Growth in Revenues and Jump in Profits as We Endeavor to Further Expand Our Business

On behalf of the Toyo Denki Group, let me express my deepest condolences to all those who have suffered as a result of the Great East Japan Earthquake, and offer my sincere wishes for the swift reconstruction of areas affected by the disaster.

The following interview provides a review of the initiatives and results we achieved in the fiscal year ended May 31, 2011, and an outline of our latest developments and future business development as we endeavor to secure growth.

August 2011

Hiroshi Tsuchida
President

How did the Great East Japan Earthquake impact the Group’s business?

We were particularly concerned about direct damage to the Yokohama Plant, which is our main production facility. Luckily, all of our employees were safe and our production facilities received only minor physical damage. Our production operations were temporarily suspended for two days after the March 11 quake so that we could conduct safety checks, and we returned to normal operations by the third day. We also revised our production schedules to make up for the temporary suspension of operations.

After the quake hit, many manufacturing industries had to suspend their production activities due to supply chain issues. However, the Toyo Denki Group was able to continue normal production levels, thanks to our having stockpiled a certain amount of components in advance.

With the power shortages in Japan this summer, the Yokohama Plant is subject to power-use restrictions as a major power user. The restrictions mandate that the plant use 15% less power than last year. In response, we have set our own target to use 18% less power, and are implementing power-saving measures that will still enable us to maintain normal production levels. Specifically, we are targeting various processes by making energy use more transparent, such as through mechanisms such as power usage alarms, and shifting our production hours.

The Group has donated 10 million yen in disaster aid to the Central Community Chest of Japan, while our employees have also collected donations for the Japanese Red Cross Society.

Please review sales performance during fiscal 2010.

In terms of business conditions, there was strong demand in Japan in the transportation systems segment, while overseas investment in all industries remained at high levels. However, confidence for capital investment in Japan has somewhat declined since the March 11 quake. In the industrial systems segment, the automotive industry in Japan showed signs of recovery, with automakers and related firms actively pursuing investment in overseas plants. In the information systems segment, there was strong demand for railway station solutions, while inquiries for remote monitoring systems increased due to increased demand for energy-saving solutions.

Under the circumstances, the Group increased its revenues and secured a sharp jump in profits in fiscal 2010. In the transportation systems segment, we increased net sales and profits due to growth in our overseas business, and in the industrial systems segment, we secured a recovery in net sales to post a profit in the segment and address an area of concern. However, we were unable to secure orders for some transportation systems projects due to order delays on Chinese subway projects, which had a significant impact on our results.

Meanwhile, in the industrial systems segment, we recorded an increase in orders for capital investment projects in Japan, which was up 30% year-on-year. In the information systems segment, we saw a decrease in orders for smart card solutions, which resulted in lower revenues and profits in the segment.

In terms of profits, we recorded an increase in expenses as we expanded production for exports to China, but this was offset by higher revenues and operational improvements. The continuing appreciation of the Japanese yen weighed on profits, and we recorded an increase in exchange losses. In response, we are pursuing international channels for procurement of components, by expanding our search to include component manufacturers in China, Taiwan and South Korea. This initiative is starting to pay off with cost reductions.

On October 22, 2010, we established a strategic alliance involving business ties and equity investment with Hitachi, Ltd., in the field of electrical components for railway applications in overseas markets. In addition, on February 21, 2011, we established a strategic alliance of the same nature with Toyota Industries Corporation in the field of motors and inverters for industrial machinery. These alliances will build the foundation for the Group to increase its earnings.


**What is the outlook for the current fiscal year ending May 31, 2012?**

The transportation systems segment will be impacted by lower orders that we recorded in fiscal 2011. However, we expect to capture sequential improvement in the second half of the year, and also expect to record growth in the supply of components for electric vehicles in China market, which will sustain our net sales. We also expect to see continued vigorous investment in subway projects in China, and will closely track projects with a focus on projects for the urban cities of China provinces. In the fall of 2011, we will upgrade our representative office in Beijing to a local subsidiary, and will fund an office in Shanghai to strengthen its marketing capabilities in order to secure orders and pursue sales activities in China. We have already established an Indian Business Promotion Office within the Transportation Business Group who in order to channel our efforts on the Indian market, which is expected to grow along with the Chinese market. The Indian Business Promotion Office will concentrate on garnering information and securing orders as for subway projects in India.

We expect to further improve our business results in the industrial systems segment, driven by a recovery in capital investment in Japan through our business activities. We will be following strict order taking orders for testing machinery used in automotive development and increasing our orders for related business, seeing that the automotive industry is actively moving up its schedule capital investment. We will make efforts to release new products in the fiscal year for business development in East Asia, focusing on China.

**Do you have any comments you would like to make to shareholders?**

The disaster in Japan gave us the opportunity to reexamine our corporate mission. The Group has developed many products that are essential to the development of social infrastructure, including electrical equipment for rail vehicles, water and sewage systems, and emergency generators. We have a major social responsibility to secure the stable and timely supply of our products.

We recognize that the Group will be deeply involved with the reconstruction efforts in Japan through various business activities. All our executives and employees will continue to contribute to the Group’s business activities as we endeavor to increase our net sales and profits, so as to further enhance our corporate value and meet the expectations of shareholders. To our shareholders, we will continue to keep you updated on our continued support and encouragement.
Emerging Growth Markets Driven by Eco and Energy-Efficiency Trends

Facilitating the shift to hybrid and electric drive systems for industrial machinery

In July 2008, the Toyo Denki Group released the Challenge Up medium-term management plan, which outlines a basic strategy to generate new areas of business by entering the market for electrical products and equipment for eco-friendly rail vehicles. Under this strategic direction, the Group is pursuing business development that encompasses strategic alliances with other companies. In this feature section, we give an overview of the industrial machinery segment, which includes eco-friendly rail vehicles and in particular large forklifts and construction machinery. We also outline the Group’s business initiatives in the industrial machinery segment.

Factors Driving a Shift Toward Hybrid and Electric Drive Systems for Industrial Machinery

1. Increasing Eco Emphasis – Stricter Exhaust Gas Emissions Rules
   Steadily, exhaust gas emissions rules for construction machinery, which generate high NOx and PM emissions, are being introduced today for nitrogen oxides (NOx) and particulate matter (PM) emitted by construction machinery and other specialized off-road vehicles that do not travel on public roads. This is expected to drive a shift toward hybrid and electric drive systems for construction machinery.

2. Smaller Demand for Energy Efficiency in Response to Rising Crude Oil Prices
   Crude oil prices have steadily increased since December 2006, when the financial crisis reached its peak. There is a concern that increased demand for crude oil—driven by growth in newly emerging countries such as the BRIC (Brazil, Russia, India, and China) countries—will further push crude prices upward. This will lead to increased demand for better energy efficiency in industrial machinery.

3. Developments in Low-Emission Construction Machinery
   Introduction of certification for low-emission construction machinery by Ministry of Land, Infrastructure, Transport and Tourism

   In April 2010, the Japanese Ministry of Land Infrastructure, Transport and Tourism introduced a certification system for low-emission construction machinery. The system will encourage the adoption of construction machinery with low carbon dioxide (CO2) emissions.

   Japan Finance Corporation loans for certified low-emission construction machinery

   Purchases of certified low-emission construction machinery qualify for loans under a program operated by the Japan Finance Corporation.

Business Development under Alliance with Toyota Industries Corporation

Toyo Denki Seizo K.K.

Toyota Industries Corporation

Set up business tie-ups and equity investment in the field of motors and inverters for industrial machinery.

Establishment of business tie-ups and equity investment in the field of motors and inverters for industrial machinery.

The Toyo Denki Group and Toyota Industries will leverage their respective strengths to develop motors, inverters and electric drive systems for small- to large-scale industrial machinery. The alliance will facilitate the shift to electric drive systems for industrial machinery.

Hybrid and electric drive systems enhance the energy efficiency of industrial machinery, improving the cost advantages over all-driven machinery.

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Suppling eco-friendly and energy-efficient solutions for industrial machinery

In addition to solutions for large forklifts and construction machinery, ELETT will also offer electric drive systems for large conveyance machinery and agricultural machinery.
The Toyo Denki Group would like to express its deepest sympathy to all those who have suffered as a result of the Great East Japan Earthquake. The Group also offers its sincere wish for a complete and swift recovery.

**Impact of Great East Japan Earthquake on Toyo Denki Group**

The following report summarizes the impact of the March 11 quake and subsequent rolling blackouts on the activities of Group offices. The entire Group is dedicated to helping our customers restore and maintain their equipment and facilities, as a manufacturer of solutions associated with social infrastructure.

1. **Initial Impact of Quake**
   Toyo Denki and Group business locations in Japan did not incur any serious damage, with no significant impact on operations. No employees were hurt.

2. **Impact of Rolling Blackouts (March 14 to April 8, 2011) by TEPCO**

   A. **Toyo Denki Head Office (Chuo-ku, Tokyo) and Yokohama Plant (Kanazawa-ku, Yokohama City, Kanagawa Prefecture)**
   Operating hours were not affected by the rolling blackouts. Normal operating levels were maintained during the blackouts by implementing energy-saving measures.

   B. **Hiratsuka Plant of Toyokouki Co., Ltd. (Hiratsuka City, Kanagawa Prefecture)**
   Operating hours were partially affected by the rolling blackouts, with a minimal impact on business results.

   C. **Shiga Factory (Moriyama City, Shiga Prefecture), branch offices and sales offices**
   Sustained normal operations through coordination with the Head Office and Yokohama Plant.

**Power-Use Restrictions and Energy-Saving Measures**

The Yokohama Plant of Toyo Denki and Hiratsuka Plant of Toyokouki are major power users with power contracts exceeding 500 kilowatts. Both plants were subject to power-use restrictions introduced on July 1, 2011, which mandate a 15% reduction from last year's contract power levels.

The Group set its own target to achieve an 18% reduction in power usage, and is implementing extensive power-saving initiatives throughout its workplaces while keeping normal operating shifts.

**Relief Aid for Victims of Great East Japan Earthquake**

On March 31, the Toyo Denki Group contributed ten million yen to the Central Community Chest of Japan as part of its efforts to take part in relief programs for victims of the disaster that struck on March 11 and the reconstruction of the affected areas.

**Launch of Indian Business Promotion Office**

Toyo Denki launched the Indian Business Promotion Office within the Transportation Business Division, in order to focus on transportation system solutions for the growing Indian market.

**Release of CSR Report 2011**

In July 2011, Toyo Denki released its latest report on its efforts to fulfill its corporate social responsibility.

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