



Steady Progress on Full Fiscal Year Forecasts and Our Medium-Term Management Plan

Buoyed by a recovery in the economy, Toyo Denki is working diligently to secure an increase in both revenue and earnings for the full fiscal year under review. In this interview, Hiroshi Tsuchida, the Company's president, provides details on first-half conditions and results, future developments, and Toyo Denki's alliance with Hitachi, Ltd., which continues to attract considerable interest.

Hiroshi Tsuchida

President

Q Please tell us about the underlying theme of the Company's business activities in the current fiscal year and results for the recently completed first half.

Turning initially to the Industrial Systems segment, where performance has slumped due to the weak business environment, a major theme for fiscal 2010, the fiscal year ending May 31, 2011, has been to reenergize our activities and place this segment back on a profitable track. At the same time, we are expanding our Transportation Systems operations with a particular focus on overseas markets including China as a means to boost performance throughout the Toyo Denki Group. On this basis, we have identified specific consolidated numerical targets for the fiscal year under review, including net sales of 36 billion yen and operating income of 1.6 billion yen.

Focusing on each of the aforementioned themes, the Group has performed steadily throughout the first half. In the Industrial Systems segment, our income and expenditure remained balanced up to the end of the second quarter. However, we anticipate a profit for the full fiscal year taking into consideration the status of orders received and how, in our business, earnings are generally concentrated in the second half. Results for our testing equipment for automotive development have been particularly strong. With interest growing not only in Japan but also from overseas, this product line is emerging as a major pillar of the Industrial Systems segment.

In the Transportation Systems segment, the Group is experiencing steady growth in both domestic and overseas sales.

Recently, however, the bidding requirements and processes leading up to receiving orders, as well as securing profits, are becoming increasingly difficult as competition intensifies and customers place greater emphasis on curtailing costs. Against this backdrop, Toyo Denki is taking steps to improve productivity through efficiency measures. The Company is also focusing on efforts to reduce costs by engaging in joint procurement with our allied companies as well as purchasing cost negotiations in its own right.

Turning to the Information Systems segment, railway station operation-related product sales remain firm. On a negative note, however, the recent market introduction of remote monitoring and wireless measurement systems are yet to take hold. In response, Toyo Denki is working diligently to boost sales and marketing while developing new products that capitalize on the current demand for energy savings. Collectively, these efforts are expected to contribute to future performance.

In the fiscal year under review, persistent appreciation in the value of yen presents a major concern with respect to earnings. In this context, Toyo Denki is stepping up its efforts to procure components overseas, where a strong yen is considered a plus. As a part of efforts to build a structure that is resilient to fluctuations in foreign currency exchange rates, the Company established a project team that has commenced activities aimed at ramping up overseas procurement by the Group.

Q Please provide us with details of the business and capital alliance with Hitachi, Ltd.

While the Company entered into an alliance with Fuji Electric Systems Co., Ltd., in July 2009, Toyo Denki also agreed to form a strategic business and capital alliance with Hitachi, Ltd., concerning electrical components for rolling stock in overseas markets on October 25, 2010 with the aim of further fortifying its business outside Japan. Building on the current upswing in demand for railway systems across numerous overseas regional markets, the Company has decided to leverage the benefits of joint endeavors to cover any shortfall in its own individual efforts.

In the overseas market, the world's big three railway systems companies—Canada's Bombardier Inc., France's Alstom SA and Germany's Siemens AG—are adopting an increasingly aggressive stance, particularly in newly emerging countries where robust railway construction demand is forecast. In order to secure a more competitive position in overseas markets, Toyo Denki and Hitachi are considering ways in which the two can better leverage their individual strengths. This entails the division of systems coordination responsibilities and the supply of products to each other for projects outside Japan as well as joint product design and development. We anticipate a substantial degree of complementary benefit, taking into consideration Toyo Denki's proven excellence in DC control and drive systems as well as mechanical equipment

including pantographs and driving gear units and Hitachi's established track record in AC control and drive systems.

In exploring this alliance, both companies will also pursue cost benefits through such wide-ranging activities as joint external material procurement for use in overseas projects.

Working to establish and develop deep-seated cooperative ties, this alliance further entails an agreement between Toyo Denki and Hitachi to purchase and hold each other's equity shares. In specific terms, Hitachi will purchase through a private placement (third-party allocation) 2,100,000 shares of treasury stock held by Toyo Denki. Utilizing the funds of approximately 700 million yen procured through this transaction, Toyo Denki will undertake the market purchase of Hitachi common stock. In addition to developing a strong bond of mutual trust, this capital alliance is seen as indicative of the robust commitment by each company to expand business overseas. I appreciate our shareholders' understanding of the arrangement.

Both Toyo Denki and Hitachi are today undertaking genuine efforts to prepare for the full-fledged launch of joint business development endeavors.

Q Can you please outline any initiatives that you believe should be of particular interest to shareholders in the context of the Group's endeavors during the second half?

During the second half we will make every effort to expand sales and secure profits as we work toward achieving our full fiscal year goals. At the same time, we will make proactive sales efforts to capture new orders in each business segment, which will support our fiscal 2011 performance. Harnessing our motor drive technological capabilities, we will also accelerate our second-half development activities with the aim of better realizing the early creation of new businesses.

Fiscal 2011 is the final year of the Group's Challenge Up medium-term management plan. With the aim of achieving our performance targets including consolidated net sales of 42 billion yen and lifting the ratio of overseas sales to total sales to 30%, a management plan priority, we are placing considerable weight on developing business in the Chinese and North American markets while carefully considering potential opportunities for entry into other East Asian countries. As of the end of November 30, 2010,

the Company had achieved an overseas sales to total sales ratio of 25%.

Looking ahead, we are confident in our ability to secure business growth and to increase our corporate value. This confidence is based on our ongoing efforts to expand and improve the quality of our technological capabilities as well as our sales, marketing and service structure. As we accomplish this, we will actively consider and seize opportunities for new alliances, following those with Fuji Electric Systems and Hitachi, if those potential new alliances are likely to lead to new chances to build on our strengths and generate strong new growth.

I hope that all shareholders will take a keen interest in the Company's activities and future initiatives. As we work toward achieving our goals, I kindly ask for your continued support and understanding.

Initiatives Aimed at Expanding Overseas Railway Infrastructure Development Plans



Achieving Growth in the Transportation Systems Segment through **Global Development**

Railway infrastructure development is expected to expand on the back of economic growth in newly emerging countries. Railways are also attracting increased worldwide interest as a means of mass transportation that exerts minimal impact on the environment. As a result, new construction and railway line extension activities are intensifying across numerous regions with a major shift toward high-speed rail transportation entailing improvements in carriages and systems.

In this Special Feature, we provide an overview of global railway infrastructure development plans with a focus on our growth strategies in the Transportation Systems segment, particularly in China and the U.S.

1 Harnessing the benefits of business alliance

Promoting cooperative ties in the rail vehicle electrical equipment business, focusing primarily on expanding overseas railway markets.

Fuji Electric Systems Co., Ltd.

Alliance details

Concerning electrical components for rolling stock in overseas markets

- Joint research and development
- Mutually complementary products
- Engineering service cooperation
- Service cooperation

Business alliance

(announced July 14, 2009)

Business and capital alliance

(announced October 25, 2010)

Toyo Denki Seizo K.K.



Hitachi, Ltd.

Alliance details

Concerning electrical components for rolling stock in overseas markets

- Division of systems coordination responsibilities
- Development of a mutually complementary relationship with respect to overseas products
- Division of product design and development responsibilities
- Joint purchase development of externally procured materials
- Cross shareholding

NEWS

Toyo Denki and Hitachi entered into a business and capital alliance with respect to electrical components for rolling stock in overseas markets. The goals of the alliance are to boost each company's competitive prowess in global markets and to expand business overall.



At the press conference: Kenzo Terashima, Senior Managing Director of Toyo Denki Seizo K.K. (right), shakes hands with Gaku Suzuki, Vice President and Executive Officer of Hitachi, Ltd.

An Interview with the President

2 Targeting new urban transportation construction and plans for railway line extension

Toyo Denki is leveraging its established competitive advantage in urban transportation to actively pursue opportunities in subway construction in Asia as well as Light Rail Transit (LRT) development plans in the U.S.

China

- Toyo Denki is the leading supplier of electrical equipment to the Beijing Subway Line
- Engaged in the production and delivery of electrical equipment to the Chengdu Metro lines 1 and 2



Beijing Subway Line 10



Chengdu Metro Line 1

United States

- Established track record of electrical equipment delivery to Dallas Area Rapid Transport (DART)
- Growing need for LRT due to relatively low construction cost, backed by growing interest toward a model shift triggered by the sharp surge in crude oil prices



Light rail vehicle employed by Dallas Area Rapid Transport

Expectations of Market Growth

Subway

- Major regional urban areas in China
- Southeast Asia (Vietnam, Thailand, Indonesia, Other)
- India

Light Rail Transit

- Major urban areas in the U.S.

3 Targeting high-speed railway network development projects

Toyo Denki has accumulated significant technological expertise over the years it has been involved with the Shinkansen (bullet train) in Japan. This expertise provides the wellspring for the Company's high-speed rail gear units.

High-speed railway network development plans in China



Work on the "Four Vertical & Four Horizontal" high-speed railway network that connects the east-west and north-south corners of China is progressing rapidly. Through the supply of high-speed rail gear units, Toyo Denki is supporting the infrastructure development in China.

Driving gear unit for high-speed railway



Supplementary information: Global High-Speed Railway Network Development Projects

● Countries with high-speed rail concepts
● High-speed rail concepts in the U.S.



Source: Japan Railway Technical Service, etc.