

I would like to warmly thank all of our shareholders for their continued support and understanding. In the following interview, I discuss our performance for the six-month period from June 1, 2008 to November 30, 2008, the first half of the fiscal year ending May 31, 2009.



February 2009

Teruyuki Osawa

President and Representative Director

Q Please provide us with an overview of Toyo Denki's performance for the first half of fiscal 2008 ending May 31, 2009.

Throughout the first half of fiscal 2008, the fiscal year ending May 31, 2009, the Japanese economy was confronted by increasingly harsh operating conditions. This was attributable to a variety of factors including the sub-prime loan crisis in the United States, which resulted in a sudden and dramatic downturn in the U.S. economy, and was also exacerbated by the drop in corporate sector sales, prompting a cautious approach toward capital investment.

Against this backdrop, the Toyo Denki Group worked diligently to expand its operations and enhance corporate value, guided by the Innovation 90 Plan, its medium-term management plan. The Group's performance in the first half of the fiscal year under review, the final year of the Innovation 90 Plan, was as follows.

- (a) Orders received amounted to 18,199 million yen, a decrease of 15.8% compared with the corresponding period of the previous fiscal year. This mainly reflected the substantial drop in the Industrial Systems segment.
- (b) Sales were 16,092 million yen, a decline of 4.9% year on year. Despite an increase in the Transportation Business segment, this overall decrease was attributable to significant contraction in Industrial Systems segment sales.
- (c) Notwithstanding this drop in year-on-year sales, the Toyo Denki Group recorded an upswing in its gross profit margin. As a result, operating

income climbed 845 million yen compared with the corresponding period of the previous fiscal year to 802 million yen, while ordinary income improved 857 million yen to 703 million yen. Accounting for such factors as the loss on devaluation of investment securities, net income for the period under review was 79 million yen.

Results by business segment are provided as follows.

Transportation Business

Orders received in this segment declined 10.1% compared with the corresponding period of the previous fiscal year to 10,704 million yen. Despite the persistent underlying strength of the domestic market, this decrease was attributable to a slowdown in orders from China following the conclusion of the Beijing Olympic Games. Buoyed by firm results in Japan, segment sales rose 5.7% year on year to 9,453 million yen.

Industrial Systems

Orders received in the Industrial Systems segment amounted to 6,200 million yen. This 27.0% year-on-year decline was mainly attributable to the rapid deterioration in domestic corporate sector capital investment. While overseas segment sales remained steady, results in Japan were also impacted by the aforementioned contraction in capital investment. Mirroring the downturn in orders received, overall segment sales were 5,938 million yen, a drop of 19.2% year on year.

Information Systems

Orders received edged up 4.4% compared with the corresponding period of the previous fiscal year to 1,294 million yen. This favorable result reflected positive contributions from IC card-compatible equipment relating particularly to railway station operations. Segment sales climbed 11.6% year on year to 700 million yen due to the same reasons that prompted an upswing in orders received.

Q What are your thoughts on the Company's prospects and plans for the future?

Looking ahead at future economic conditions, I believe that the current financial crisis will continue to spill over into the real economy. On this basis, I am concerned that the Toyo Denki Group will confront an increasingly difficult operating environment and that the Industrial Systems segment in particular will be harshly affected.

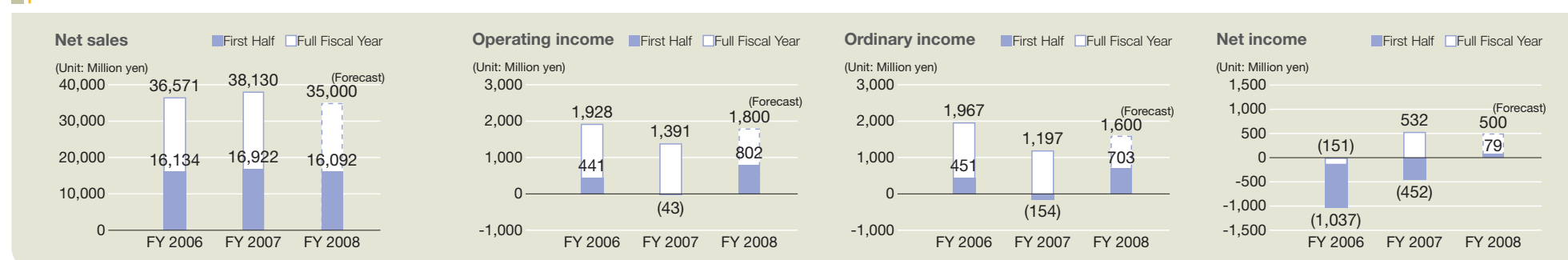
Taking this and other factors into consideration, I anticipate net sales will total 35,000 million yen, down 8.2% compared with the previous fiscal year.

On the earnings front, our results are mixed. While operating income for the full fiscal year is expected to improve to 1,800 million yen, this represents a 200 million yen shortfall from the Company's initially announced target.

The continuous payment of a stable cash dividend is a key component of Toyo Denki's fundamental profit distribution policy. At the same time, the Company retains the necessary internal reserves required to fund its ongoing business activities including strategic research and development, capital expenditure and overseas expansion. In this manner, we work diligently to ensure sustained business growth and to strengthen the Company's management foundation and financial position.

For the fiscal year under review, Toyo Denki plans to pay a fiscal year-end cash dividend of six yen per share. In similar fashion to the previous period, the Company will forego the payment of an interim cash dividend.

Consolidated Performance



Note: Effective the fiscal year ending May 31, 2009, performance data for the first two quarters has been recorded on a cumulative basis in accordance with changes in accounting standards as they relate to quarterly disclosure. For and prior to the fiscal year ended May 31, 2008, performance data was recorded on an interim basis.

Nidec Corporation (“Nidec”) — Securities Code: 6594; First Sections of the Tokyo Stock Exchange (“TSE”) and Osaka Securities Exchange — submitted to the Company a comprehensive capital and business alliance proposal (“the Proposal”) on September 16, 2008.

Under the Proposal, Nidec sought to secure a business alliance with Toyo Denki by acquiring not less than 50.1% of the Company’s total outstanding voting shares by way of a tender offer (Tender Offer Price: 635 yen per share). In submitting to the Company this initial offer, Nidec also lodged with the TSE and other relevant exchanges details of the Proposal on September 16.

A detailed explanation of the Proposal’s progress and proceedings is provided below. This explanation is organized and numbered on a chronological basis to coincide with the reference summary “Timeline of Inquiries, Replies, Discussions and Other Matters relating to the Proposal (in 2008),” which follows.

- (1) On receipt of the Proposal on September 16, Toyo Denki began immediately to analyze and consider its content, substance and purport in line with the Company’s plan for countermeasures to large-scale acquisitions of its shares (the “Toyo Denki Defense Plan”).
- (2) On October 1, the Company dispatched an initial request asking Nidec to provide certain essential information (“essential information”) that would allow shareholders and investors to adequately analyze and consider the Proposal. This initial request comprised a list of 81 inquiries focusing on Nidec, the Nidec group and specific Proposal details in line with provisions stipulated under the Toyo Denki Defense Plan.
- (3) Toyo Denki received Nidec’s initial reply on October 10 and took immediate steps to assess whether the essential information provided was sufficient.
- (4) Following this assessment, Toyo Denki determined that the initial reply received would not allow shareholders, investors and the Company’s Board of Directors to adequately evaluate and consider the Proposal. As a result, Toyo Denki dispatched a second request to Nidec seeking additional information on October 24. This second request comprised a list of 55 inquiries seeking specific comments on the perceived synergy benefits of a capital and business alliance as well as Nidec’s thoughts on certain labor issues.
- (5) In a second communication received on November 5, Nidec replied that any comments and data pertaining to both the company and the group would in principle be limited to publicly disclosed information. Furthermore, Nidec requested that a channel of direct dialogue be opened to allow the company to respond to additional inquiries and to provide supplementary explanation. On this basis, Nidec withheld its reply to just over half of the inquiries outlined in the Company’s second request.
- (6) On November 17, Toyo Denki dispatched a third request, which comprised a total of 20 inquiries, seeking Nidec’s written reply to the minimum number of inquiries (14) considered necessary for shareholders, investors and the Company’s Board of Directors to objectively consider the Proposal. As a part of this request, Toyo Denki dispatched a list of supplementary items (six) requiring explanation at an interview to be determined. This third request was in effect a repeat of inquiries outlined in the Company’s second communication.
- (7) Toyo Denki received Nidec’s reply to its third request on November 25. Of the 14 inquiries requiring a written reply, eight remained unanswered. In connection with the items to be addressed through direct dialogue, Nidec declined to respond to all six items.
- (8) On November 28, Toyo Denki’s Independent Committee put forward the proposal to hold a three-party meeting, chaired by the Committee and attended by members of each subject party’s Board of Directors. All parties agreed to hold a meeting on December 5.

- (9) At the three-party meeting held on December 5, all parties agreed to hold a separate meeting to exchange views on all previously dispatched inquiries and written replies and to discuss the significant gaps in the information provided by Nidec in the three key areas of technology, labor and finance, and management.
- (10) Toyo Denki’s employees’ union announced its opposition to Nidec’s proposal to a comprehensive capital and business alliance on December 8.
- (11) A meeting between Toyo Denki and Nidec to discuss matters relating to technology, labor and finance, and management was held on December 11. At this meeting, Nidec argued that it lacked the necessary representatives to adequately discuss technological synergies particularly in the field of rail transportation.
- (12) On December 15, Toyo Denki established an assessment period during which its Board of Directors would evaluate the Proposal. At 11:00 am on the same day, the Company dispatched a notice of completion of the provision of information to Nidec. Having initially fixed December 15 as the Proposal’s expiration date, Nidec announced at 3:00 pm its decision not to extend the original Proposal or to issue a new proposal. Notwithstanding this announcement, Toyo Denki did not receive formal notification.
- (13) Upon confirmation of Nidec’s decision not to communicate separately with the Company about the aforementioned announcement on the previous day, Toyo Denki announced on December 16 its decision to discontinue all Proposal proceedings.

Consistent throughout Proposal proceedings, Toyo Denki has in good faith endeavored to secure from Nidec the information required for the Company’s shareholders and investors to make an informed assessment and decision. At the same time, Toyo Denki has sought to ascertain the expectations of all stakeholders including customers, business partners and employees. The Company sincerely apologizes for any inconvenience caused as it attended to the aforementioned procedures from (1) to (13) over the three-month period ended December 16, 2008. We also offer our heartfelt appreciation for your continued support and understanding. Looking ahead, Toyo Denki will continue its efforts to secure sustainable short-term improvements in the Company’s performance and to further enhance Group corporate value from a medium- to long-term perspective.

Timeline of Inquiries, Replies, Discussions and Other Matters relating to the Proposal (in 2008)	
(1) Sep. 16	Comprehensive capital and business alliance proposal letter received
(2) Oct. 1	Analysis and deliberations commence
(3) Oct. 10	Initial list of 81 inquiries dispatched
(4) Oct. 24	Initial reply received
(5) Nov. 5	Second list of 55 inquiries dispatched
(6) Nov. 17	Second reply received
(7) Nov. 25	Third list of 20 inquiries dispatched
(8) Nov. 28	Third reply received
(9) Dec. 5	A meeting between three parties proposed by Toyo Denki’s Independent Committee
(10) Dec. 8	Three-party meeting held
(11) Dec. 11	Objection notice issued by Toyo Denki’s employees’ union
(12) Dec. 15 (11:00 am)	Meeting between the two involved companies to discuss matters relating to technology, labor and finance, and management held
(12) Dec. 15 (3:30 pm)	Notification of completion of the provision of information issued by Toyo Denki
(13) Dec. 16	In line with the expiry of the original proposal submitted on Sep. 16, Nidec Corporation announced its decision not to extend or issue a new proposal
	Toyo Denki announced its decision to discontinue all response measures

Leading-Edge Technology



Traction Control Equipment — Controlling the Movement of Trains

Toyo Denki’s ability to consistently identify and develop innovative technologies is a key factor in the Company’s ongoing growth. In this Special Feature titled "Traction Control Equipment — Controlling the Movement of Trains," we hope to provide a deeper understanding of our leading-edge technology development capabilities.

Regulated by a driver-operated master controller, electric devices such as traction control equipment play an important role in regulating the acceleration and deceleration of trains by controlling motor rotational speed. In conjunction with advances in the field of electronics, the shift from a resistance control to the chopper control system, and the rapid progress culminating in the development of a variable voltage variable frequency (VVVF) inverter, this control mechanism has contributed significantly to eliminating commutation, a major weakness in motors.



A VVVF Inverter

Representing the peak in electronic technology, the VVVF inverter accounts for the vast majority of current production. Minute electronic circuits are packed tightly into each inverter case. In similar fashion to the internal workings of a personal computer, each VVVF inverter incorporates a series of printed substrates embedded with delicate electronic components. Banks of LED lights indicate the operating status of each inverter, while dozens of terminals are linked by rows of connectors. The VVVF inverter control mechanism converts the direct current that runs from the overhead wire through each pantograph into a three-phase alternating current, and in regulating both power voltage and frequency controls motor rotational speed. Each inverter also contains a switching semiconductor element that can be turned on and off several hundred times per second. In finely shredding the flow of power to create a wave pattern, referred to as a pulse train, the direct current is converted into a three-phase alternating current.

The use of conventional rheostatic controllers that serve to alter resistance values by switching voltage has given way to significant advances in leading-edge technology. Moving forward, Toyo Denki will continue in its endeavors to develop a wide variety of diverse technologies.

The aforementioned information is based on *Tetsudo no Profeshionaruzu (Railroad Professionals)* (December 2008 Edition), part of the *Rekishu Gunzo* series of picture books published by Gakken Co., Ltd.

Photo: Kenichi Kawabe



Recognition for Contributions to the Beijing Olympic Games

Toyo Denki was invited to the Award Ceremony held in Beijing, China on October 10, 2008 for companies contributing the most to the transportation of global guests and athletes via the Beijing Metro to the Beijing Olympic Games, by the Beijing Mass Transit Railway Operation Corporation, Ltd., and received an award for its help in providing uninterrupted subway transportation and contributing to a successful Beijing Olympic Games. In addition to the supply of more than 40% of the main electrical equipment used in rail vehicles for both the main stadium subway line 10 and branch line 8, the Company was honored for its outstanding maintenance systems and service as well as its proactive stance and support to ensure transportation safety.

Looking ahead, Toyo Denki will actively participate in infrastructure projects in China. By providing electrical

systems for rail vehicles, the Company will contribute to the development of urban transportation in China.



Toyo Denki employees at the awards ceremony and the award

15-Year History Published

Toyo Denki celebrated its 90th year since foundation on June 20, 2008. While the Company published a 75-year history to commemorate its anniversary in 1993, a second publication tracing Toyo Denki's steps over the last 15 years was published to mark this recent milestone.



The 15-Year History

Construction Commences in a New Research, Development and Design Building at Yokohama Works

At a meeting of its Board of Directors held on October 10, 2007, Toyo Denki approved specific capital expenditures with the aim of expanding production capacity as well as the Company's development and design capabilities at its Yokohama Works. Plans call for the construction of a new building adjacent to the existing works and office facility at an estimated cost exceeding two billion yen. A groundbreaking ceremony for the research, development and design building was held within the Yokohama Works site on January 22,



Artist's rendition of the finished building

2009. Construction completion is scheduled in 2010.

Major Exhibitions

Inno Trans 2008

In conjunction with the Japan Overseas Rolling Stock Association, Toyo Denki participated in InnoTrans 2008, the world's leading international trade fair focusing on rail transport technology. The exhibition was held in Berlin, Germany from September 23 to 26, 2008.

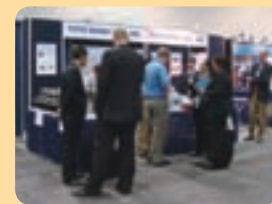
In addition to actual size single-arm pantographs for *Shinkansen* bullet trains and multi-divided contact strip pan heads that contribute to high pantograph tracking performance, Toyo Denki exhibited an extensive lineup of its electrical equipment for rail vehicles as well as an explanatory panel for the Company's E³ Solution System, a power storage system that effectively stores and supplies energy that might otherwise be wasted, enabling railway operators to reuse and conserve energy.



APTA EXPO 2008

Organized by the American Public Transportation Association, Toyo Denki participated in APTA EXPO 2008, held at the San Diego Convention Center in San Diego, California from October 6 to 8, 2008.

Encompassing a wide array of the Company's latest technology and products, Toyo Denki's exhibit displayed an explanatory panel for its E³ Solution System, a mock-up of a lithium ion battery module for use both in E³ Solution System applications as well as hybrid light rail vehicles (LRVs) that source power from overhead wires and on-board batteries, a panel for electrical equipment for use in these hybrid LRVs, and a display of actual LRV converter power units.



Toyo Denki's CSR Activities

Field Lectures on the Environment – Building Eco-Friendly Railway Systems for a Cleaner Environment

Toyo Denki organized onsite lectures at elementary schools in Yokohama in November 2008 based on the theme "Building Eco-Friendly Railway Systems – Promoting Ecological Integrity through Increased Railway System Use." These lectures were conducted at the behest of the City of Yokohama, which is working aggressively to promote environmental awareness and education.



Lecturer explaining the function and mechanism of the pantograph using a mock-up

Implementing a slide and quiz format, a series of easy-to-understand lectures on rail transportation and the environment were held at elementary schools in Yokohama. Attended by approximately 150 year-six students, these lectures encompassed such topics as the history of rail transportation in Yokohama, the types of rail vehicles, why rail transportation is eco friendly, and how to go about eco-friendly travel. Among this host of topics, students gained invaluable knowledge on the amount of CO₂ emissions discharged when a single individual travels one kilometer by various modes of transportation. The students gasped in astonishment when learning that trains discharged the least amount of CO₂ when compared with other transportation modes including passenger vehicles and aircraft.

These field lectures on the environment were also reported by the local newspaper. Looking ahead, Toyo Denki will utilize the information gathered in the natural course of its business activities to enhance the efficacy of its CSR activities.



A reporter from the newspaper publishing company gathering material



Students listening attentively to the slide presentation