

Fortifying the Group's efforts to expand overseas and generating new businesses with the aim of securing steadfast growth

The first year of the "Challenge Up Plan," Toyo Denki's three-year medium-term management plan, came to a close at the end of the Company's 149th business term, the fiscal year ended May 31, 2010. In looking back over the Toyo Denki Group's efforts and subsequent results, I would like to provide details of the Group's performance, particularly in the context of the established plan, outline several new initiatives aimed at securing further growth and discuss future developments.

August 2010

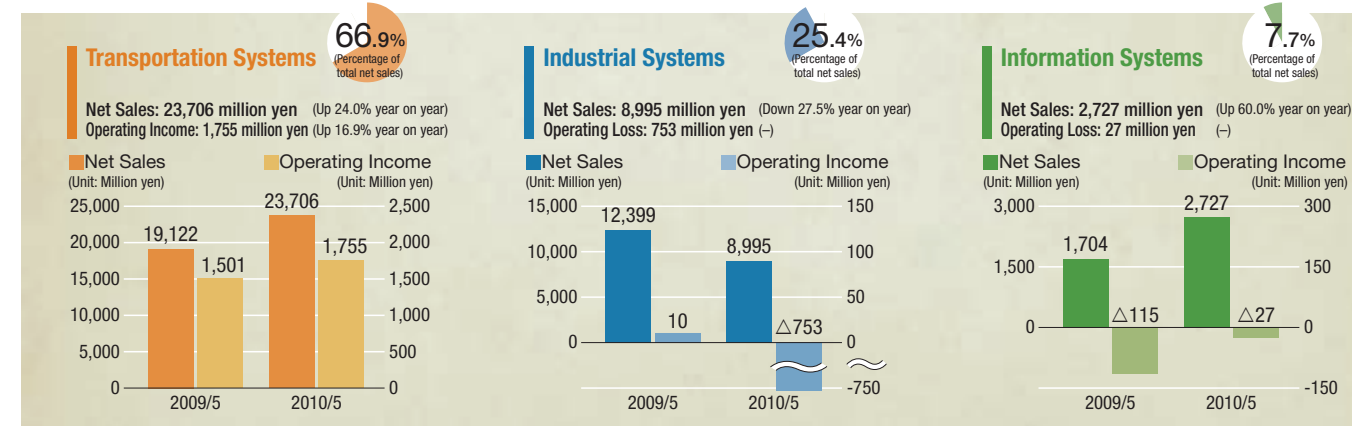
Hiroshi Tsuchida
President

Q Please tell us about Toyo Denki's business activities and results over the recently completed fiscal year.

In overall terms, orders received and net sales were up compared with the previous fiscal year due mostly to firm results in the Transportation Systems segment. From a profit perspective, on the other hand, both operating income and ordinary income fell sharply owing to the significant deterioration in profit margins brought about by a greater than expected slump in capital investment by Japan's corporate sector in the Industrial Systems segment.

In specific terms, results in the Transportation Systems segment were bolstered by firm operating conditions in Japan's subway, *Shinkansen* bullet train and private-sector railway company-related markets. Overseas, the business climate was equally buoyant. Toyo Denki secured large-scale orders for railway carriage electrical equipment for use in Beijing City and the Chengdu City subway system. As a result, overseas sales grew steadily in most countries including China and the United States.

Marking another milestone in the Transportation Systems segment, Toyo Denki concluded a business alliance with Fuji Electric Systems Co., Ltd. in July 2009 for the overseas supply of railway carriage electrical equipment. The Company is already working in close collaboration with respect to the procurement of materials and in



efforts to secure joint orders for projects in India. Among a host of other newly launched activities, the Company is also participating in the joint development of communications systems.

Despite a modest recovery in the domestic economy, corporate-sector capital investment in the Industrial Systems segment remains stalled at a low level. As a result, orders received and sales in this segment have fallen substantially. Buffeted by a drop in factory capacity utilization, Toyo Denki was forced to incur an operating loss in this segment.

Looking at business conditions in the immediate future, there are signs of a pickup in order activity most notably in the automobile industry both in Japan and overseas. I expect sales will surge by a significant margin starting in the second half of the fiscal year ending May 31, 2011.

Turning to results in the Information Systems segment, the Company witnessed a 60% year-on-year jump in net sales. This was largely attributable to deliveries of such products as IC card-compatible equipment relating particularly to railway station operations and mobile terminals for conductor use. Currently, however, activity in this segment appears to have reached a plateau. Accordingly, Toyo Denki will focus its efforts on expanding orders in new business fields encompassing remote monitoring and wireless measurement systems.

Q Please provide us with details of operating structure enhancements, including newly established facilities and departments, during the fiscal year under review.

Construction was completed in January 2010 on the Engineering Center, a new research facility, which is located within the site of the Company's Yokohama Works.

There are two fundamental reasons for the construction of this facility. The first is to consolidate the Group's development and design departments into a single location, thereby reinforcing activities and functions. The second is to increase production capacity. In relocating the development and design departments previously situated within

the Yokohama Works building, Toyo Denki is also freeing up space for additional production. Recognizing the need to adopt a more flexible approach toward production, particularly in light of the growing emphasis on overseas development, this is one of many initiatives aimed at ensuring the Group remains well positioned.

In utilizing the Company's proprietary wind power generation equipment as well as other technologies aimed at conserving energy, the Center is expected to play an important role in the commercialization of a wide range of products. As a symbol of the Company's spirit to take on any challenge to ensure future growth, the Engineering Center is expected to significantly enhance Toyo Denki's R&D capabilities.

More recently in April 2010, we established the China Promotion Department within the Transportation Business Division. This initiative is to ensure that Toyo Denki responds appropriately to the rapid surge in China's railway infrastructure demand. It clearly reflects the Company's recognition of a business development structure that is fully conversant with the peculiar and unique characteristics of the China market.

The principal functions of the China Promotion Department are to manage and oversee business development in China and to promote a comprehensive range of business activities from sales and marketing to after-care maintenance and service, extending well beyond the receipt of orders and product delivery. In addition, the Department manages and monitors the activities of two local joint-venture companies and enhances business coordination and collaboration between these companies. Recognizing the importance of collecting and collating information related to business activities, successful efforts to upgrade and expand the Group's after-service capabilities also help to nurture relationships of trust with local railway operators. In working to attract positive market acclaim, which in turn can be expected to generate new orders, Toyo Denki is enhancing its after-care services by recruiting local human resources as well as providing technical guidance from Japan. In another recent development, Toyo Denki launched the China Project team within the Industry Business Division in April 2010 with the aim of bolstering business development in China in earnest.

An Interview with the President

Q What is the status of progress under the “Challenge Up” medium-term management plan?

The fiscal year ended May 31, 2010 was the first year of the Group’s “Challenge Up” medium-term management plan that encompasses the three-year period through the fiscal year ending May 31, 2012. While in this first year, we were unable to fully meet the targets set under the plan, we are optimistic about a positive turnaround in the fiscal year ending May 31, 2011. At current levels, we are confident that the Group remains on track to achieve its established final three-year numerical targets. (Please see below and the next page for more details regarding the plan).

From a number of basic policies included in the management plan, Toyo Denki places particular emphasis on steps to “fortify the Group’s efforts to expand overseas” and activities that “generate new businesses.”

Looking specifically at steps to “fortify the Group’s efforts to expand overseas,” Toyo Denki has already surpassed its goal of achieving 20% of its total sales outside Japan

in the fiscal year ended May 31, 2010, and is well on its way to the established management plan target of 30%. Moving forward, the Group will aggressively pursue business activities in its Transportation Systems segment with the aim of capturing the projected strong railway-related demand in overseas markets including China. In addition, the Company will place considerable emphasis on control equipment business activities particularly throughout China and Southeast Asia in the Industrial Systems segment.

From the perspective of activities that “generate new businesses,” Toyo Denki is not currently in a position of detail specifics. Suffice it to say that we are pursuing collaboration (alliances) with other companies, both from within and outside our industry. Through these means, we plan to harness the strengths inherent in our technological capabilities to pursue business development based on the creation of innovative products. Already in the pipeline are several projects under which we are shifting from the prototype to mass production stage. In this, the second year of the current management plan, we will accelerate efforts in this regard with the aim of quickly contributing to earnings growth.

As Toyo Denki works toward achieving the numerical goals set for the fiscal year ending May 31, 2012, the Group will expand its activities in the Transportation Systems segment by reinforcing overseas initiatives and securing domestic demand, pursue a recovery in the Industrial Systems segment, and accelerate growth in the Information Systems segment. At the same time, we hold high expectations of solid contributions to the Group’s performance as Toyo Denki steadily brings to fruition several of its new businesses.

Q What are your thoughts on the Group’s outlook for the fiscal year ending May 31, 2011?

On the domestic front, there are indications of an improvement in corporate-sector results. In overall terms, however, one cannot ignore the concerns raised by persistent deflation and the continuing strength of the yen. On this basis, I do not anticipate a sizeable pickup in demand for the foreseeable future.

Under these circumstances, Toyo Denki will capture a steady recovery in domestic capital investment in the Industrial Systems segment while fortifying the Group’s efforts to expand overseas, particularly in China. Through these efforts, the Group aims to boost orders received and sales and to improve its capacity utilization, and subsequently to achieve a substantial upswing in profit margins.

In the Transportation Systems segment, we will continue to make sales and marketing calls overseas targeting high-speed rail and urban transportation network development. In this manner, we will also boost orders received and sales. From a profit perspective, margins in the Transportation Systems segment are forecast to decline. This is largely attributable to intense price competition. In this regard, the Company is committed to working in unison to lower direct input costs. On this basis, every effort will be channeled toward improving the overall gross profit margin.

In the context of the business alliance initiatives and efforts to generate new businesses, Toyo Denki will accelerate business incubation endeavors with a greater sense of urgency. Our goals are to ensure that measures aimed at boosting volume production implemented during the current fiscal year will contribute to earnings in the fiscal year ending May 31, 2012 and serve as the wellspring for future growth.

Taking all of the aforementioned into consideration, consolidated net sales are projected to reach 36.0 billion yen in the fiscal year ending May 31, 2011, a slight year-on-year increase of 1.6%. Again on a consolidated basis, operating income is forecast to surge 64.1% to 1.6 billion yen, ordinary income to climb 52.7% to 1.5 billion yen and net income to rise 56.0% to 0.8 billion yen.

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

Toyo Denki remains sensitive to the need to balance concerns for ongoing business development and growth while providing adequate returns to its shareholders. In this regard, the Company maintains a basic profit distribution policy that strives to ensure adequate internal funds for strengthening its financial platform and engaging in strategic investments aimed at promoting research and development as well as upgrading and expanding its facilities while at the same time providing shareholders with a stable cash dividend payment. Based on this policy, Toyo Denki has decided to pay a fiscal year-end cash dividend of six yen per share, unchanged from the previous fiscal year, for the fiscal year ended May 31, 2010.

At this stage, we are also projecting the same fiscal year-end cash dividend payment of six yen per share for the fiscal year ending May 31, 2011.

Toyo Denki recognizes that its future business environment remains clouded in uncertainty. We remain equally confident, however, of the underlying strength of our technological capabilities as well as our sales, marketing and service structure that collectively powers our future growth. With this as our base, we will move resolutely forward to fortify the Group’s efforts toward overseas expansion and to generate new businesses. Toyo Denki will continue with efforts aimed at achieving the objectives of the “Challenge Up Plan.” By striving to take a further leap forward, we will significantly enhance our corporate value.

As a company engaged in activities that help to expand modes of transportation and basic infrastructure, we will redouble our efforts toward contributing to the ongoing development of society. As we work toward achieving our goals, we ask all shareholders for their continued interest, support and understanding.

Challenge Up Plan, the New Medium-Term Management Plan

Essential Features of the Plan’s Key Policies

- (1) **Further increase Group corporate value**
 - Take full advantage of business alliances
 - Place every emphasis on promoting a consolidated operating division system
 - Thoroughly implement cash flow management
- (2) **Fortify the Group’s efforts toward overseas expansion**
 - Focus on the Chinese and North American markets
 - Strengthen operating platforms in the Indian and Russian markets
- (3) **Generate new businesses**
 - Enter electrical product and equipment markets targeting environmentally friendly rail vehicles
- (4) **Develop new products**
 - Develop specific products that contribute to the creation and maintenance of a low-carbon society
 - Develop services that utilize IT technologies
- (5) **Bolster CSR activities**
 - Formulate a Group-wide Environmental Philosophy as a platform for increased activity and effort aimed at protecting the global environment
- (6) **Establish and promote a dynamic corporate culture**
 - Continue to implement 5S activities — *Seiri* (Sort); *Seiton* (Set in order); *Seiso* (Shine); *Seiketsu* (Standardize); *Shitsuke* (Sustain / Self-discipline) — and improve the environment of each workplace
 - Reform and upgrade human resource education and training systems

Consolidated Management Targets to Be Achieved by the Final Fiscal Year of the Plan, the Fiscal Year Ending May 31, 2012

- (1) **Net sales:** 42 billion yen
- (2) **Operating income (margin):** 3.0 billion yen (7.2%)
- (3) **Ratio of overseas sales to total sales:** 30%
- (4) **Return on equity (ROE):** 10%
- (5) **Experimental and research expenses:** 1.2 billion yen
- (6) **Capital investment (IT investment):** 1.2 billion yen (0.3 billion yen)
- (7) **Number of employees:** 1,100

• Consolidated Numerical Targets through to the Final Fiscal Year of the Plan (Unit: Million yen)

	FY Ended May 2010 (Actual)	FY Ending May 2011 (Planned)	FY Ending May 2012 (Target)
Net sales	35,429	36,000	42,000
Operating income (margin)	975 (2.8%)	1,600 (4.4%)	3,000 (7.2%)
Ordinary income	982	1,500	2,800
Net income	512	800	1,500

(Long-Term Vision)

• Drawing on the core electric motor drive technology that the Group has amassed since its foundation, the Toyo Denki Group is committed to realizing next-generation high-speed railroads and a recycling-based society, by fusing highly sophisticated information-oriented machines and electronics.

• Target net sales: 100 billion yen

Special Features

Construction of the Engineering Center Completed in January 2010

Introducing the Yokohama Works

In order to improve our development and design capabilities while at the same time upgrading and expanding our production capacity, we pushed forward with steps to redesign our Yokohama Works, the Group's principal manufacturing base. In this Special Feature, we introduce readers to a portion of this redesign, focusing largely on the construction of the Engineering Center.



NEW The Engineering Center

The Lead Up to Redesign and Relocation

Toyo Denki's customers, both in Japan and overseas, have in recent years called on the Company to manufacture increased volumes of higher performance electrical equipment for railway carriage use. As a mainstay product, the Company recognized the urgent need to upgrade and expand its development and design capabilities and to increase the amount of space required for production in an effort to address this demand.

Accordingly, the decision was made to relocate the majority of existing Works staff engaged in the development and design functions to a newly constructed Engineering Center. In addition to increasing operating efficiency, this move will further enhance personnel motivation. In freeing up space, this initiative will also allow the Company to address the issue of increasing the Works' production area. Having made the decision, construction commenced on the Engineering Center in January 2009 with complementary steps taken to substantially upgrade and expand facilities and equipment within the Works.

History of the Yokohama Works

Overview of the Yokohama Works
 Address: 3-8 Fukuura, Kanazawa-ku, Yokohama City
 Site area: 55,300m²
 Total building floor area: 42,575m²
 Greenery area: 8,800m²
 (Ratio to total area: 15%)



The Yokohama Works at its initial opening (Hodogaya-ku, Yokohama City)

One year after the Company was founded, the Yokohama Works opened in Hodogaya-ku, Yokohama City in 1919. Since then, the Works has served as Toyo Denki's principal manufacturing base, primarily engaged in the continuous production of electrical equipment for railway carriage and industrial use.

The Works was relocated to its present site in Kanazawa-ku, Yokohama City in 1985. At that time, steps were taken to renew the facilities and manufacturing systems, which was relaunching as a leading-edge facility of its day.



The current Yokohama Works (Kanazawa-ku, Yokohama City)

Upgrade and Expansion of Facilities

In relocating the development and design functions to the Engineering Center, space available for production at the Yokohama Works increased by 12%. Together with the upgrade and expansion of facilities, production capacity improved by approximately 36%. The total investment cost in constructing the Engineering Center and redesigning the Works amounted to approximately 1.6 billion yen.



A newly installed lift made possible by the increased production space

Regarding New Facilities at the Engineering Center

After a period of approximately one year, construction was completed on the Engineering Center in January 2010. In February 2010, approximately 300 development and design personnel commenced work in a fresh environment. In addition to general office areas, the Center boasts a showroom for the Company's products as well as a laboratory and a library.



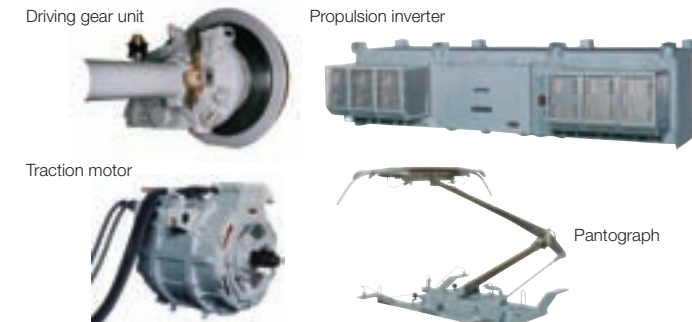
Showroom

Environmentally Friendly Facilities Employed at the Engineering Center

As a part of the Company's CSR endeavors, the following environmentally friendly facilities were installed at the Engineering Center.

- 1 Solar power generator (output 12kW)
- 2 Wind power generator (output 1kW; wind force 12m/s)
 Note: The generator employs the Company's proprietary control circuit- or converter circuit-less method.
- 3 Ice thermal energy storage system and other energy-saving equipment

Products manufactured at the Yokohama Works



Panoramic view of the Engineering Center

Overview of the Engineering Center
 Total floor area: 5,755m²
 Structure: Five-story, reinforced-concrete structure



Solar power generator



Wind power generator



Ice thermal energy storage system

Looking ahead, Toyo Denki will contribute to the development of society by delivering a host of products and systems to its customers both in Japan and overseas that address increasingly diversified and sophisticated needs.



China Promotion Department Established

Toyo Denki established the new China Promotion Department within the Transportation Business Division in April 2010. This initiative was a part of the Company's efforts to build a business structure that is capable of addressing the rapid and dynamic growth in demand in China for railway infrastructure.

Toyo Denki places the utmost priority on engaging in detailed order activity, product delivery and after-care service that takes into full account the status of local conditions in China. At the same time, the Company collaborates closely with local joint-venture companies Hunan Xiang Yang Electric Co., Ltd. and Changzhou Ruiyang Transmission Technology Co., Ltd. Through these and other means, the Toyo Denki Group takes a united stance in pursuing its transportation business in China.

Toyo Denki also established the China Project Team within the Industry Business Division in April 2010 with the aim of further developing business in China.

CSR Report 2010 Published

Toyo Denki's *CSR Report 2010* was posted in Japanese on its website in July 2010. Toyo Denki is committed to contributing to society by delivering products and services that help to conserve energy and resources. At the same time, the Company engages in wide-ranging environmental contribution activities. This report and other information are posted online in an effort to provide readers with a better understanding of the Company's CSR activities.



CSR Report 2010

Website

Download the report (PDF):
http://www.toyodenki.co.jp/en/html/csr_report.html



Railway-related bases in China



Changzhou Ruiyang Transmission Technology Co., Ltd. (Changzhou, Jiangsu Province)



Hunan XiangYang Electric Co., Ltd. (Changsha, Hunan Province)