

## Introduction

The greatest 'risk' is to continue as we are now.



Greetings to all of you, our stockholders, investors, and other stakeholders. I hope this Investors' Guide finds you healthy and prosperous.

Today, the structure of our world economy is undergoing gradual but major change. While developed nations are facing stagnation, many emerging nations, and particularly those in Asia, are recovering from the global financial recession and will be among the earliest leading the way to recovery. In such an age and climate, the riskiest course is to try to simply continue on as we are now.

TOA began manufacturing industrial and professional audio equipment in 1934, and we later expanded into surveillance cameras and other security equipment. We were also one of the first companies to extend ourselves abroad, and today our products reach over 120 countries worldwide. For such achievements we can thank our predecessors, who built a solid business foundation by applying themselves to identifying and satisfying user needs in each successive age. Now, it's our turn-time to build new business foundations of our own.

Since becoming CEO, I've made a point of taking every opportunity to talk with TOA employees in all areas of the company about how TOA should embrace the new age opening before us. What I hear from these people is that a resolve to discard old and worn-out ways and move forward as a

company into the global market is definitely gelling among TOA employees at all levels. Now the time has come to start the real work of transforming TOA in ways that will carry the company into the future. We may still need a little time to finish building the 5-region localization called for in our 6-year medium-term management plan (set for fiscal 2009 through 2014), but I'm confident that the entire TOA staff is now committed to joining together to pursue each necessary step. With that in mind, I ask you now to renew and reinforce your support as we pursue this bold initiative that will carry us into the future.

井谷憲次  
*K. Inoue*

## Our Performance in General

Hit Products Even in Tough Times

What's your take on the recent business environment?

On the global level, economies are still in recovery. Some of TOA's most important products in both sound and security are largely tied to building and construction, and the time frames for these mean that new demand won't emerge until at least six months after people have started feeling like

things are on the upswing again. Because of this, our sales for the fiscal year ending March 2010 were only Y31.193 billion, down 10.6% from the previous year with earnings of just Y1.009 billion, down 40.8%, and it looks like recovery will have to wait until the latter half of the year.

### **How has domestic performance been?**

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It's been rough. Sales for the fiscal year ending March 2010 were only Y20.511 billion, an 8.1% drop from the previous year. This was directly affected by stagnation in both government and private sector capital investment, and I think that segment still hasn't quite gotten a foothold toward recovery.

Increased production in the automotive industry has boosted demand for factory-related sound and communication equipment, but the strong Japanese yen, high domestic labor costs, and other factors have been pushing capital investment itself away from Japanese shores. Since these conditions mean we can't hope for significant growth here in Japan, we really need to bring our game to the vastly larger global market.

### **Has TOA been able to come up with any "hit products" even during this current downturn?**

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Yes, I would mention our "Voice Walker" hands-free megaphone. Sales of these have taken off, and while our business mainstays are generally unglamorous, industrial-use products, these megaphones have even been earning popular exposure on television and in magazines. We actually released the Voice Walker two years ago, but it only caught fire last year, and for a while it was selling ten times as well as our conventional megaphones. It features a belt-mounted speaker combined with a headset microphone, allowing completely hands-free use. The novelty of it, combined with availability in three different color variations (not something we usually offer), have earned it good market acceptance.



Three Voice Walker combinations

### **How is TOA doing overseas?**

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The American market is still cool, and the financial crisis in Greece and other conditions have slowed economic recovery in Europe. Sales for the fiscal year ending March 2010 were Y10.681 billion, down 14.8% from the previous year.

On a more positive note, some of China's new high-speed railway projects and Expo 2010 Shanghai have used our large broadcast and sound systems, and sales in the ASEAN and surrounding regions have also been normal. This trend will continue even into the next fiscal year ending March 2011, and we're trying everything we can to expand our share in these growing markets.



TOA speaker at Expo 2010 Shanghai's China Pavilion

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## Overseas Growth Strategies

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### Direct Sales Systems in America & Indonesia

#### What strategies is TOA working on for overseas growth?

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One important project is the development of direct sales systems in each region. In the United States, for example, we've started adding direct sales calls by TOA sales teams to replace a portion of activities formerly handled through local sales representatives, and we've also set up sales companies in Indonesia and Thailand, two countries that have been showing remarkable economic prosperity.

These movements are all part of our drive toward the 5-region localization envisioned in our 6-year medium-term management plan. It would be difficult to implement this everywhere at once, so at this stage we're focusing on distributing our financial and management resources strategically among just a few specific countries, deploying our efforts slowly but steadily.

In America, where we made our first direct sales efforts, one single large order enabled us to install background music (BGM) equipment in about 600 outlets of a major office supplies chain store. And, in February we began a year-long testing of TOA security cameras on subway cars in New York City. If these tests are successful, and if we are able to obtain approval from the various authorities concerned, this could bring us a major business opportunity.



Image photo showing an American train in operation

We're making this field a top priority, and we've even established a subsidiary company specifically to handle equipment installed on railway cars. The American railway-related market

looks increasingly promising, and if we can get in on the ground floor of that trend now, then we'll be well positioned to approach railway operators in other U.S. cities.

In places like Indonesia and Thailand, automotive and other manufacturing industries are showing rapid growth, and large-scale shopping centers serving the populations working in such growing industries have been springing up "like mushrooms after rain." From now on, we'll certainly be targeting both these factories and the other facilities around them. Also, given the rapid advances happening to Indonesia and Thailand, our policy in such places will include offering higher-end products with more advanced functionality, in addition to our conventional popular and general models. I think we'll start seeing some results from this in about a year.

## How about other regions?

In Europe, we've already taken the lead among our competitors in earning certification under the new EN54 series European emergency evacuation system standards, conformance with which will be mandatory by 2011. This certification will be essential for any company handling emergency evacuation system products in Europe, but the fact that earning and maintaining it requires a certain amount of investment holds hidden potential to change Europe's emergency evacuation equipment market conditions completely. We look at this as an ideal business opportunity, and we intend to use our certification under these regulations as a weapon to fight for a top position in that market.



Certificate EN54

In the fast-growing and massive Chinese market, our installations of broadcast equipment in high-profile facilities at the Beijing Olympics and Expo 2010 Shanghai have been effective in bolstering our brand-based strategy there.

Such high-profile facilities embody a sense of national pride and dignity, so it's vitally important that any system you install in them functions well, and free of any major troubles that might compromise national honor. That's why for such large jobs, reliability and brand strength are given primary importance.

TOA's good reputation is already rippling through China because of the trouble-free performance our products delivered at the Beijing Olympics, and we've started receiving inquiries from other parts of the country as a result. To respond to these, last year we set up a new branch office in

Chengdu in Sichuan province, and we'll be making efforts to expand our network to other parts of China as well.

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## Domestic Growth Strategies

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### Applying Technology to Meet Demands in the Public Works Sector

#### What opportunities for growth do you see back in Japan?

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Japan has seen significant deterioration in its public finance situation, and public sector demand has been shrinking, particularly because of cuts to so-called "big box" public building projects, but there are still some growing fields for us. One of these is the sector we call the "safety, security, and disaster network market." A spate of earthquakes, floods, and other natural disasters around the country in recent years has brought priority to expenditures on various types of equipment and facilities that can help save human lives. These are also areas in which we can apply our other core competencies, namely sound and networking technologies.

#### Has TOA had any hit products in these fields?

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Our IP-Based Notification System has shown consistently strong performance. This system allows local municipalities to use IP networks to establish immediate communications between, say, city hall and individual homes, and between city hall and public facilities, which is very useful during natural disasters and other public emergencies. It allows real-time, interactive dispatch of audio announcements and control signals.

Over seventy percent of regional municipalities are already set up with IP networks and are studying how to utilize them. Our IP-Based Notification System is a strong candidate. As of last fiscal year, we'd already installed this system in fourteen locations, and we're working gradually to establish it as an important pillar of our domestic business.



IP-Based Notification System

#### Do any other fields in the public sector seem promising?

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Yes, educational facilities. Schools in many areas are bumping up their security, and TOA is in a position to offer full "solutions" that go beyond just installing surveillance cameras. Our Packet Intercom, for example, uses a LAN to connect classrooms with teachers' offices and other areas. The interface looks like a larger version of a conventional door interphone, but it allows communication to police (for example) at the touch of button, which is very helpful in the event that some inappropriate individual enters the school.

The emergency and education fields surely hold various other peripheral demands in addition to these larger products, so we'll be continuing our public sector sales efforts to identify these and meet user needs accordingly.



Packet Intercom

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## Toward Fiscal 2011

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### Beyond Global "-ization"

#### What's your outlook on trends for the latter half of 2010?

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In our domestic markets things will probably remain tough. Abroad, the situation in emerging nations is likely to turn toward the positive, but at the moment we've also got to contend with the effects of exchange rates. Also, the sales offices we established in Indonesia and Thailand over the second and third quarters will be included in our consolidated earnings, so we'll have to view that as a contributor to any jumps in profit.



**Even so, the domestic forecast is for a 3.4% increase over the previous year, which suggests increasing recovery.**

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Things were too declined in the last quarter, so that forecasted increase will be a rebound from that, and not necessarily real recovery. In any case, it's going to take a while before we see the buds of new prosperity in what we do, whether it's selling new products or getting new contracts. We have our work cut out for us, and we just have to focus on moving forward to identify and meet demands, not only in regional municipalities that are the most important target but wherever they may be around the country, for that is how we will build our future.

## Do you predict further growth for TOA abroad?

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We're looking at a 5.8% growth in sales, happening notably in the China and Asia-Pacific regions. That said, we're not going to be hasty in getting such effects; it's more important for long-term growth to work on building solid foundations in each region by cultivating local sales companies, factories, and development departments.

My dream is to become number one in the world in all the fields we're currently putting our hands to. We're pretty competitive in the emergency evacuation system field, so that's one area in which I particularly don't want us to be beaten. If we continue to localize wherever we go, and if we continue to offer products that meet real regional needs, then I think we have more than a good chance of succeeding.

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## Free Discussion

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### Take me out to the ballgame!

#### We've heard you're a die-hard Hanshin Tigers fan.

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Oh yes, the Tigers have been my team for about fifty years now! I grew up around relatives who were Hanshin fans, so somewhere along the line I became one, too. I even put out my own cash to buy a year-long seat at Koshien Stadium, but since becoming CEO I've been so busy travelling and such that I've only been there six times this season.

When I do manage to get a ballgame, you'll see me there in a tiger-striped jersey with a megaphone making a real ruckus cheering along with my fellow fans! In normal life I almost never raise my voice like that, so it's very satisfying!

