

By laying a foundation to promote globalization, we will accelerate our initiatives.

In fiscal 2014, we launched our new medium-term management plan, “NEXT 100: Beyond 100 years.” Along with a report on business conditions for the first half of fiscal 2014, we hereby explain the initiatives based on the principal measures of “NEXT 100,” and its future development.

President **Kenzo Terashima**



Q Please tell us about the business conditions for the first half.

Overall results for orders maintained the same level as the corresponding period for the previous fiscal year, as robust results in the Transportation Systems segment made up for the rather stagnant performance of Industrial Systems segment and the Information Equipment Systems segment.

Although demand for domestic projects was flat, orders received in the Transportation Systems segment were up due to strong performance in overseas projects, such as expanded demand for components in the Chinese market. Concerning net sales, revenue was up thanks to contributions from electrical equipment for use in Chinese high-speed railroads, which has recorded increasing orders since the previous fiscal year.

Orders received and net sales in the Industrial Systems segment continued to be strong in areas such as testing equipment for automobile development, but capital investment was slow to recover in the domestic market, leading to weak growth in production facilities. In September 2014, we opened a representative office in Bangkok, Thailand, aiming to capture the needs for manufacturing facilities in the Southeast Asian market, and

will further enhance our information collection activities in the future.

There were no remarkable movements in the Information Equipment Systems segment compared with the corresponding period of the previous fiscal year, and its performance remained at low level. We hope that it will bounce back in the second half, when such events as the launch of the Hokuriku Shinkansen and the train timetable revisions at various lines are scheduled.

Amid these business conditions, in terms of consolidated business results for the first half of fiscal 2014, both revenue and profits increased significantly compared with the corresponding period of the previous fiscal year. This was attributable to net sales and operating income that largely met the initial plans, and ordinary income and net income that greatly exceeded plans due to foreign exchange gain being recorded.

Q Please explain new initiatives for the future.

“NEXT 100: Beyond 100 years,” the three-year medium-term management plan started in fiscal 2014, sets

“establishing new businesses” as one of its principal measures. As part of this measure, in August 2014, we established a subsidiary, Beijing Jingche Shuangyang Traction System Co., Ltd. in Beijing, China, which will develop a maintenance business for electrical equipment for railroads. The company was established as a joint venture between Toyo Denki (Beijing) Co., Ltd., one of our subsidiaries, and a local trading company, and will be engaged in the promising periodic inspection business for electrical equipment mainly for the rail vehicles of the Beijing Subway.

The Beijing Subway has currently expanded its total track length beyond that of the Tokyo metropolitan area, boasting approximately 4,000 rail vehicles in operation. We deliver electrical equipment to 34% of all its rail vehicles and have established a strong relationship of trust with the subway system operators based on our solid performance. The purpose of launching this maintenance business is to ensure our sustainable growth in the Chinese market by expanding the business from manufacturing to maintenance, leveraging these firm relationships with them.

Rail vehicles undergo periodic inspection approximately every eight years (about 1.20 million kilometers) in travel distance, meaning that in the Beijing Subway, which was developed for the 2008 Beijing Olympics, increasing number of vehicles will become subject to periodic inspection beginning in 2015, and we believe that there will be a continuous demand for maintenance.

Additionally, another principal measure of “NEXT 100” is advancing the “restructure production system” in preparation for future increase in orders in both in Japan and overseas.

With the aim of achieving “net sales of 50.0 billion yen” and “overseas net sales ratio of 50%” by the final year (fiscal year ending May 31, 2017) of “NEXT 100,” we will continue to expand overseas production, but our mainstay parts will continue to be produced primarily in Japan. Therefore, the Transportation Systems segment of which major production base is the Yokohama Plant, are particularly under conditions where further improvement in efficiency and expansion of production volume are required. We will respond to this by optimizing production system including the Shiga Factory which is engaged in production for the Industrial Systems segment and other affiliates.

Q Please tell us about the outlook for the second half.

Results for the second half for the Industrial Systems segment will be affected to an extent by the recovering status of domestic capital investment, but basically, the strong Transportation Systems segment is continuously expected to serve as the driving force.

Concerning the Transportation Systems segment, in addition to expanded orders for components in China, we expect higher revenue as a result of full-fledged production of electrical equipment for a new type of light rail vehicle (LRV) in Los Angeles, U.S.

In the Industrial Systems segment, we will enhance our sales activities to capture orders for industrial systems that meet demand for energy saving in Southeast Asia, to make up for the weak capital investment in the domestic market. Additionally, for testing equipment for automobile development, we will introduce a newly developed high-speed rotation testing device for motors used in hybrid vehicles in an effort to expand our market.

Concerning the Information Equipment Systems segment, we expect increased orders for railway station operating equipment following the aforementioned launch of the Hokuriku Shinkansen and the train timetable revisions, as well as contribution to sales of the railway service information system utilizing remote monitoring technology, which was adopted by the Kagoshima City Transportation Bureau.

Focusing on the 100th anniversary of our founding in 2018, we are currently laying a foundation for growth further into the future with the measures outlined above. Moving forward, in order to promote globalization, which is the main theme of “NEXT 100,” we will accelerate these measures. We would like to ask for the continued support of our shareholders in anticipation for our businesses to expand into the new areas.

Transportation Systems Segment

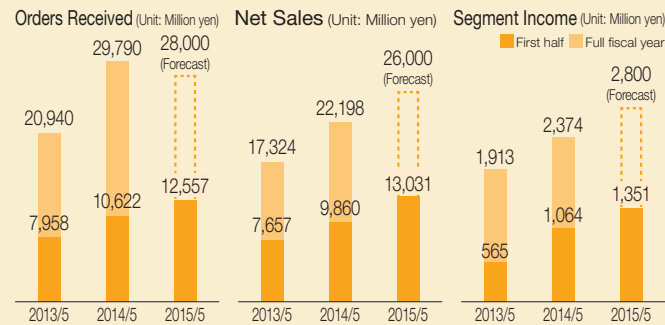
Percentage of total net sales
68.4%



Orders Received
12,557 million yen
(Up 18.2% year on year)

Net Sales
13,031 million yen
(Up 32.2% year on year)

Segment Income
1,351 million yen
(Up 27.0% year on year)



Orders received recorded an increase both in Japan and outside Japan. In overall terms, orders received increased 18.2% compared with the corresponding period of the previous fiscal year to 12,557 million yen.

Net sales were flat in Japan, but increased sharply outside Japan, and totaled 13,031 million yen representing 32.2% year-on-year increase.

Due to increased revenue, segment income totaled 1,351 million yen representing 27.0% year-on-year increase.

Industrial Systems Segment

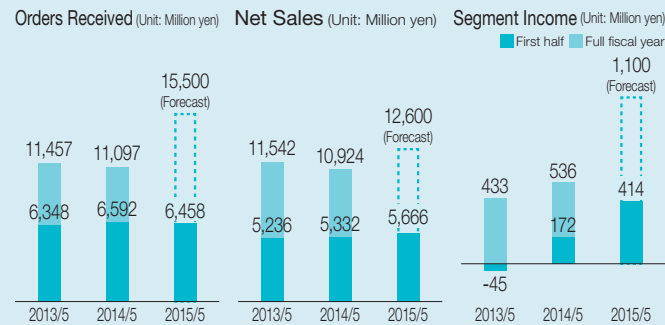
Percentage of total net sales
29.7%



Orders Received
6,458 million yen
(Down 2.0% year on year)

Net Sales
5,666 million yen
(Up 6.3% year on year)

Segment Income
414 million yen
(Up 140.4% year on year)



Orders received decreased 2.0% compared with the corresponding period of the previous fiscal year to 6,458 million yen, due to weak orders received for capital investment related such as printing equipment and processing equipment, and testing equipment for automobile development, despite strong infrastructure system related.

Net sales in this segment increased 6.3% year on year to 5,666 million yen, mainly due to increased testing equipment for automobile development.

Segment income increased 140.4% year on year to 414 million yen, which was attributable to increased revenue and improved profitability.

Information Equipment Systems Segment

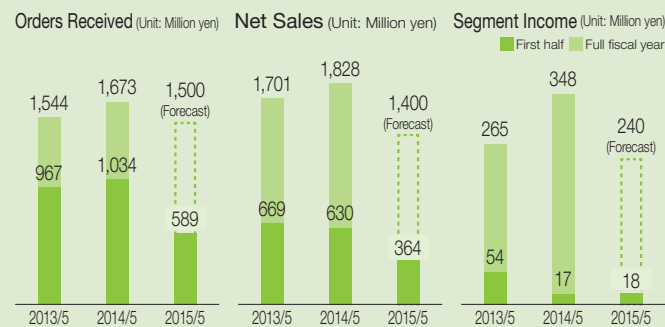
Percentage of total net sales
1.9%



Orders Received
589 million yen
(Down 43.0% year on year)

Net Sales
364 million yen
(Down 42.1% year on year)

Segment Income
18 million yen
(Up 7.1% year on year)



Orders received in this segment decreased 43.0% compared with the corresponding period of the previous fiscal year to 589 million yen, due to a decrease in both railway station operating equipment and remote monitoring systems.

Net sales in this segment decreased 42.1% year on year to 364 million yen, mainly for the same reasons underlying the decrease in orders received.

Segment income for this segment increased 7.1% year on year to 18 million yen, which was attributable to improved profitability.

TOPICS

Opened a representative office in Bangkok, Thailand



Buddhist opening ceremony (Praying for a prosperous and safe business)

In Southeast Asia, where high economic growth rate and vigorous investments in infrastructure-related and other industries are expected, we established a representative office in Bangkok, Thailand as a sales support base to expand and strengthen business opportunities in the region.

- (1) Name: TOYO DENKI SEIZO K.K. Bangkok Representative Office
- (2) Address: No. 1 Q-House Lumpini, Room No. 2722, 27th Floor, South Sathorn Road, Tungmahamek, Sathorn, Bangkok 10120, Thailand
- (3) Established: September 1, 2014
- (4) Business activities: Market research, information collection and sales support

Established a subsidiary in Beijing, China, with primary business in maintenance of electrical equipment for railroads

Our business in China has centered on the delivery of electrical equipment for rail vehicles for high-speed railroads and subways. In order to further reinforce our business, we have established a new subsidiary to capture the demand for maintenance, which is expected to increase in the future.

- (1) Name: Beijing Jingche Shuangyang Traction System Co., Ltd.
- (2) Address: B2-3 Metro Industrial Park, 9 Second Street East, Beijing Economic and Technological Development Area
- (3) Established: August 19, 2014
- (4) Capital stock: CNY20 million
- (5) Business activities: Maintenance of traction systems for light rail vehicles; sale, import and export of related equipment and ancillary business



The outward appearance

- (6) Shareholders: Toyo Denki (Beijing) Co., Ltd.* 50%
Beijing Xin Xing Ri Xiang Science & Technology Trade Co., Ltd. 50%
- * Wholly owned subsidiary of Toyo Denki Seizo K.K.