

LEAD

Competitiveness for a Global Market

To all of our stockholders and investors, I hope this message finds you in the best of health and prosperity!

While the economies of the world, and particularly those of emerging nations, now seem headed toward recovery, there remains enough instability that I think we still must temper our optimism to some degree. That said, our business has been recovering, mainly through increased overseas sales, and we're continuing to push forward toward the goals of our 6-year medium-term management plan (FY2009-2014).

In particular, our general-purpose PA systems, which have been our mainstay since 1934, comprise one of our greatest strengths in this global market. To meet the needs of our global customers even more precisely, we are heavily involved in a program of "close localization" of these and other products, including localizing all aspects of operations, from research and development to manufacturing to sales. Our vision of "an alliance of five companies each closely tied to its region," as set forth in our current medium-term management plan, represents the ideal of where we'd like to pursue this strategy fully to its logical conclusion.

The world at large is full of business opportunities, and one of the most recent is the sudden expansion of railway-related projects. We've been pursuing these projects aggressively, and just recently succeeded in selling TOA products to a major subway system in the United States. This field is very interesting for us, because in addition to public address systems, it also represents a strong potential market for the security products we've done so well within our Japanese markets. In European Union, too, we're starting to come into our own in the field of emergency broadcasting.

As a Japanese company, it's almost impossible for us to continue real growth without expanding our overseas market share. So while we'll continue reinforcing our management and product development functions here in Japan, we'll also be working hard to optimize our global supply chain, strengthen our quality assurance capabilities, and in general shore up the foundations of our competitiveness on the world stage.

井谷憲次
K. Igarashi



Performance

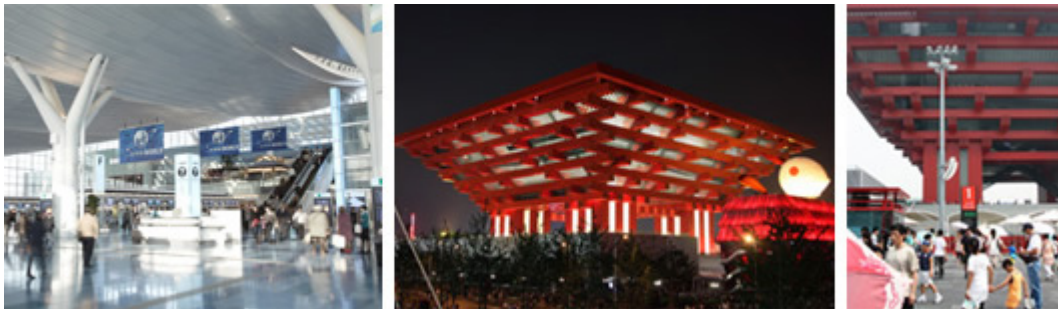
Sales Recovering at Home and Abroad, Profits Expanding

What's the business environment been like so far this year (as of the end of the 3rd quarter of FY2010)?

The economy in Japan has been looking up, relatively speaking, partly due to the eco-point system and other government stimulus activities. But these are simply policy based "economy creation" measures, and for a company like ours that's so reliant on B-to-B transactions the environment has stayed pretty tough. Our export performance, too, has been hampered by the strong yen's climb down into the low 80s against the dollar. On the other hand, overseas markets are booming-there's been particularly conspicuous growth in China and other parts of Asia, and Europe, too, has been positive overall.

So even amidst all that, TOA has been headed toward significant recovery?

Consolidated sales are up 7.0% compared to last year at this time (as of the end of the 3rd quarter of FY2010). Domestically, we've seen growth in IP-based notification systems and related products for regional municipalities, and we also installed the public address system in the new international terminal at Tokyo's Haneda Airport. Abroad, we've already taken the lead among our competitors in earning certification under the new EN 54-16 European Emergency Evacuation System Standards-which will become mandatory as of March this year-so our sales in the emergency broadcast system market there have been holding fast. In China, our success with major installations like Expo 2010 Shanghai did a lot to boost the TOA brand there. And in the Asia-Pacific region we've set up new sales companies, in places like Indonesia and Thailand, and as a result sales have been growing at a good pace there, too. Operating profits, too, have suddenly recovered along with increased sales. We made some human resources investments, so expenditures on sales administration are up somewhat year-on-year, but even so profits have grown more than we expected.

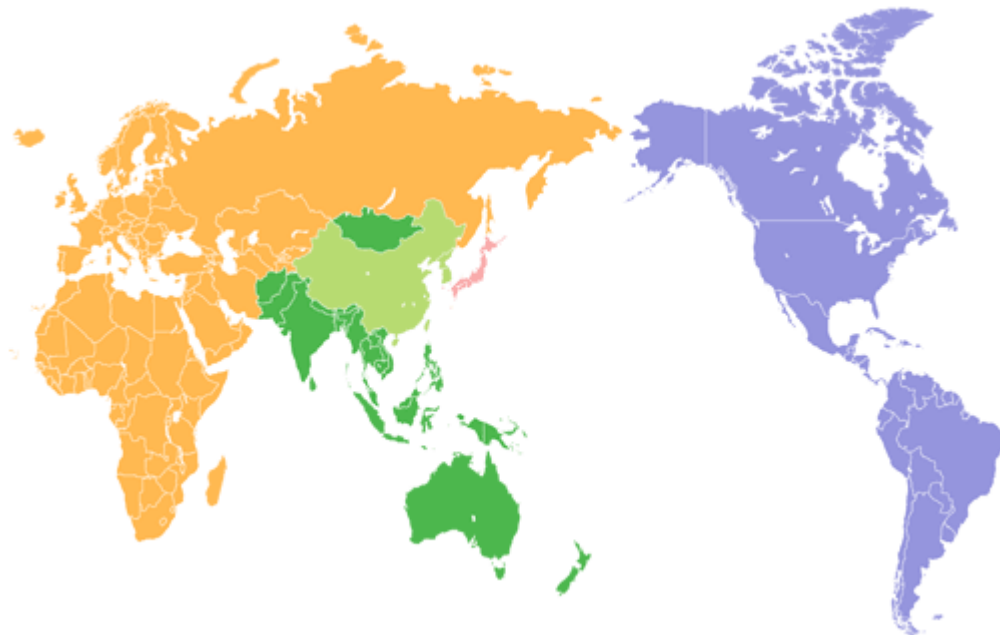


Has TOA been implementing any cost-cutting measures?

Yes, but instead of just going at it piecemeal, cutting purchasing and staffing costs and so on, we've actually been doing a complete review of our entire supply chain to find out how we can cut costs more comprehensively. Our goal is to get rid of every bit of waste and see how well we can optimize the flow of materials.

At the root of this effort is how we think about holding materials and products in inventory. My belief is that "inventory equals time." There's a certain time lag between when we manufacture a product and when we sell it. Inventory is what we use to compensate for that time lag.

In an attempt to reduce this time lag, our production and distribution departments have been analyzing and improving how our factories operate in each country and region around the world, basically by moving toward "close localization." Reducing excess distribution lets us shorten production lead times, and that in turn reduces what we need to keep in inventory. Also, localizing the flow from product planning to production to sales will help us achieve the vision of "an alliance among our five closely localized regions" called for in our 6-year medium-term management plan (FY2009-2014).



Railway Business

TOA Rides the New York Subway, Delivers PA Systems to High-Speed Rail Stations in China

What kinds of business has TOA been doing overseas lately?

The biggest topic lately is an order for train car PA systems that we've received from one of the companies that makes train cars for the New York subway system. We're aiming to build on that to continue getting our products into other subways as well. I think this project will serve us well as a strong jumping-off point into the global railway car market, as a new business, so we're pretty excited about it.

Railways in general are lately being reappraised, all around the world, in terms of their relative safety, cost efficiency, lower environmental impact, and so on, and in particular there are a lot of major high-speed rail projects under development. Given how high-profile the New York subway system project is for us, I think we'll be able to use it to our advantage in other parts of the world. The PR effect alone is profound, and success will also be very motivating for our employees. We'll

be doing other railway projects in the United States, and then building on those to get our sound and security systems into other railway systems all over the world.



Will TOA have opportunities to expand its railway business in China as well?

We're starting with the train stations for the high-speed rail systems around Shanghai. We've installed public guidance PA systems in seven stations on the Hanzhou line and eighteen stations on the Nanjing line, and we're working on similar projects for the Beijing line.

If you go just a short way into the Chinese interior, you'll find very few public transportation options besides buses. That means there's still quite a bit of room for major development. As a nation China has been investing a lot in improving its infrastructure, and the market is ballooning accordingly. But, as in every country, when it comes to public works projects, companies that already have good track records get noticed and valued most, and for that reason we've been working hard to take the initiative over our competitors in building a strong portfolio of successful projects.

In the near future, railway infrastructure improvements are likely to give rise to urban areas with populations of a million or more people springing up around major train stations. Naturally, these will include countless new buildings and other kinds of construction. We intend to use our successes with the Beijing Olympics and the Shanghai Expo, and with high-speed railways, to get our systems into those new buildings. If we can do that, our performance is bound to grow right along with growth of the Chinese market.

With all this in mind, we've been putting a lot of effort into developing region-specific products that can meet local needs more precisely. We recently did a customer call PA system for banks, which was simple but successful nonetheless, and we'll be continuing this move toward local development, local production, and local sales.



New Government Demand

Increasing Security Consciousness Boosts IP-Based Notification System Sales

How are things going in Japan?

We've had some growth in IP-based notification systems for regional municipalities. These are communications systems linking public offices, private homes, and public facilities using the local IP networks that have been built by municipalities and other government bodies. In this quarter alone we've had almost forty orders for such projects. This is pretty high compared to our performance for the same period last year.

In the last few years, Japan has had problems with floods and other natural disasters, and these have spurred a growing safety and security consciousness among municipal governments. Our systems are very well matched to the Ministry of Internal Affairs' "J-ALERT" simultaneous nationwide emergency notification system, and this has also helped us spread our systems domestically. One feature of our IP Notification System is that it can start up and begin broadcasting almost instantly, so it's very effective in issuing the kinds of immediate notifications required in emergency situations like earthquakes, where speed is of the essence.

We think this emphasis on safety among local municipalities will continue for a while. We've also seen markets in Asia starting to follow these Japanese trends. A number of Japanese manufacturers are planning to use overseas development assistance (ODA) to export safety-related facilities abroad, and we, too, will definitely be looking into that option as well.



Toward the Future

Putting TOA on the Growth Track

What measures is TOA taking toward the future?

If we're going to achieve what we set out to do in our 6-year medium-term management plan, then this year has to put us on the road to growth. One of the most pressing issues for us now is to speed up our product development.

At this very moment we're undertaking a comprehensive reevaluation of our development procedures. There are a lot of ways of doing things that we've inherited from past generations of staff in the development department; but the changing times have made some of these things unnecessary, and certain "unwritten rules" and so on have become obsolete. We're getting rid of a lot of these and replacing them with new methods better suited to today. To the staff in general

I've been saying, "Forget the past. Work like you're building a brand-new company!" Our mission now is to reduce product development times dramatically, so that we can respond quickly and efficiently to changes in our markets.

Speaking Freely

"Corporate Sensibilities" Permanently Engraved in TOA's Regional Contribution

TOA recently received the Mécénat Award Granted by the Commissioner for Cultural Affairs.

Yes, it's the second time we've received such an award, the first being the Grand Mécénat Award in 1995. Apparently there are only two companies that have earned this award twice, so the recognition really is a great honor.

The Mécénat award was given for our TOA Meet! Music! Concept, which is a program we've created to bring children into contact with music. This involves five different Mécénat activities, among them supporting junior and senior high school students in participating in Kobe Jazz, and in this way we've been making efforts to support local culture for over ten years now. I don't think we're doing anything particularly special, but it's part of us and we're sincere about it, so that may be why our efforts have been so well received. And in any case, this award isn't something you aim to get, it's more like something that comes to you as a result of honest, steady efforts.

We've always supported music and musicians, as is evidenced by the fact that we built our own music hall, Xebec Hall, as part of our headquarters building in Kobe. A consciousness about contributing to regional music culture has long been engraved in us as part of our "corporate sensibilities." We're a purveyor of "sound," after all, so it's only natural that we continue to use sound to support the city of Kobe's artistic culture.

