

# Business Report

For the Interim Period of the 80th Fiscal Year  
From April 1, 2013 to September 30, 2013



We are honored to report our business performance for the interim period of the 80th fiscal year ending March 31, 2014.

Yukio Miyata  
President

**Corporate creed**

**Sincerity**

**Corporate Vision**

**To make contributions  
For future society through  
acoustics**

**Mission statement**

Through acoustic products or its solutions, a total commitment to help create a comfortable life and pleasure of communication around the world.  
A truly global enterprise our future society counts on.

**Business Environment and Performance**

The global economy during the interim period ended September 30, 2013 was on a gradual track to recovery. The U.S. economy improved mainly due to the pickup of the employment situation and sales of new cars. However, the observation that quantitative easing measures might be curtailed caused negative effects such as weakening currencies in emerging countries. Although concerns remained about credit uncertainty in Europe due to sovereign debt issues, it seems that signs of bottoming out have emerged. Meanwhile, growth decelerated in emerging countries including China. As for the Japanese economy, expectations toward economic recovery expanded with phenomena such as yen depreciation and the rise in stock prices given the emerging positive effects resulting from various policies taken by the government.

In the electronic equipment and electronic components industries where the Foster Group (“the Group”) operates, the markets for smartphones and tablet terminals-related parts and components continued to expand, and sales of car electronics-related parts and components were favorable. However, the market condition was severe for the conventional personal computers and flat televisions-related parts and components.

Under this business environment, the Group worked to ensure orders in line with sales strategies that address market changes, improve operational efficiency and productivity and reduce materials costs and other costs. In addition, we promoted the

development of new products and markets, which is our priority task for the fiscal year under review.

Consequently, for the interim period of the 80th fiscal year ending March 31, 2014, the Group achieved record high consolidated net sales on a semiannual basis and profits increased.

We decided to distribute a dividend of ¥20 per share for the interim period under review as a distribution of profit commensurate with the business results and to express management’s gratitude for the continuing support of our shareholders.

**Outlook**

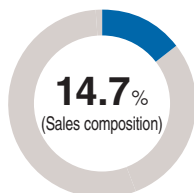
The overall situation of the global economy is expected to continue to be severe and there is still the need to be cautious. We will continue taking various measures to achieve our goals based on the medium-term management plan to enhance corporate value and develop various corporate policies with the mind-set of CSR in our corporate activities to become a socially recognized enterprise.

Shareholders’ continued support will be greatly appreciated.

December 2013

## Segment Information

### Acoustic Components and Products Segment

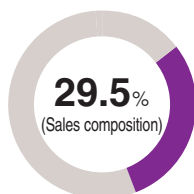


Net sales: **¥11,869** million

Sales of loudspeakers and speaker systems for flat televisions and audio products, as well as shipments of dock speaker systems for mobile equipment, remained stagnant, although sales of headphones for aftermarket sales of audio products progressed as planned.

As a result, the segment's overall net sales for the interim period under review amounted to ¥11,869 million (down 17.7% year over year).

### Automobile Components and Products Segment

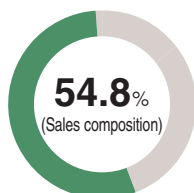


Net sales: **¥23,938** million

The North American markets continued to lead global demand for the production and shipments of automotive speakers and speaker systems. In Japan, sales of our products were favorable mainly for light and hybrid vehicles.

As a result, the segment's overall net sales for the interim period under review amounted to ¥23,938 million (up 34.9% year over year).

### Information & Communication Equipment Components and Products Segment

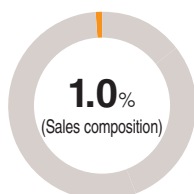


Net sales: **¥44,428** million

The production and shipment of headsets for mobile phones progressed favorably.

As a result, the segment's overall net sales for the interim period under review amounted to ¥44,428 million (up 74.3% year over year).

### Other Segment



Net sales: **¥794** million

The segment's overall net sales, including sales of FOSTEX-brand products and other products for the interim period under review, amounted to ¥794 million (down 18.0% year over year).

## Financial Highlights (Condensed)

### Consolidated Balance Sheets (Condensed)

(Millions of yen)

	Interim Period of 80th Fiscal Year As of September 30, 2013	79th Fiscal Year As of March 31, 2013
<b>(Assets)</b>		
Current assets	73,650	62,460
Fixed assets	32,057	32,019
Total assets	105,708	94,480
<b>(Liabilities)</b>		
Current liabilities	45,894	40,639
Long-term liabilities	12,526	11,216
Total liabilities	58,421	51,855
<b>(Net Assets)</b>		
Shareholders' equity	46,339	43,921
Accumulated other comprehensive income	(1,788)	(3,728)
Minority interests	2,735	2,430
Total net assets	47,286	42,624
Total liabilities and net assets	105,708	94,480

Note: All amounts less than 1 million yen are truncated.

### Consolidated Statements of Income (Condensed)

(Millions of yen)

	Interim Period of 80th Fiscal Year From April 1, 2013 to September 30, 2013	Interim Period of 79th Fiscal Year From April 1, 2012 to September 30, 2012
Net sales	81,032	58,637
Operating income	3,991	1,343
Ordinary income	4,065	1,575
Income before income taxes	4,175	1,575
Net income	2,767	500

Note: All amounts less than 1 million yen are truncated.

### Consolidated Statements of Cash Flows (Condensed)

(Millions of yen)

	Interim Period of 80th Fiscal Year From April 1, 2013 to September 30, 2013	Interim Period of 79th Fiscal Year From April 1, 2012 to September 30, 2012
Net cash used in operating activities	(354)	(4,028)
Net cash used in investing activities	(2,150)	(7,031)
Net cash provided by financing activities	2,442	10,994
Effect of exchange rate changes on cash and cash equivalents	395	(20)
Net increase (decrease) in cash and cash equivalents	333	(85)
Cash and cash equivalents at the beginning of the period	5,359	5,603
Cash and cash equivalents at the end of the period	5,692	5,517

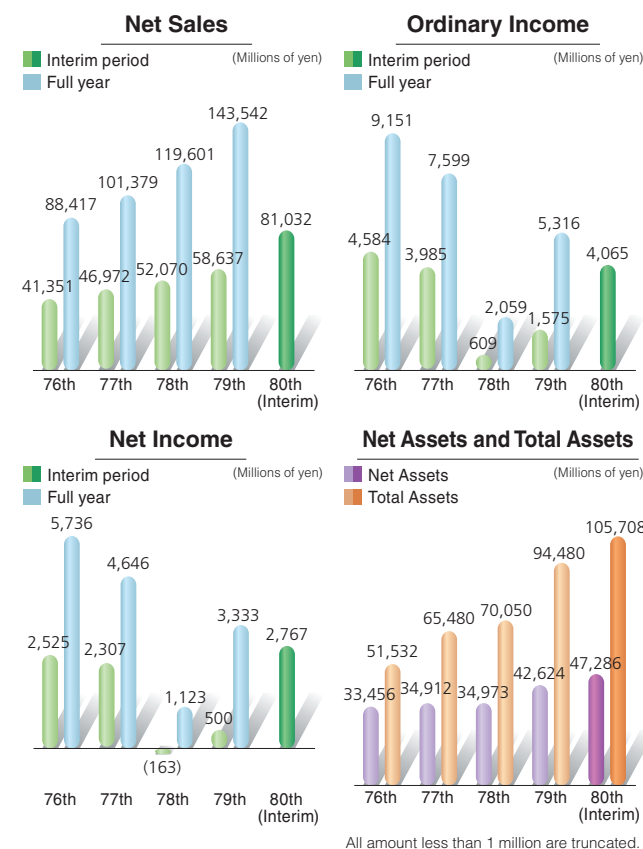
Note: All amounts less than 1 million yen are truncated.

## Performance Highlights

### Review of Operations (Consolidated)

Consolidated net sales for the interim period ended September 30, 2013 amounted to ¥81,032 million, up 38.2% year over year, and surpassed our target as a result of the yen depreciation that proceeded at exchange rate levels greater than those projected at the beginning of the fiscal year. Profits increased mainly due to such factors as the progression of yen depreciation, the leveling of price movements for raw materials and productivity improvement. Consolidated operating income increased 197.0% year over year to ¥3,991 million, and consolidated ordinary income increased 158.0% to ¥4,065 million. As a consequence, consolidated net income for the interim period under review surged 453.0% to ¥2,767 million, considerably above the initial projection.

### Changes in Operating Results and Total Assets (Consolidated)



**TOPICS**  
**1** Expansion of Heyuan Factory No. 3 in Guangdong, China

Automobile production and sales increasing especially in the North American markets, we additionally constructed Factory No. 3 on the premises of the Heyuan Factory in Guangdong in June 2013 to respond to the rise in demand for automotive speakers.



**TOPICS**  
**2** Agreement on transfer of micro audio components business

In August 2013, we entered into an agreement with Star Micronics CO., LTD., to take over Star Micronics' micro audio components business to expand our lineup to include electronic buzzers and sounders for warning alarms and speakers for proximity announcement, for which the Company had not previously entered the market.



Photo data source: Star Micronics CO., LTD.

**TOPICS**  
**3** Product development through collaboration between KOTORI and FRED PERRY

Earphones with a limited edition design for this product line were developed in collaboration between FRED PERRY and KOTORI.

<http://kotori.fostex.jp/>



**ODM and OEM products:**



Micro speaker units for personal computers and smartphones



Automotive speaker units



Headphones



Speaker units for televisions



Speaker systems

**FOSTEX products:**



TH600 premium reference headphones



KANSPI Series DIY speakers

<http://www.fostex.jp/>

**New Product:**

**AR501 Microphone Preamplifier**

The AR501 is a high quality microphone amplifier built with a compact and lightweight aluminum body, which offers compatibility with standard camera shoe mounts. The AR501 is not only suitable for broadcast use and recording in general, but also improves the audio quality of DSLR (Digital Single Lens Reflex) cameras.



## Company Profile

Trade Name	Foster Electric Company, Limited
Founded	June 20, 1949
Capital Stock	¥3,770,360,135 Listed on the First Section of the Tokyo Stock Exchange
Headquarters	1-1-109, Tsutsujigaoka, Akishima City, Tokyo, 196-8550, Japan Phone: +81-42-546-2311 (switchboard) FAX: +81-42-546-2317
Number of employees	443 (total of group companies: 65,640); Total number of employees of group companies includes the employees of our outsourcee in Panyu, China.
URL	<a href="http://www.foster.co.jp/">http://www.foster.co.jp/</a>

## Directors and Statutory Auditors

Chairman and Director	Yasuo Higashi	Standing Statutory Auditor	Takuma Ino
President and Representative Director	Yukio Miyata	Statutory Auditor	Osamu Nakamoto
Senior Managing Director	Hiromi Yoshizawa	Statutory Auditor	Haruo Shirasu
Director	Lu San Tie	Senior Officer	Yoichi Takahashi
Director	Terushige Nagasawa	Senior Officer	Takuro Yamaguchi
Director	Kazuhiro Kishi	Senior Officer	Hidetoshi Shirakawa
Director	Kaoru Matsumoto	Senior Officer	Fumio Murayama
		Officer	Roy Ching-Sheng Chen
		Officer	Oh In-Yong

\*Kaoru Matsumoto is an Outside Director.  
\*Takuma Ino and Osamu Nakamoto are Outside Statutory Auditors.

## Group Companies



### Sales/Development Bases (11 bases)

- FOSTER ELECTRIC COMPANY, LIMITED
- FOSTEX COMPANY
- FOSTER ELECTRIC CO., (TAIWAN) LTD.
- FOSTER ELECTRIC (SINGAPORE) PTE. LTD.
- MUNICH OFFICE
- FOSTER ELECTRIC (U.S.A.), INC.
- DETROIT OFFICE
- SAN JOSE OFFICE
- EL PASO OPERATIONS
- BOSTON OFFICE
- ESTec CORPORATION

### Sales Bases (9 bases)

- FOSTER ELECTRONICS LIMITED
- FOSTER TRANSPORTATIONS LIMITED
- FOSTER ELECTRIC CO., (HONG KONG) LTD.
- SHANGHAI OFFICE
- FOSTER ELECTRIC CO., (GUANGZHOU) LTD.
- FOSTER ELECTRIC (EUROPE) GmbH
- SWEDEN OFFICE
- LOS ANGELES OFFICE
- FOSTER ELECTRIC IPO (THAILAND) LTD.

### Manufacturing Bases (12 bases)

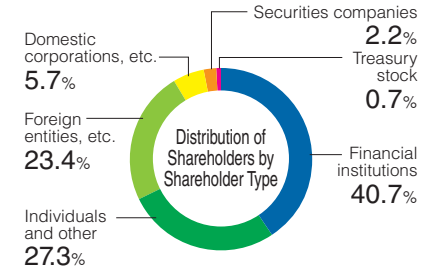
- FOSTER ELECTRIC CO., (CHANGZHOU) LTD.
- GUANGZHOU PANYU JIU SHUI KENG FOSTER ELECTRIC FACTORY
- FOSTER ELECTRIC CO., (NANNING) LTD.
- FOSTER ELECTRIC (VIETNAM) CO., LTD.
- FOSTER ELECTRIC (DA NANG) CO., LTD.
- P.T. FOSTER ELECTRIC INDONESIA
- FOSTER ELECTRIC (BAC NINH) CO., LTD.
- FOSTER ELECTRIC CO., (HEYUAN) LTD.
- FOSTER ELECTRIC CO., (CHONGZUO) LTD.
- FOSTER ELECTRIC CO., (GAOZHOU) LTD.
- MYANMAR FOSTER ELECTRIC CO., LTD.
- FOSTER ELECTRIC (QUANG NGAI) CO., LTD.

## Status of Shares

Total number of shares authorized to be issued by the Company:  
**80,000,000** shares

Total number of shares issued:  
**23,506,015** shares

Number of shareholders:  
**8,750**



## Major Shareholders

Shareholder's Name	Number of Shares Held (thousand)	Ratio of Shares Held (%)
The Master Trust Bank of Japan, Ltd. (trust account)	1,649	7.0
Japan Trustee Services Bank, Ltd. (trust account)	1,452	6.2
Japan Trustee Services Bank, Ltd. (trust account No. 9)	1,336	5.7
Mizuho Bank, Ltd.	1,016	4.3
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	945	4.0
Japan Trustee Services Bank, Ltd. (Portion re-trusted to Sumitomo Mitsui Trust Bank, Limited, and the trust account for the TDK Corporation's retirement benefit fund)	587	2.5
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	466	1.9
Showa Aircraft Industry Co., Ltd.	446	1.9
Mizuho Trust & Banking Co., Ltd.	405	1.7
Mellon Bank Treaty Clients Omnibus	380	1.6

Treasury stock (177,046 shares) is excluded for the calculation of the "Ratio of Shares Held".

## Shareholder Information

Fiscal Year	From April 1 to March 31 of each year
Ordinary General Meeting of Shareholders	June of each year
Record Date	Ordinary General Meeting of Shareholders: March 31 Year-end dividends: March 31 Interim dividends: September 30
Number of Unit ("tangen") Shares	100
Transfer Agent	Stock Transfer Agency Department, Head Office of Mizuho Trust & Banking Co., Ltd.
Transfer Agent Branch	1-2-1, Yaesu, Chuo-ku, Tokyo
Media for Public Notice	Nihon Keizai Shimbun (daily newspaper) issued in the Metropolis of Tokyo

## Inquiries for Handling of Stocks

Shareholders who have an account at a securities company	The securities company with which you have a business connection
Shareholders who have a special account <small>*Shareholders are not allowed to make any stock transactions other than the purchase of shares less than one unit ("tangen").</small>	Stock Transfer Agency Department, Mizuho Trust & Banking Co., Ltd. 2-8-4, Izumi, Suginami-ku, Tokyo, 168-8507, Japan Tel: 0120-288-324 (toll-free telephone service in Japan)
Payment of unpaid dividends	Head office and branches nationwide of Mizuho Trust & Banking Co., Ltd., and Mizuho Bank, Ltd. <small>(Mizuho Securities Co., Ltd., serves as an agent only and does not pay unpaid dividends.)</small>