

Acoustic Solution Partner

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

For the 83rd
Fiscal Year

BUSINESS REPORT

From April 1, 2016 to March 31, 2017



Hiromi Yoshizawa 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.

To Our Shareholders

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

Business Environment and Performance

During the fiscal year ended March 31, 2017, the global economy saw a modest recovery, particularly in developed countries.

In the electronic components and electronic equipment industries in which the Foster Group (“the Group”) operates, demand for automotive components remained robust, and we expanded various initiatives aimed at new markets such as IoT and AI. However, smartphone parts, which had until now been the driver of global demand, faced severe competition due to a slowdown in growth caused by the maturing of the market.

Under this business environment, the Group concentrated its efforts on securing new orders and cost-cutting initiatives including material cost reduction in response to market changes. On the production side, the Group continued to promote improvements in production processes, mechanization, and labor-saving initiatives, in order to increase productivity, while pressing ahead with our production shift from China to the ASEAN region with the aim of building optimal frameworks for production.

However, in addition to the slowing growth in the smartphone market, due to major customers being in a period of transition to new models, shipments of headsets declined sharply, and led to an unavoidable fall in profit. Furthermore, the yen remained strong throughout the fiscal year under review compared to the previous year, leading to an unavoidable decline in both revenue and profit in consolidated performance for the fiscal year under review.

We decided to distribute a year-end dividend of ¥25 per share, as a distribution of profit commensurate with the business results and the future business environment, and to express management’s gratitude for the continuing support of our shareholders. As a result, the full-year dividend amounted to ¥40 per share.

Future Initiatives

Although the global economy is expected to remain on a path of moderate recovery, it is believed to remain unpredictable.

In this environment, the Group will promote quality management in order to further improve reliability and aim for long-term growth focused on profit. We will also improve capital efficiency, and have accordingly set a medium-term management target to achieve consolidated ROE of over 10%. Furthermore, under our corporate creed of “sincerity,” we will build a global framework for CSR (Corporate Social Responsibility), instill awareness of legal compliance, environmental response and risk management across the entire Group, and continue to make steady efforts to become a company that is trusted and needed by the society and markets we serve.

Share Repurchase

The Company carried out share repurchase for the purpose of improving capital efficiency. The stock was acquired on the assumption that it would be retired, but we are also considering using it in the performance-based stock compensation system.

| | |
|------------------------------------------|------------------|
| Date of resolution by Board of Directors | October 28, 2016 |
| Total number of shares purchased | 1,023,900 shares |
| Total purchase price | ¥1,999,841,900 |

Foster Electric Joins United Nations Global Compact

The Group became a signatory to the United Nations Global Compact (UNGC), the world's largest corporate sustainability initiative, and has been listed as a participant company as of January 19, 2017. As a company that operates globally, we have pledged to support the UNGC's 10 principles in the areas of Human Rights, Labor, Environment, and Anti-Corruption, and will engage in activities such as compliance, decent working conditions, environmental care, and CSR procurement.

Details about the Foster Group's UNGC initiatives can be found at the URL below.

(Japanese Only)

<http://www.foster.co.jp/csr/index.html>



Network Japan
WE SUPPORT

Stepping Up Initiatives to Promote Diverse Working Styles

The Company is stepping up efforts to introduce and realize diverse working styles with the aim of achieving a work-life balance for each and every employee through measures such as introducing the flex-time scheme for all employees, relaxing the criteria for working at home, and introducing Premium Friday. We are also making efforts to achieve diversity that goes beyond differences such as national borders, race, and sex, by expanding positions for foreign personnel at our headquarters, using multiple languages in headquarters meetings, being more proactive about promoting women to management, holding more regular culture diversity training, and other measures.



News on new product

Revival of FOSTEX "NF" Active Monitor Speaker NF01R

Inheriting the legacy – a professional monitor speaker that carries on the lineage of the renowned NF-01A beloved by artists and sound engineers. The NF01R achieves greater accuracy in sound reproduction by replacing the woofer diaphragm with an optimally formed "HR" diaphragm created through application of architectural structural dynamics, together with enhanced magnetic circuits. Equipped with features to correct changes in sound characteristics according to various acoustic conditions, the NF01R delivers the best in professional sound.

FOSTEX Monitor Speaker NF01R

(Japanese Only)

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



Notice

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 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 ended March 31, 2017) | |
|--------------------------------------------------------|--------------------------------------------------------|-----------|--------------------------------------------------------|-----------|--------------------------------------------------------|-----------|
| | Interim Period | Full Year | Interim Period | Full Year | Interim Period | Full Year |
| Net sales | 87,481 | 189,124 | 96,641 | 190,928 | 68,342 | 160,896 |
| Operating income (loss) | 3,852 | 9,747 | 5,524 | 10,351 | △ 182 | 2,963 |
| Ordinary income | 4,342 | 10,398 | 5,927 | 10,847 | 28 | 3,017 |
| Net income (loss) attributable to owners of the parent | 2,285 | 4,858 | 4,406 | 6,833 | △ 227 | 1,088 |
| Net income (loss) per share (Yen) | 97.95 | 206.18 | 164.71 | 255.44 | △ 8.51 | 41.16 |
| Net Assets | 52,056 | 64,944 | 68,415 | 67,017 | 60,913 | 63,901 |
| Total Assets | 107,264 | 104,843 | 107,099 | 98,735 | 97,557 | 102,409 |
| Net assets per share (Yen) | 2,089.51 | 2,279.32 | 2,404.39 | 2,350.26 | 2,138.03 | 2,316.09 |
| Equity ratio (%) | 45.4 | 58.2 | 60.1 | 63.7 | 58.6 | 58.2 |

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

Consolidated Financial Statements (Summary)

(Millions of yen)

Consolidated Balance Sheets

| | 83rd Fiscal Year As of March 31, 2017 | 82nd Fiscal Year As of March 31, 2016 |
|----------------------------------------|------------------------------------------|------------------------------------------|
| Assets | | |
| Current assets | 69,315 | 69,959 |
| Non-current assets | 33,094 | 28,775 |
| Total assets | 102,409 | 98,735 |
| Liabilities | | |
| Current liabilities | 29,390 | 29,111 |
| Long-term liabilities | 9,116 | 2,605 |
| Total liabilities | 38,507 | 31,717 |
| Net assets | | |
| Shareholders' equity | 58,972 | 60,954 |
| Accumulated other comprehensive income | 620 | 1,924 |
| Non-controlling interests | 4,309 | 4,138 |
| Total net assets | 63,901 | 67,017 |
| Total liabilities and net assets | 102,409 | 98,735 |

Consolidated Statements of Income

| | 83rd Fiscal Year From April 1, 2016 to March 31, 2017 | 82nd Fiscal Year From April 1, 2015 to March 31, 2016 |
|-------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Net sales | 160,896 | 190,928 |
| Cost of sales | 143,527 | 163,876 |
| Gross profit | 17,369 | 27,052 |
| Selling, general and administrative expenses | 14,405 | 16,701 |
| Operating income | 2,963 | 10,351 |
| Non-operating income | 750 | 1,072 |
| Non-operating expenses | 696 | 576 |
| Ordinary income | 3,017 | 10,847 |
| Extraordinary income | 736 | 719 |
| Extraordinary losses | 354 | 1,578 |
| Income before income taxes | 3,399 | 9,989 |
| Total income taxes | 1,818 | 2,610 |
| Net income | 1,581 | 7,378 |
| Net income attributable to owners of the parent | 1,088 | 6,833 |

Consolidated Statements of Cash Flows

| | 83rd Fiscal Year From April 1, 2016 to March 31, 2017 | 82nd Fiscal Year From April 1, 2015 to March 31, 2016 |
|--------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Operating activities | 4,372 | 24,057 |
| Investing activities | △ 11,089 | △ 3,946 |
| Financing activities | 1,690 | △ 6,676 |
| Effect of exchange rate changes on cash and cash equivalents | △ 795 | △ 1,499 |
| Net increase (decrease) in cash and cash equivalents | △ 5,820 | 11,934 |
| Cash and cash equivalents, beginning of period | 17,858 | 5,924 |
| Cash and cash equivalents, end of period | 12,037 | 17,858 |

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

Overview by Segment (Consolidation)

Information & Communication Components and Products Segment

45.9%

Net sales: **¥73,815 million** (A 24.6% year-over-year decrease)

Revenue declined as headset sales shrank due to lower-than-expected sales of major customers' smartphones, in addition to the transition period to new models.



Headsets

Automotive Components and Products Segment

38.7%

Net sales: **¥62,288 million** (A 4.2% 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

Other Segment

3.6%

Net sales: **¥5,762 million** (A 6.6% year-over-year decrease)

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



FOSTEX products



Micro acoustic components

Acoustic Components and Products Segment

11.8%

Net sales: **¥19,029 million** (A 12.5% 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 effects of a strong yen.



TV speakers

83rd Fiscal Year
Net sales
¥160,896 million

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

Company Profile (As of March 31, 2017)

| | |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------|
| 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 | 476 (Total of group companies: 49,194); Total number includes the employees of our outsourcee in Panyu, China. |
| URL | http://www.foster-electric.com/ |

Directors and Statutory Auditors (As of June 22, 2017)

| | | | |
|---------------------------------------|---------------------|----------------|----------------------|
| President and Representative Director | Hiromi Yoshizawa | Senior Officer | Terushige Nagasawa |
| Senior Managing Director | Atsushi Narikawa | Senior Officer | Takuro Yamaguchi |
| Managing Director | Kazuhiro Kishi | Senior Officer | Masatoshi Kohama |
| Managing Director | Lu San Tie | Officer | Yoichi Takahashi |
| Director | Hidetoshi Shirakawa | Officer | Tatsuhito Tanaka |
| Director ⁻¹ | Minoru Matsumoto | Officer | Ryoji Otowa |
| Director ⁻¹ | Chieko Matsuda | Officer | Yasuhide Takahara |
| Standing Statutory Auditor | Tsutomu Inokuma | Officer | Naoki Kanai |
| Statutory Auditor ⁻² | Takuma Ino | Officer | Yuji Harada |
| Statutory Auditor ⁻² | Takashi Suzuki | Officer | Roy Ching-Sheng Chen |
| Statutory Auditor ⁻² | Yasuhiro Goto | Officer | Oh In-Yong |

*1 Minoru Matsumoto and Chieko Matsuda are Outside Directors.

*2 Takuma Ino, Takashi Suzuki and Yasuhiro Goto are Outside Corporate Auditors.

Stock Information

Status of Shares (As of March 31, 2017)

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

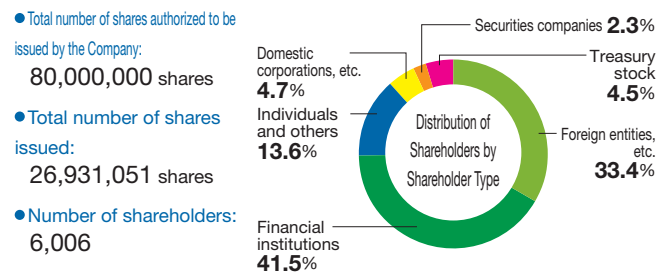
● Total number of shares issued:
26,931,051 shares

● Number of shareholders:
6,006

Major Shareholders

| Shareholder's Name | Number of Shares Held (Thousand) | Ratio of Shares Held (%) |
|------------------------------------------------------|----------------------------------|--------------------------|
| Japan Trustee Services Bank, Ltd. (trust account) | 2,833 | 11.01 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 1,680 | 6.53 |
| Mizuho Bank, Ltd. | 1,016 | 3.95 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 945 | 3.67 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 764 | 2.96 |
| GOVERNMENT OF NORWAY | 699 | 2.71 |
| J.P. Morgan Bank Luxembourg S.A. 380578 | 693 | 2.69 |
| DFA INTL SMALL CAP VALUE PORTFOLIO | 599 | 2.32 |
| STATE STREET BANK AND TRUST OMNIBUS ACCOUNT OM25 | 457 | 1.77 |
| SHOWA AIRCRAFT INDUSTRY CO., LTD. | 446 | 1.73 |

Treasury stock (1,201,261 shares) is excluded for the calculation of the "Ratio of Shares Held."



Information for Shareholders

| | |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| 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. |