

Endeavoring to Increase Orders Received and Ensure Profits by Conquering a Harsh Business Environment

“Dash 2015,” the Toyo Denki Group’s medium-term management plan, began in the current fiscal term (the fiscal year ending May 31, 2013). President Hiroshi Tsuchida hereby explains the business conditions in the first half and the full-year perspectives, and the future outlook for the Group.

Hiroshi Tsuchida
President

domestic railway companies investing in new rail vehicles. As for overseas railway projects, we made proactive approaches to controlling authorities to achieve orders regarding the extension and maintenance services for subway lines in Beijing and Chengdu, for which the Group has a good track record of deliveries and an established reputation. We are focusing on the railway market in China even though Japan and China are currently experiencing political tension. Regardless of such efforts, however, the Group failed to break through the harsh competition to receive new orders. Furthermore, expanded design and development expenses from investment in new projects also put pressure on profit.

Although the growth of orders for testing equipment for automobile development was anticipated in the Industrial Systems segment in

response to the recovery of the automobile industry, actual sales are expected from the second half or later in view of the delayed timing for orders from the industry.

In the Information Equipment Systems segment, orders of railway station operating equipment received during the previous fiscal year led to successful net sales for the period under review. In addition, we succeeded in obtaining new customers for ticket issuing handy terminals.

Please explain how you have addressed the medium-term management plan.

Dash 2015, our new three-year medium-term management plan, started from the current fiscal term. As mentioned earlier, operating results for the first half were tough in the first fiscal year of Dash 2015. We remain committed companywide to increasing orders received and ensuring net sales and profits. In June 2012, we executed an organizational restructuring with the aim of strengthening our executive ability of Dash 2015 to reinforce functions by segment, clarify operations and the chain of command, and motivate employees.

Under Dash 2015, we are promoting five issues as a fundamental policy and we position “Strengthen business overseas” as the most critical of these tasks. We are strengthening our systems for receiving orders and maintenance requests in Asia, including China, and North America, with the aim of establishing a global business promotion system in both our Transportation Systems and Industrial Systems segments.

As for overseas development in the Transportation Systems segment, we registered our representative office in Delhi, India, in August 2012 as a local facility for information collection and sales support toward its full-fledged operation from the beginning of 2013. In November 2012, we received orders for electrical equipment for rail vehicles, which were bound for the “LRV” new-type vehicles, from Los Angeles County, California, through TOYO DENKI USA, INC., a U.S. subsidiary of the Company. Fully taking advantage of existing facilities, these sales operations produced solid results. Especially in China, our business activities to receiving orders is ongoing, including sales approaches by local joint ventures and venture partners, as well as sales activities conducted by Toyo Denki (Beijing) Co., Ltd., our core China facility founded in 2011.

The Industrial Systems segment strives for overseas business development targeting Southeast Asia while centering on China, South Korea and Taiwan. With motors and inverters for production facilities as major products, we engage in sales to local and Japanese manufacturers. At the same time, we endeavor to streamline our service system while increasing the number of local employment.

Dash 2015 also looks to “Develop new business and products” to ensure the next stage of growth potential for our business activities. As part of this approach, in the industrial machinery electrification business, we will embark on the mass production of motors and inverters for construction equipment in the second half of fiscal 2012. In the Information Equipment Systems segment, our new initiatives include smart-grid-related projects that utilize remote monitoring systems and the joint industry-university development of systems to facilitate the visualization of electric power.

Please tell us about the full-year business outlook and future development.

The demand environment for the second half could take time to improve although there are expectations for an economic upturn with favorable signs such as the alleviation of yen appreciation and the move away from deflation. In these circumstances, the Company will promote sales activities to receive new orders for sales expansion while surely achieving net sales from the orders already received.

The Transportation Systems segment will proactively respond to demand for renewals, which often entail an incremental increase of rail vehicles in and outside of Japan. The Industrial Systems segment is facing a situation in which sales expansion centering on testing equipment for automobile development can be expected. From an internal perspective, we will promote cost reduction by leveraging joint purchases and overseas procurement, as well as the improvement of production efficiency by implementing the value engineering (VE) technique. Moreover, we will strive to ensure earnings through general cost-cutting measures to continuously maintain a stable return of profits to shareholders.

We kindly ask for the continued support and understanding of all shareholders.

Please tell us about the business conditions and results for the first half of fiscal 2012.

The operating results in both the Transportation Systems and Industrial Systems segments were affected by a demand environment in and outside of Japan that was tougher than anticipated, thereby causing us to fall short of our consolidated performance targets for the first half. Although we strove to increase the number of orders received, which decreased in the previous fiscal year, to increase net sales for the period under review, they declined due to the difficult recession that has been apparent since the summer of 2012.

In particular, new orders in the Transportation Systems segment have decreased as fiscal 2012 falls in a cyclically low period for

Supporting the visualization of electric power with wireless Toyo Wireless Measurement System

The Toyo Wireless Measuring System is simple to install and facilitates electrical measurements of electrical equipment in existing plants and buildings. Its major components are a sensor (transmitter) equipped with wireless functionality and a receiver (TURTLE-RW) to receive wireless communications.

There are various sensor types available: the "TURTLE-I" current sensor, the "TURTLE-P" power sensor, the "TURTLE-A" analog sensor and the "TURTLE-PL" pulse sensor. They provide measurement data such as current, voltage, electrical energy, temperature and flow rate.



Example of attaching several power sensors

Example of attaching a pulse sensor

SPECIAL FEATURE

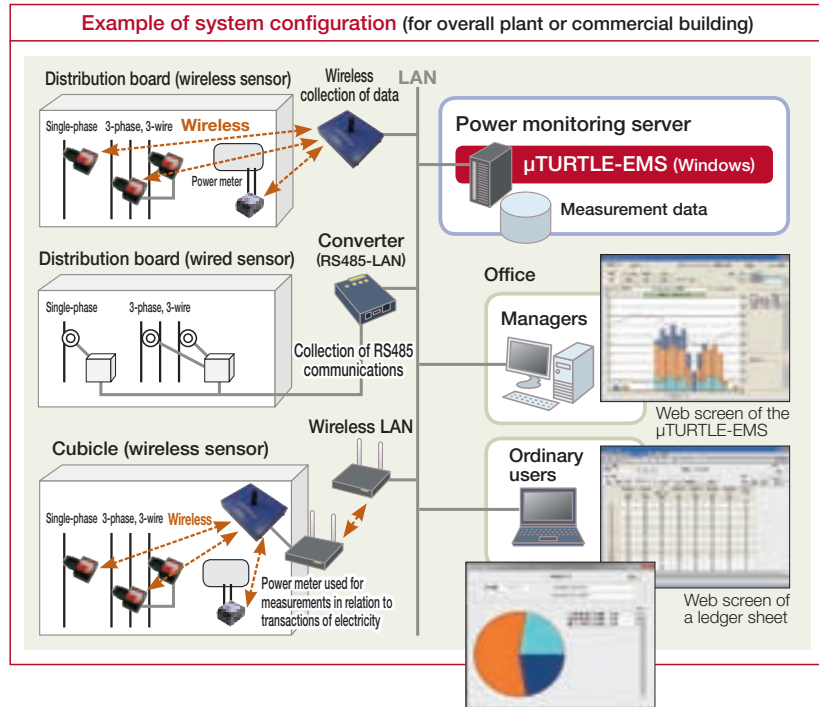
Introduction of Products by the IT Business Unit

Usage of electrical energy may be grasped

Energy Control System

μTURTLE-EMS, an energy control system, is an energy control application that operates on Windows-based PCs. μTURTLE-EMS collects measurement data from "TURTLE" wireless sensors and wired sensors (electrical energy monitors) to control quantities consumed such as electrical energy. The controlled data are tabulated in graphs of quantities consumed and in daily, monthly and annual reports by area and by application (e.g., lighting, air conditioning, motive energy) so that managers can easily analyze the relevant data. System managers therefore can easily understand how electrical energy is consumed using the indicated data.

We intend to promote the provision of Application Service Provider (ASP)-type services, for which a power monitoring server controls electrical energy quantities consumed via the Internet and allows users to confirm them on a Web screen, through system equipment installation in each store or tenant.



TOPICS

DELHI LIAISON OFFICE opened in India

The Company established a liaison office in Delhi, India, where high economic growth is expected in the future and further vigorous investments for railway and road infrastructure are expected. The office will work as the facility for information collection and sales support to expand and reinforce the business activities of the Transportation Systems segment.

- (1) Name : TOYO DENKI SEIZO K.K. DELHI LIAISON OFFICE
- (2) Location : Delhi, India
- (3) Registration completion date : August 23, 2012
- (4) Business : Market research, information collection and sales support



Head office moved to Yaesu, Chuo-ku, Tokyo

The Company moved its head office to Yaesu, Chuo-ku, Tokyo on September 10, 2012. This relocation aimed to turn the business around and raise space usage efficiency by improving our office environment.



By seizing the occasion of this relocation, all employees are determined to vigorously push forward on a new note. We look forward to your continued support and understanding.

◀ Building in which our head office is tenanted
Appearance
(Tokyo Tatemono Yaesu Building)

Please cooperate in submitting the Questionnaire to Shareholders.

The Company provides the Questionnaire to Shareholders, which aims to utilize the results for its corporate management and future IR activities for investors by soliciting valuable opinions from our shareholders. Please answer and return the Questionnaire Postcard inserted in this Business Report for the Second Quarter.



New CORPORATE PROFILE prepared

We have recently posted the CORPORATE PROFILE, which includes descriptions of our businesses, on the Company's homepage. Please visit our Website.

URL
http://www.toyodenki.co.jp/html/images/corporate_profile.pdf

Inquiries:
PR, IR and CSR Department,
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