

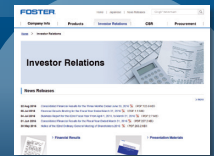
# Acoustic Solution Partner

## B U S I N E S S R E P O R T

For the Interim Period of the 83rd Fiscal Year From April 1, 2016 to September 30, 2016

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Foster Electric IR Search

<http://www.foster-electric.com/investors/>



Hiromi Yoshizawa President

#### Corporate creed

Sincerity

#### Corporate Vision

To make contributions  
for future society through acoustics

#### Mission statement

Through its acoustic products and 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.

### To Our Shareholders

## We aim to become a socially recognized enterprise as Foster in a new era.

The world economy during the six months ended September 30, 2016 remained unstable. The U.S. had a mix of strong and weak economic indicators, while in Europe, the UK decided to leave the EU. There was also a trend of economic slowdown in emerging countries, and thus unpredictable circumstances continued.

In the electronic components and electronic equipment industries where the Foster Group ("the Group") operates, business conditions were harsh due to the maturation of the smartphone market and the consequent intensification of competition as well as the impact of the strong yen, while demand for automotive components remained favorable.

Under this business environment, the Group worked on streamlining, including mechanization and laborsaving, and cost reduction activities such as material cost reductions. However, a decline in earnings was unavoidable due to a significant drop in sales of the Company's flagship products as they entered a transition period to new models.

Consequently, looking at consolidated performance for the six months ended September 30, 2016, the Group unfortunately recorded a decline in both revenue and profit.

We decided to distribute a dividend for the interim period under review of ¥15 per share, as a distribution of profit commensurate with the business results and to express management's gratitude for the continuing support of our shareholders.

The Group will continue to increase corporate value by taking various measures to achieve our goals based on the medium-term management plan. In addition, we will carry out corporate activities with Corporate Social Responsibility (CSR) in mind, as we strive to become a socially recognized enterprise.

We appreciate shareholders' continuous support.

December 2016

## Winning of IEEE EMBS Japan's Young Researcher Award

At the International Conference of the IEEE EMBS (EMBC), held in Florida in the U.S. in August 2016, a Foster employee presented his research on "Earbud-based PPG Sensors for Healthcare" and won the second prize of the Japan Chapter Young Researcher Award.

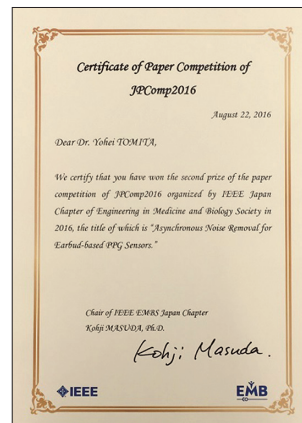
This award is sponsored by the IEEE EMBS Japan Chapter, and is given to researchers under the age of 35 whose papers were selected and recorded at this conference.

Please see the website below for details.

(Japanese Only)

URL: [http://www.foster.co.jp/news/ieee\\_embs\\_japanyoung\\_researcher\\_award.html](http://www.foster.co.jp/news/ieee_embs_japanyoung_researcher_award.html)

\* The IEEE EMBC is the world's largest conference in the field of biomedical engineering, where approximately 2,000 presentations are delivered every year.



## Initiatives to realize diverse working styles

In September 2016, the Company shortened the prescribed daily working hours by 15 minutes. At the same time we introduced a work style system that can support each employee's working and life style precisely, including the shift work scheme and flex-time scheme without core hours. As a result, more than half of the employees who work at our headquarters have elected to use this system. Additionally, as part of our efforts to achieve diversity, we are striving to realize even more diverse working styles by such means as actively holding female employee round-table talks and making more employees eligible for the work-at-home scheme.



Female employee round-table talks

## News on new product Premium Reference Headphones/TH610

By using heavy hardwood for the housing components, which is carved from solid luxury black walnut, these headphones are able to deliver a glossy sound and an exterior taking advantage of its beautiful wood grain.

The diaphragm uses "bio-dyna" developed using our proprietary bio-cellulose technology and offers a rich super-low bass and gentle mid-range, and in particular, plays high range with excellent presence.



FOSTEX  
Premium Reference Headphones TH610  
<http://www.fostexinternational.com/>


### Information on Individual Number System relating to stocks

Your Individual Number notified by your local government is required for tax procedures relating to stocks. For this reason, shareholders must notify their stockbrokers of their Individual Numbers. As stipulated by laws and regulations, stockbrokers are required to write shareholders' Individual Numbers on the payment records of dividends, etc., and submit them to tax offices. Please contact the below for details.

Contact Information for Inquiries about Individual Number Notifications

If your shares are in an account managed by a securities company or stockbroker: Please contact your broker.

If your shares are not managed through a securities company or stockbroker:

Stock Transfer Agency Department, Mizuho Trust & Banking Co., Ltd.  Tel: 0120-84-0178

## Consolidated Financial Results Information

### Consolidated Financial Highlights

(Millions of yen)

	81st Fiscal Year (Fiscal Year ended March 31, 2015)		82nd Fiscal Year (Fiscal Year ended March 31, 2016)		83rd Fiscal Year (Fiscal Year ending March 31, 2017)
	Interim Period	Full Year	Interim Period	Full Year	Interim Period
Net sales	87,481	189,124	96,641	190,928	68,342
Operating income (loss)	3,852	9,747	5,524	10,351	(182)
Ordinary income	4,342	10,398	5,927	10,847	28
Net income (loss) attributable to owners of the parent	2,285	4,858	4,406	6,833	(227)
Net income (loss) per share (Yen)	97.95	206.18	164.71	255.44	(8.51)
Net Assets	52,056	64,944	68,415	67,017	60,913
Total Assets	107,264	104,843	107,099	98,735	97,557
Net assets per share (Yen)	2,089.51	2,279.32	2,404.39	2,350.26	2,138.03
Equity ratio (%)	45.4	58.2	60.1	63.7	58.6

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

### Consolidated Financial Statements (Summary)

(Unit: Millions of yen)

#### Consolidated Balance Sheets

	Interim Period of 83rd Fiscal Year As of September 30, 2016	82nd Fiscal Year As of March 31, 2016
<b>Assets</b>		
Current assets	65,776	69,959
Non-current assets	31,781	28,775
Total assets	97,557	98,735
<b>Liabilities</b>		
Current liabilities	32,087	29,111
Long-term liabilities	4,556	2,605
Total liabilities	36,643	31,717
<b>Net assets</b>		
Shareholders' equity	60,057	60,954
Accumulated other comprehensive income	(2,857)	1,924
Non-controlling interests	3,713	4,138
Total net assets	60,913	67,017
Total liabilities and net assets	97,557	98,735

#### Consolidated Statements of Income

	Interim Period of 83rd Fiscal Year From April 1, 2016 to September 30, 2016	Interim Period of 82nd Fiscal Year From April 1, 2015 to September 30, 2015
Net sales	68,342	96,641
Cost of sales	61,841	83,036
Gross profit	6,500	13,604
Selling, general and administrative expenses	6,682	8,080
Operating income (loss)	(182)	5,524
Non-operating income	463	666
Non-operating expenses	253	262
Ordinary income	28	5,927
Extraordinary income	–	551
Extraordinary losses	–	258
Income before income taxes	28	6,220
Total income taxes	38	1,556
Net income (loss)	(10)	4,664
Net income (loss) attributable to owners of the parent	(227)	4,406

#### Consolidated Statements of Cash Flows

	Interim Period of 83rd Fiscal Year From April 1, 2016 to September 30, 2016	Interim Period of 82nd Fiscal Year From April 1, 2015 to September 30, 2015
Operating activities	245	9,896
Investing activities	(8,217)	(1,485)
Financing activities	2,335	(3,694)
Effect of exchange rate changes on cash and cash equivalents	(1,825)	(34)
Net increase (decrease) in cash and cash equivalents	(7,461)	4,681
Cash and cash equivalents, beginning of period	17,858	5,924
Cash and cash equivalents, end of period	10,397	10,606

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

### Overview by Segment (Consolidated)

#### Information & Communication Components and Products Segment

37.5%

Net sales: **¥25,597** million (A 48.9% year-over-year decrease)

Revenue declined as headset sales shrank due to a slowdown in sales of major customers' smartphones and to new models entering a pre-harvest period.



Headsets

#### Other Segment

4.2%

Net sales: **¥2,853** million (A 0.5% year-over-year decrease)

Net sales of this segment, including micro acoustic components and "FOSTEX" brand products, were flat.



FOSTEX products



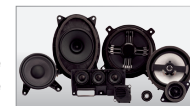
Micro acoustic components

#### Automotive Components and Products Segment

44.0%

Net sales: **¥30,081** million (A 8.7% year-over-year decrease)

Despite strong sales of automotive speakers and speaker systems buoyed by demand in the North American market, revenue declined due to the strong yen.



Automotive speakers

#### Acoustic Components and Products Segment

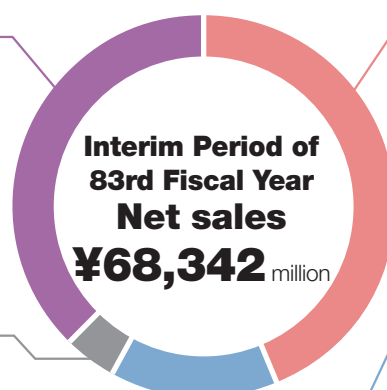
14.3%

Net sales: **¥9,808** million (A 8.1% year-over-year decrease)

Although sales volumes of flat TV speakers and speaker systems, audio speakers and headphones were generally in line with our plan, revenue fell due to the strong yen.



TV speakers



## Group Companies

The Group operates 41 bases in 15 countries and regions worldwide as bases for development, manufacturing and sales bases. We have established a sophisticated production system integrating processes from components manufacturing to finished goods manufacturing.

EUROPE

3 bases

JAPAN

9 bases

ASIA (excluding Japan)

21 bases

AMERICAS

8 bases

● Sales/Development Bases ● Sales Bases ● Manufacturing Bases ● Others

## Company Information (As of September 30, 2016)

### Company Profile

Company Name	Foster Electric Company, Limited
Founded	June 20, 1949
Common Stock	¥6,770,360,135 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	470 (Total of group companies: 53,201); Total number includes the employees of our outsourcee in Panyu, China.
URL	<a href="http://www.foster-electric.com/">http://www.foster-electric.com/</a>

### Directors and Statutory Auditors

President and Representative Director	Hiromi Yoshizawa	Senior Officer	Yoichi Takahashi
Senior Managing Director	Atsushi Narikawa	Senior Officer	Terushige Nagasawa
Managing Director	Kazuhiro Kishi	Senior Officer	Takuro Yamaguchi
Managing Director	Lu San Tie	Senior Officer	Fumio Murayama
Director	Hidetoshi Shirakawa	Senior Officer	Masatoshi Kohama
Director*1	Minoru Matsumoto	Officer	Tatsuhito Tanaka
Director*1	Chieko Matsuda	Officer	Ryoji Otowa
Standing Statutory Auditor	Tsutomu Inokuma	Officer	Roy Ching-Sheng Chen
Statutory Auditor*2	Osamu Nakamoto	Officer	Oh In-Yong
Statutory Auditor*2	Takuma Ino		
Statutory Auditor*2	Takashi Suzuki		

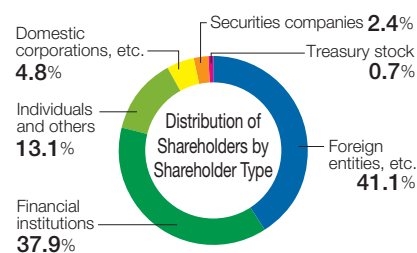
\*1 Minoru Matsumoto and Chieko Matsuda are Outside Directors.

\*2 Osamu Nakamoto, Takuma Ino and Takashi Suzuki are Outside Statutory Auditors.

## Stock Information (As of September 30, 2016)

### Status of Shares

- Total number of shares authorized to be issued by the Company: **80,000,000 shares**
- Total number of shares issued: **26,931,051 shares**
- Number of shareholders: **5,733**



### Major Shareholders

Shareholder's Name	Number of Shares Held (Thousand)	Ratio of Shares Held (%)
Japan Trustee Services Bank, Ltd. (trust account)	2,193	8.1
The Master Trust Bank of Japan, Ltd. (trust account)	1,153	4.3
Mizuho Bank, Ltd.	1,016	3.8
Japan Trustee Services Bank, Ltd. (trust account 9)	1,007	3.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	945	3.5
J.P. Morgan Bank Luxembourg S.A. 380578	796	2.9
CBNY-GOVERNMENT OF NORWAY	780	2.9
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	2.1
Chase Manhattan Bank GTS Clients Account Escrow	564	2.1
SHOWA AIRCRAFT INDUSTRY CO., LTD.	446	1.6

Treasury stock (177,262 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 *Shareholders are not allowed to make any stock transactions other than the purchase of shares less than one unit ("tangen").	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.