectors, meanwhile, witnessed market structure changes driven by the trend toward cloud computing technologies.

## ● Results for the Fiscal Year Ended January 31, 2016

Under these conditions, the Ryoyo Group worked to reinforce and expand the foundations of its core businesses—namely, its semiconductor and device business as well as its ICT and solutions business. At the same time, we devoted effort to creating new, high-value-added business models that merge the products and services of these businesses to aid major customers in advancing their strategies and in resolving any issues they may face. In addition, losses on disposal and the write-down of inventories were recorded due to an inability to secure large-scale system orders.

Due to these factors, net sales increased 2.0% year on year, to ¥112.3 billion, while operating income decreased 57.3%, to ¥0.8 billion, and net income dropped 55.9%, to ¥0.7 billion.

### Semiconductors and Devices

Net sales of semiconductors and devices increased ¥4.1 billion year on year, or 6.1%, to ¥72.3 billion.

Sales of products for communications systems increased 13.4%, to ¥15.3 billion, due to the expansion of manufacturing subcontracting businesses for LCDs for use in communications equipment.

Sales of products for digital consumer electronics and other home electronics grew 15.8%, to ¥10.1 billion, due to higher sales primarily for products for use in televisions.

Sales of vehicle installations were relatively unchanged year on year, increasing only 0.1%, to ¥3.7 billion.

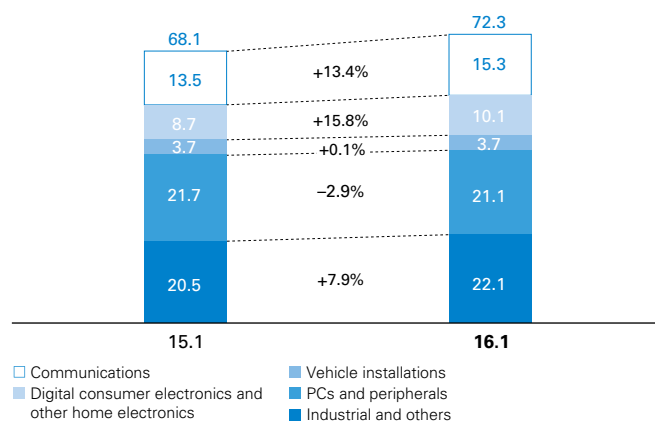
Sales of products for PCs and peripherals decreased 2.9%, to ¥21.1 billion, as firm sales of products for use in printers, HDDs,

and other peripherals partially offset the trend toward temporary production adjustment for PCs.

Sales of products for industrial and other applications were up 7.9%, to ¥22.1 billion, as solar power generation-related equipment sales drove performance, counteracting the impacts felt in certain industrial machinery-related businesses from the economic slowdown in China.

### Sales by Applications

Billions of yen



### ICT and Solutions

Net sales of ICT and solutions decreased ¥1.9 billion year on year, or 4.6%, to ¥40.0 billion.

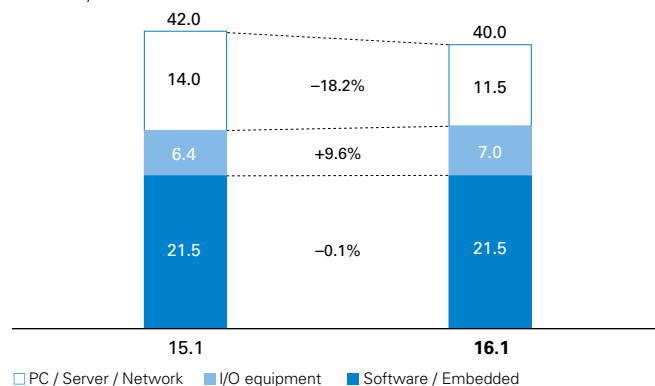
Sales of PC, server, and network products decreased 18.2%, to ¥11.5 billion, due to issues related to large-scale system orders that had been initially anticipated.

Sales of I/O equipment increased 9.6%, to ¥7.0 billion, due in part to the startup of new projects.

Sales of software and embedded products were down 0.1%, to ¥21.5 billion, as higher sales of embedded products, such as graphics and industrial boards, were offset by a decrease in sales of PC software.

### Sales by Products

Billions of yen





## Sales by Region

### Japan

In the year under review, sales to external customers in Japan decreased ¥0.3 billion year on year, or 0.3%, to ¥90.3 billion, following a decline in sales of semiconductors and software for use in PCs. The operating income of this regional segment was down ¥1.1 billion, or 61.6%, to ¥0.7 billion, as a result of the recording of losses on disposal and the write-down of inventories.

### Asia

Sales to external customers in Asia increased ¥2.5 billion year on year, or 13.1%, to ¥21.9 billion, as a result of higher sales of semiconductors for televisions and LCDs for communications equipment. However, the operating income of this segment decreased ¥60 million, or 32.2%, to ¥0.1 billion, due to the recording of losses on the write-down of inventories.

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 ¥76.8 billion, ¥6.0 billion lower than at the previous fiscal year-end. This was primarily due to decreases in securities and merchandise and finished goods.

Total liabilities were down ¥4.4 billion, to ¥12.9 billion, mainly due to a decrease in notes and accounts payable–trade.

Total net assets decreased ¥1.6 billion, to ¥63.9 billion. This was largely due to an increase in treasury stock.

## Cash Flows

Cash and cash equivalents totaled ¥13.5 billion at the fiscal year-end, a ¥2.6 billion year-on-year increase. Major factors included a decrease in working capital.

Net cash provided by operating activities was ¥1.1 billion, compared with net cash used in operating activities of ¥4.8 billion in the previous fiscal year. This outcome was a result of income before income taxes of ¥1.2 billion being recorded and working capital decreasing.

Net cash provided by investing activities was ¥3.2 billion, a ¥2.0 billion year-on-year decrease. This was largely because proceeds from sales and redemption of investment securities totaling ¥3.9 billion counteracted outflows for purchase of investment securities of ¥3.2 billion.

Net cash used in financing activities amounted to ¥1.6 billion, compared with ¥0.7 billion in the previous fiscal year. Major outflows included the purchase of treasury stock.

## 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.

### Dividend Payments in the Fiscal Year Ended January 31, 2016, and the Fiscal Year Ending January 31, 2017

For the fiscal year ended January 31, 2016, the Company paid ¥15 per share of common stock for the year-end cash dividend, making for an annual cash dividend of ¥30 per share of common stock when combined with the interim dividend.

The Company plans to target a total return (dividend payments and share buyback) ratio of 100% of net income for the foreseeable future. Returns will be issued in the form of dividend payments and treasury stock acquisitions.

In the fiscal year ending January 31, 2017, the Company intends to pay a special commemorative dividend of ¥5 per share (celebrating the 55th anniversary of the Company's founding) together with the standard interim dividend of ¥15 per share, and will also increase the year-end dividend to ¥20 per share, up ¥5 from ¥15 in the year under review. Accordingly, the Company is planning to issue a total annual cash dividend of ¥40 per share of common stock in the fiscal year ending January 31, 2017.

## Risks Pertaining to the Company's Business

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

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

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

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

# Consolidated Balance Sheets

Ryoyo Electro Corporation  
At January 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016.1	2015.1	2016.1
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	¥13,535	¥11,616	\$111,983
Notes and accounts receivable–trade	33,523	34,446	277,354
Securities	1,538	2,000	12,728
Merchandise and finished goods	11,184	14,482	92,531
Deferred tax assets	354	214	2,931
Other	2,110	2,438	17,462
Allowance for doubtful accounts	(5)	(20)	(48)
<b>Total current assets</b>	<b>62,241</b>	<b>65,177</b>	<b>514,944</b>
<b>Noncurrent assets</b>			
<b>Property, plant and equipment</b>			
Tools, furniture and fixtures, net	102	81	846
Land	5	5	47
Other, net	71	109	595
<b>Total property, plant and equipment</b>	<b>180</b>	<b>196</b>	<b>1,489</b>
<b>Intangible assets</b>	<b>669</b>	<b>645</b>	<b>5,539</b>
<b>Investments and other assets</b>			
Investment securities	11,670	14,979	96,552
Net defined benefit asset	1,075	798	8,897
Other	1,064	1,141	8,810
Allowance for doubtful accounts	(36)	(1)	(299)
<b>Total investments and other assets</b>	<b>13,774</b>	<b>16,917</b>	<b>113,960</b>
<b>Total noncurrent assets</b>	<b>14,624</b>	<b>17,759</b>	<b>120,989</b>
<b>Total assets</b>	<b>¥76,865</b>	<b>¥82,937</b>	<b>\$635,933</b>

	Millions of yen		Thousands of U.S. dollars
	2016.1	2015.1	2016.1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable–trade	¥ 9,565	¥12,753	\$ 79,137
Income taxes payable	142	573	1,178
Accrued consumption taxes	6	3	52
Provision for bonuses	130	119	1,075
Other	1,150	1,356	9,521
<b>Total current liabilities</b>	<b>10,994</b>	<b>14,806</b>	<b>90,964</b>
<b>Noncurrent liabilities</b>			
Net defined benefit liability	802	895	6,636
Deferred tax liabilities	542	948	4,488
Other	603	703	4,995
<b>Total noncurrent liabilities</b>	<b>1,948</b>	<b>2,547</b>	<b>16,120</b>
<b>Total liabilities</b>	<b>12,943</b>	<b>17,353</b>	<b>107,085</b>
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock	13,672	13,672	113,113
Capital surplus	13,336	13,336	110,337
Retained earnings	38,997	38,813	322,643
Treasury stock	(4,178)	(3,270)	(34,573)
<b>Total shareholders' equity</b>	<b>61,827</b>	<b>62,551</b>	<b>511,520</b>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	1,085	1,843	8,980
Deferred gains or losses on hedges	9	(0)	77
Foreign currency translation adjustment	743	904	6,148
Remeasurements of defined benefit plans	183	211	1,521
<b>Total accumulated other comprehensive income</b>	<b>2,021</b>	<b>2,959</b>	<b>16,726</b>
<b>Subscription rights to shares</b>	<b>72</b>	<b>72</b>	<b>601</b>
<b>Total net assets</b>	<b>63,921</b>	<b>65,583</b>	<b>528,848</b>
<b>Total liabilities and net assets</b>	<b>¥76,865</b>	<b>¥82,937</b>	<b>\$635,933</b>

# Consolidated Statements of Income and Consolidated Comprehensive Statements of Income

Ryoyo Electro Corporation  
For the years ended January 31, 2016 and 2015

Consolidated Statements of Income	Millions of yen		Thousands of U.S. dollars
	2016.1	2015.1	2016.1
<b>Net sales</b>	<b>¥112,332</b>	¥110,107	<b>\$929,364</b>
Cost of sales	<b>104,479</b>	101,306	<b>864,394</b>
<b>Gross profit</b>	<b>7,852</b>	8,801	<b>64,970</b>
<b>Selling, general and administrative expenses</b>			
Provision of allowance for doubtful accounts	<b>20</b>	3	<b>168</b>
Salaries and bonuses	<b>2,869</b>	2,842	<b>23,737</b>
Provision for bonuses	<b>130</b>	119	<b>1,075</b>
Retirement benefit expenses	<b>107</b>	137	<b>889</b>
Rent expenses	<b>339</b>	349	<b>2,811</b>
Depreciation	<b>197</b>	153	<b>1,630</b>
Other	<b>3,311</b>	3,142	<b>27,401</b>
<b>Total selling, general and administrative expenses</b>	<b>6,976</b>	6,747	<b>57,714</b>
<b>Operating income</b>	<b>876</b>	2,053	<b>7,255</b>
<b>Non-operating income</b>			
Interest income	<b>96</b>	145	<b>800</b>
Dividend income	<b>113</b>	137	<b>935</b>
Purchase discounts	<b>11</b>	12	<b>98</b>
Gain on investments in partnership	<b>179</b>	205	<b>1,483</b>
Other	<b>19</b>	22	<b>164</b>
<b>Total non-operating income</b>	<b>420</b>	523	<b>3,482</b>
<b>Non-operating expenses</b>			
Sales discounts	<b>4</b>	3	<b>38</b>
Loss on valuation of investment securities	<b>73</b>	49	<b>606</b>
Foreign exchange losses	<b>103</b>	15	<b>859</b>
Commission fee	<b>14</b>	7	<b>119</b>
Loss on abandonment of noncurrent assets	<b>2</b>	1	<b>22</b>
Other	<b>2</b>	0	<b>23</b>
<b>Total non-operating expenses</b>	<b>201</b>	78	<b>1,669</b>
<b>Ordinary income</b>	<b>1,096</b>	2,498	<b>9,068</b>
<b>Extraordinary income</b>			
Gain on sales of investment securities	<b>370</b>	212	<b>3,063</b>
Gain on bad debts recovered	<b>-</b>	1	<b>-</b>
Surrender value of insurance	<b>-</b>	78	<b>-</b>
<b>Total extraordinary income</b>	<b>370</b>	292	<b>3,063</b>
<b>Extraordinary losses</b>			
Loss on sales of investment securities	<b>101</b>	11	<b>842</b>
Impairment loss	<b>141</b>	-	<b>1,171</b>
Special extra retirement payments	<b>-</b>	70	<b>-</b>
Settlement package	<b>-</b>	20	<b>-</b>
<b>Total extraordinary losses</b>	<b>243</b>	101	<b>2,014</b>
<b>Income before income taxes and minority interests</b>	<b>1,222</b>	2,689	<b>10,116</b>
<b>Income taxes</b>			
Income taxes—current	<b>611</b>	980	<b>5,061</b>
Income taxes—deferred	<b>(132)</b>	25	<b>(1,094)</b>
<b>Total income taxes</b>	<b>479</b>	1,005	<b>3,966</b>
<b>Income before minority interests</b>	<b>743</b>	1,683	<b>6,149</b>
<b>Net income</b>	<b>¥ 743</b>	¥ 1,683	<b>\$ 6,149</b>
Consolidated Comprehensive Statements of Income			
<b>Income before minority interests</b>	<b>743</b>	1,683	<b>6,149</b>
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities	<b>(758)</b>	595	<b>(6,272)</b>
Deferred gains or losses on hedges	<b>9</b>	0	<b>81</b>
Foreign currency translation adjustment	<b>(161)</b>	738	<b>(1,335)</b>
Remeasurements of defined benefit plans, net of tax	<b>(28)</b>	-	<b>(232)</b>
<b>Total other comprehensive income</b>	<b>(937)</b>	1,333	<b>(7,758)</b>
<b>Comprehensive income</b>	<b>(194)</b>	3,017	<b>(1,609)</b>
(Details)			
Comprehensive income attributable to owners of the parent	<b>(194)</b>	3,017	<b>(1,609)</b>
Comprehensive income attributable to minority interests	<b>-</b>	-	<b>-</b>



# Consolidated Statements of Changes in Net Assets

Ryoyo Electro Corporation  
For the years ended January 31, 2016 and 2015

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>	<b>13,672</b>	<b>13,336</b>	<b>39,002</b>	<b>(3,270)</b>	<b>62,740</b>	<b>1,843</b>	<b>(0)</b>	<b>904</b>	<b>211</b>	<b>72</b>	<b>65,772</b>
Changes of items during the period											
Dividends from surplus			(748)		(748)						(748)
Net income			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>	<b>¥13,672</b>	<b>¥13,336</b>	<b>¥38,997</b>	<b>¥(4,178)</b>	<b>¥61,827</b>	<b>¥1,085</b>	<b>¥9</b>	<b>¥743</b>	<b>¥183</b>	<b>¥72</b>	<b>¥63,921</b>

Millions of yen

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

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, 2015 to January 31, 2016											
<b>Balance at January 31, 2015</b>	\$113,113	\$110,337	\$321,119	\$(27,059)	\$517,511	\$15,252	\$ (4)	\$ 7,483	\$1,753	\$601	\$542,597
Cumulative effects of changes in accounting policies			1,563		1,563						1,563
<b>Restarted balance</b>	<b>113,113</b>	<b>110,337</b>	<b>322,682</b>	<b>(27,059)</b>	<b>519,074</b>	<b>15,252</b>	<b>(4)</b>	<b>7,483</b>	<b>1,753</b>	<b>601</b>	<b>544,160</b>
Changes of items during the period											
Dividends from surplus			(6,189)		(6,189)						(6,189)
Net income			6,149		6,149						6,149
Purchase of treasury stock				(7,514)	(7,514)						(7,514)
Net changes of items other than shareholders' equity						(6,272)	81	(1,335)	(232)		(7,758)
Total changes of items during the period			(39)	(7,514)	(7,553)	(6,272)	81	(1,335)	(232)		(15,312)
<b>Balance at January 31, 2016</b>	<b>\$113,113</b>	<b>\$110,337</b>	<b>\$322,643</b>	<b>\$(34,573)</b>	<b>\$511,520</b>	<b>\$ 8,980</b>	<b>\$77</b>	<b>\$ 6,148</b>	<b>\$1,521</b>	<b>\$601</b>	<b>\$528,848</b>

# Consolidated Statements of Cash Flows

Ryoyo Electro Corporation  
For the years ended January 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016.1	2015.1	2016.1
<b>I. Cash flows from operating activities</b>			
Income before income taxes	¥ 1,222	¥ 2,689	\$ 10,116
Depreciation and amortization	239	217	1,983
Loss (gain) on sales and retirement of noncurrent assets	2	(0)	22
Impairment loss	141	–	1,171
Loss (gain) on investments in partnership	(179)	(205)	(1,483)
Foreign exchange losses (gains)	35	146	293
Increase (decrease) in provision	30	(923)	255
Increase (decrease) in net defined benefit liability	(12)	927	(103)
Interest and dividends income	(209)	(283)	(1,735)
Loss (gain) on sales of investment securities	(268)	(201)	(2,220)
Loss (gain) on valuation of investment securities	73	49	606
Surrender value of insurance	–	(78)	–
Decrease (increase) in notes and accounts receivable–trade	802	(3,645)	6,641
Decrease (increase) in inventories	3,286	(908)	27,186
Increase (decrease) in notes and accounts payable–trade	(3,188)	(998)	(26,376)
Increase (decrease) in accrued consumption taxes	3	(33)	27
Other, net	(43)	(838)	(362)
<b>Subtotal</b>	<b>1,936</b>	<b>(4,086)</b>	<b>16,024</b>
Interest and dividends income received	235	310	1,945
Income taxes refund (paid)	(1,002)	(1,052)	(8,292)
<b>Net cash provided by (used in) operating activities</b>	<b>1,169</b>	<b>(4,827)</b>	<b>9,676</b>
<b>II. Cash flows from investing activities</b>			
Payments into time deposits	–	(757)	–
Proceeds from withdrawal of time deposits	750	315	6,207
Purchase of short-term investment securities	–	(1,000)	–
Proceeds from redemption of securities	2,000	9,500	16,546
Purchase of property, plant and equipment and intangible assets	(411)	(287)	(3,407)
Proceeds from sales of property, plant and equipment and intangible assets	–	4	–
Purchase of investment securities	(3,290)	(5,766)	(27,226)
Proceeds from sales of investment securities	2,774	2,066	22,958
Proceeds from redemption of investment securities	1,200	–	9,928
Purchase of shares of subsidiaries and associates	(204)	–	(1,695)
Proceeds from distribution of investment in partnerships	393	514	3,259
Proceeds from cancellation of insurance funds	–	578	–
Other, net	11	125	96
<b>Net cash provided by (used in) investing activities</b>	<b>3,223</b>	<b>5,293</b>	<b>26,667</b>
<b>III. Cash flows from financing activities</b>			
Cash dividends paid	(746)	(754)	(6,176)
Purchase of treasury stock	(908)	(1)	(7,514)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,654)</b>	<b>(755)</b>	<b>(13,690)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>(71)</b>	<b>135</b>	<b>(592)</b>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	<b>2,666</b>	<b>(154)</b>	<b>22,061</b>
<b>VI. Cash and cash equivalents at the beginning of the period</b>	<b>10,868</b>	<b>11,023</b>	<b>89,922</b>
<b>VII. Cash and cash equivalents at the end of the period</b>	<b>¥13,535</b>	<b>¥10,868</b>	<b>\$111,983</b>

# Corporate Data / Investor Information

As of January 31, 2016

## Corporate Name

Ryoyo Electro Corporation

## Address

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

## Phone

+81-3-3543-7711

## Fax

+81-3-3545-3507

## Website

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

## Date of Incorporation

February 27, 1961

## Paid-in Capital

¥13,672 million

## Authorized Shares

119,628,800

## Shares Issued

28,200,000

## Shareholders

5,446

## Stock Trading Unit

100 shares

## Stock Listing

Tokyo Stock Exchange,  
First Section

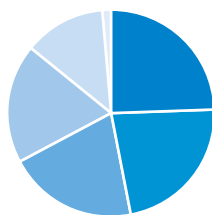
## Ticker Code

8068

## Transfer Agent

Mitsubishi UFJ Trust and  
Banking Corporation

## Composition of Shareholders



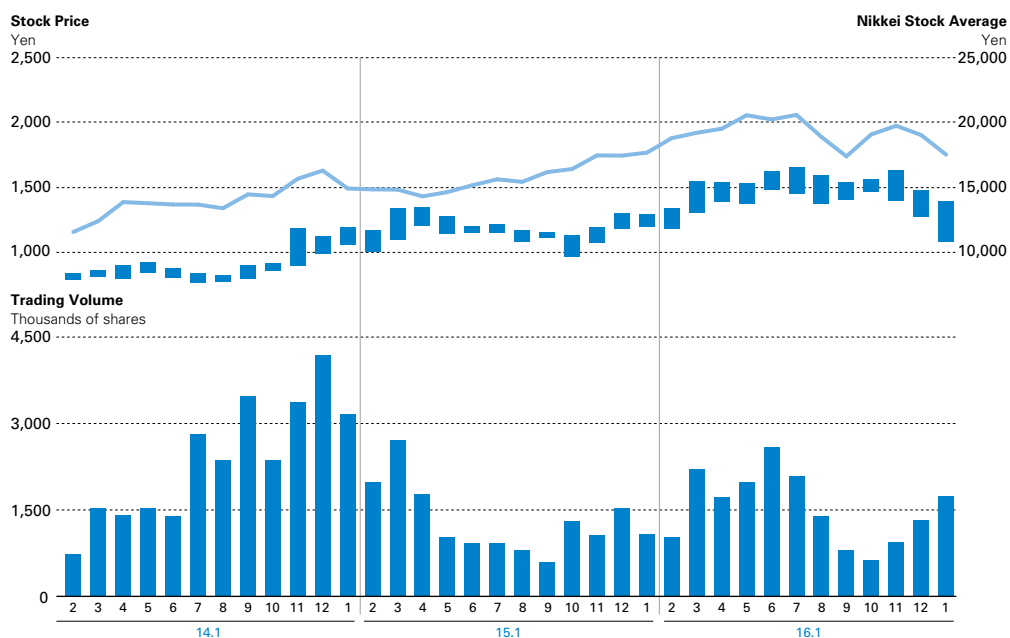
Foreign corporations and other foreign investors	24.5%
Other corporations	22.5%
Individuals and other	20.3%
Financial institutions	18.8%
Treasury stock	12.6%
Securities companies, etc.	1.3%

## Major Shareholders

	Thousands of shares	%
CGML PB CLIENT ACCOUNT/COLLATERAL	4,065	16.50
Mitsubishi Electric Corporation	2,246	9.12
SHC Corporation	2,118	8.60
Japan Trustee Services Bank, Ltd. (Trust account)	1,671	6.78
C&I Holdings Co., Ltd.	1,098	4.46
The Master Trust Bank of Japan (Retail trust account)	552	2.24
The Master Trust Bank of Japan (Trust account)	547	2.22
Sheep Shokai Co.	523	2.12
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	433	1.76
Nippon Life Insurance Company	409	1.66

Notes: 1. Ryoyo Electro Corporation possesses 3,563,991 shares of treasury stock, which represents a 12.63% holding in the Company.  
2. Calculations for the ownership percentages above did not account for treasury stock.  
3. Ryoyo Electro Corporation canceled 600,000 shares of the above-mentioned treasury stock on March 2, 2016.

## Stock Price Chart





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

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

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



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