FUNAI

Annual Report 2013

FUNAI ELECTRIC CO., LTD.

Contents

Corporate Profile

Business Areas

In addition to continually improving quality and cost efficiency since its founding, Funai's strength lies in its exceptional supply capabilities, which have earned the Company an enormous amount of trust throughout the digital consumer electronics industry.

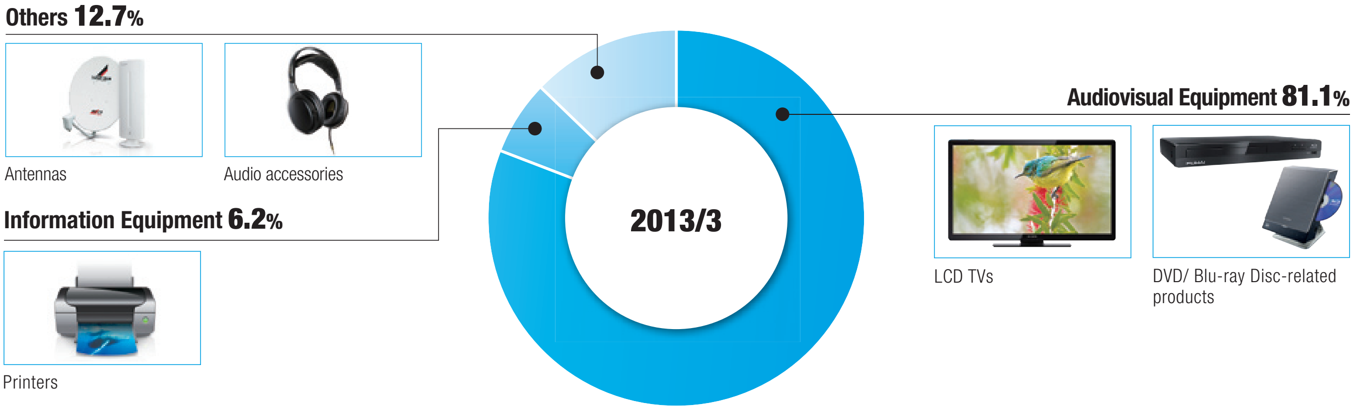
Currently, we conduct business in three areas: Audiovisual Equipment, which handles LCD TVs and DVD and Blu-ray Disc-related products; Information Equipment, which handles printers; and Others, which handles audio accessory products such as headphones and speakers, as well as antenna products, via subsidiary DX ANTENNA CO., LTD.

In our mainstay area, Audiovisual Equipment, we provide the market with five brands of compact to large LCD TVs sold in Japan and overseas. We are also enhancing our lineup of Blu-ray Disc-related products through such means as reinforcing our business under OEM* agreements.

The high quality and reasonable price of these products have been well received both domestically and overseas and we proudly maintain a top share in the North American market for LCD TVs and in Japan for Blu-ray Disc recorders.

In Information Equipment, we are increasing sales and profits as a result of strong partnerships with OEM customers and expanded sales of products developed in-house.

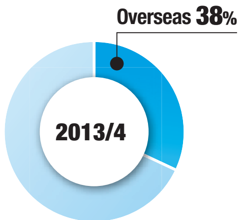
* The manufacture and supply of products under the customer's brand.



Funai's Strengths

Cutting Costs by Transferring Design Functions Overseas

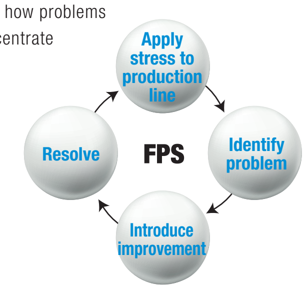
We are working to improve productivity and cut costs by promoting in-house production of core items and reducing the number of parts at the design stage. We also keep development costs low through globalization, by transferring partial control of our development and design to our facilities in Malaysia, China and Singapore.



Overseas Employment Ratio for Design Staff

Constantly Improved Productivity and Optimized Local Production

The Funai Production System (FPS) continually improves productivity by applying stresses to production lines to discover where and how problems occur. We also concentrate our production functions in the most appropriate locations and enhance cost competitiveness by purchasing parts in bulk.



PSI Management for Product Supply that Matches Market Movements

To create a structure for adjusting production volumes and inventories, we will foster closer communication between the three departments responsible for "PSI" (Purchase, Sales and Inventory) functions and the Production Department. Our goal is to maximize profits through controls that will allow us to supply products promptly in sync with market movements.

Maintaining a Top Share in the North American Market

We sell products under a variety of brands in Japan, North America, Europe, and Asia. Funai Electric maintains a top share in the North American market, the largest in the world, by creating close relationships with major mass retailers. We are also strengthening our sales structures in emerging markets that show marked growth.

FUNAI
DX BROADTEC
PHILIPS
MAGNAVOX
Emerson

Disclaimer regarding Forward-looking Statements

This report contains forward-looking statements regarding business indices, strategies and performance representing the expectations and judgments of the management, based on information available to the Company and publishable at the time this report was prepared. When reading this report, please understand that forward-looking statements involve potential risks and uncertainties; actual future business performance and forecasts may therefore differ materially from those contained in these statements, given the possible emergence of new factors or changes in economic circumstances and/or the business environment.

Financial Highlights

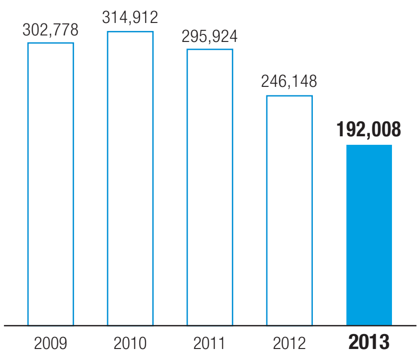
(Years ended March 31)

	Millions of yen			
	2004	2005	2006	2007
Net Sales	342,133	383,034	360,885	396,712
Operating Income (Loss)	36,534	33,348	23,305	20,766
Net Income (Loss)	26,280	25,723	21,596	(3,666)
Comprehensive Income (Loss)	–	–	–	–
Depreciation Expense	5,626	6,676	7,097	7,178
Capital Investment	7,577	15,227	3,758	5,485
Total Equity	149,748	174,044	197,871	187,362
Total Assets	223,191	255,326	288,524	272,811
Shareholders' Equity	149,748	174,044	197,871	186,981
Shareholders' Equity per Share (¥)	4,244.78	4,919.43	5,752.92	5,484.38
Net Income (Loss) per Share (¥)	744.13	719.61	620.02	(107.01)
Diluted Net Income per Share (¥)	741.52	716.95	619.08	–
Ratio of Operating Income to Net Sales	10.68%	8.71%	6.46%	5.23%
Shareholders' Equity Ratio	67.09%	68.17%	68.58%	68.54%
Return on Equity	18.88%	15.89%	11.61%	(1.90%)
Price Earnings Ratio (times)	20.29	18.37	18.77	–
Net Cash Provided by (Used in) Operating Activities	36,538	22,019	(14,195)	46,508
Net Cash Provided by (Used in) Investing Activities	(9,497)	(32,508)	(47,611)	3,039
Net Cash Provided by (Used in) Financing Activities	1,727	(420)	9,204	(26,564)
Cash and Cash Equivalents, End of Year	113,606	101,156	58,588	83,321
Number of Total Employees	3,899	3,882	4,025	3,319

Note 1: The exchange rate of ¥94.00=U.S.$1.00 (as of March 31, 2013 in the Tokyo foreign exchange market) is used for the above calculations.
Note 2: The figure for number of total employees does not include those employees of consignment production plant located in China.

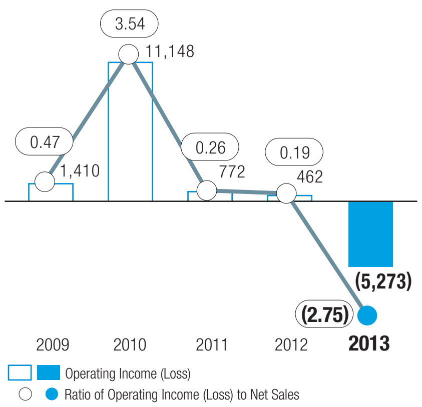
Net Sales

(¥millions)



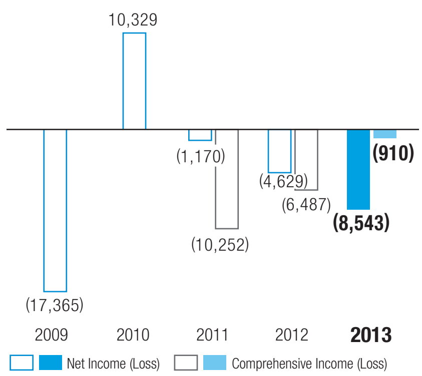
Operating Income (Loss)
Ratio of Operating Income (Loss) to Net Sales

(¥millions) (%)



Net Income (Loss)
Comprehensive Income (Loss)

(¥millions)

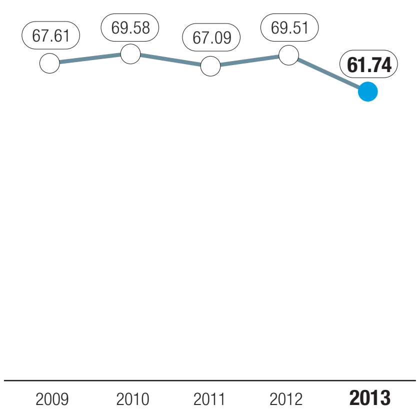


(Years ended March 31)

Millions of yen						Thousands of U.S. dollars
2008	2009	2010	2011	2012	2013	2013
277,168	302,778	314,912	295,924	246,148	**192,008**	***2,042,638***
(2,406)	1,410	11,148	772	462	**(5,273)**	***(56,096)***
(5,377)	(17,365)	10,329	(1,170)	(4,629)	**(8,543)**	***(90,883)***
–	–	–	(10,252)	(6,487)	**(910)**	***(9,681)***
4,836	3,670	4,300	4,867	4,971	**4,057**	***43,160***
4,980	5,013	4,310	6,062	3,932	**5,346**	***56,872***
158,356	135,596	142,780	131,229	123,844	**121,398**	***1,291,468***
224,415	199,883	204,058	193,910	176,607	**194,524**	***2,069,404***
157,871	135,135	141,992	130,088	122,762	**120,103**	***1,277,691***
4,630.58	3,963.72	4,164.86	3,813.57	3,598.03	**3,520.11**	***37.45***
(157.71)	(509.33)	302.97	(34.31)	(135.69)	**(250.38)**	***(2.66)***
–	–	300.77	–	–	**–**	–
(0.87%)	0.47%	3.54%	0.26%	0.19%	**(2.75%)**	–
70.35%	67.61%	69.58%	67.09%	69.51%	**61.74%**	–
(3.11%)	(11.85%)	7.45%	(0.86%)	(3.66%)	**(7.03%)**	–
–	–	13.00	–	–	**–**	–
(13,714)	(729)	3,640	(5,166)	16,416	**(8,023)**	***(85,351)***
(9,476)	(10,795)	(2,714)	4,071	(6,435)	**12,864**	***136,851***
(8,142)	(2,563)	(7,871)	2,466	(6,717)	**5,129**	***54,564***
57,100	40,180	34,063	33,745	36,567	**50,238**	***534,447***
2,628	2,590	2,553	2,861	3,990	**4,776**	

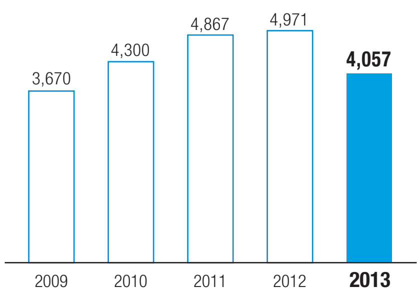
Shareholders' Equity Ratio

(%)



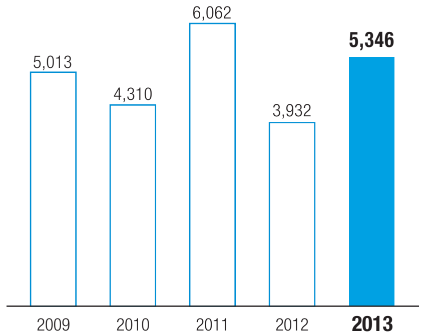
Depreciation Expense

(¥millions)



Capital Investment

(¥millions)



(Years ended March 31)

We are stepping up our globalization through M&A and alliance activities.

PHILIPS

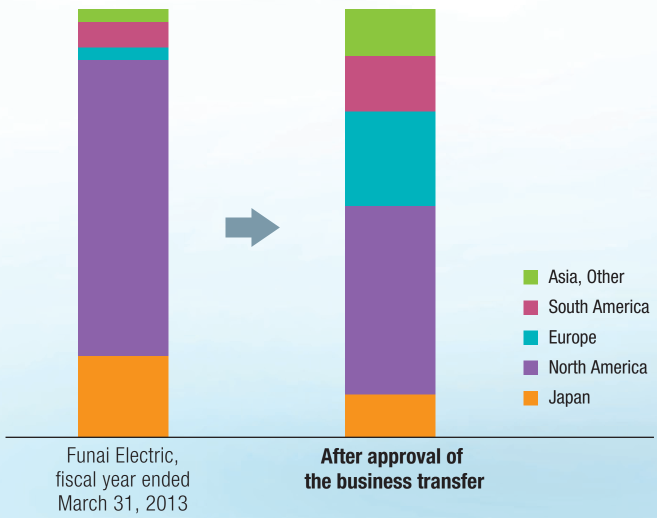
By adding the Lifestyle Entertainment (LE) business, we expect to expand our product portfolio and increase our sales regions.

Funai Electric has built up a positive relationship with Philips spanning more than 20 years through OEM* agreements in such areas as videos and DVDs. We have entered into an agreement to take over from Philips its LE business, which handles audio video multimedia products, home communication products and accessory products. We already commenced sales in 2012 under an exclusive agreement with Philips in the United States, Canada and Mexico.

As a result, in addition to expanding the portfolio of products that the Group offers, we expect to augment our sales region to include Europe and emerging markets, including in Asia and South America.

* OEM: Original equipment manufacturing, meaning the manufacture and supply of products under the customer's brand

Sales by Region



The Funai Electric Group has positioned the “strengthening and expanding existing businesses,” “making forays into new markets” and “developing new businesses” as the three pillars of its growth strategy. To achieve this growth strategy, in addition to reinforcing existing management resources the Group is aggressively leveraging M&A and alliance opportunities. We have entered into an agreement to acquire businesses and assets that promise to contribute to the Group’s growth from Philips and Lexmark, companies with which we have forged strong relationships.

LEXMARK

By including the production and sale of highly profitable ink cartridges, we will build a complete system employing our own resources.

Our relationship with Lexmark spans approximately 16 years, back to 1997. Since that time, we have cooperated with that company since the development stage under hardware OEM agreements involving inkjet printers.

The current acquisition is of patent rights and other assets involving ink cartridges and other printer-related products that Lexmark has developed globally over many years, centering on North America. Until now, our hardware development has been only in OEM business. However, the current acquisition will enable us to build a complete system employing our own resources to manufacture and sell products including highly profitable ink cartridges.

Strategic Significance of the Acquisition

- By employing FPS to handle an increased number of products, supply products in a more cost-competitive manner
- Acquisition of development and production functions involving highly profitable ink cartridges

	Before the Transaction		After the Transaction
Patents	LEXMARK	➡	FUNAI
+			
Ink cartridges	LEXMARK	➡	FUNAI
+			
Hardware			
Planning, development and design	LEXMARK FUNAI	➡	FUNAI
Production	FUNAI	➡	FUNAI
Sales	LEXMARK	➡	FUNAI Leverage our sales network, centering on major mass retailers in North America
Product brands	LEXMARK	➡	FUNAI

Amid a severe business environment, we steadily put in place the steppingstones for growth by accelerating M&A and alliance activities.

Tomonori Hayashi
President and CEO

Performance in the Fiscal Year Ended March 31, 2013

Sales and income were both down, but we invested aggressively to make a significant leap forward in the upcoming fiscal year.

Conditions remained difficult in the consumer electronics industry, with the monetary value of the digital consumer electronics market in 2012 falling below on a monetary basis for the first time since the Lehman Brothers collapse. In particular, global shipments of LCD TVs fell below the previous year's level for the first time, while demand for smartphones and tablet devices has grown sharply, in a changing role of the products that are driving the market.

Owing to these conditions, the Group posted consolidated net sales of ¥192 billion, a 22% decrease compared with preceding fiscal year. The operating loss amounted to ¥5.2 billion, compared with an operating profit of ¥0.4 billion in the previous term; and the net loss was ¥8.5 billion, compared with net loss of ¥4.6 billion in the previous fiscal year.

During the year, the Group also posted a reversal of deferred tax assets. Such factors led to the posting of final losses for the third consecutive fiscal year. We deeply apologize to our stakeholders for having failed to meet their expectations.

However, during the year the Group undertook initiatives under its growth strategy, which has three pillars: "strengthening and expanding existing businesses," "making forays into new markets," and "developing new businesses." In line with this strategy, we accelerated our M&A and alliance activities, putting in place the steppingstones for growth in upcoming fiscal years.

Sales by Product Type

- **LCD TVs**
  Sales rose in Mexico, compensating for a decline in the Japan. North American sales were flat.
- **DVD-Related Products**
  Sales of Blu-ray Disc players increased, but sales of Blu-ray Disc recorders fell sharply, due to sluggish Japanese demand.
- **Printers**
  Sales declined as a result of a decrease in orders.
- **Others**
  Sales of audio accessories in North America and other areas contributed to sales, but a major decrease in sales of antennas in Japan caused sales for the category to drop.

Strategy for the Future

We have agreed to acquire businesses and assets from Philips and Lexmark.

We are pushing forward with a host of measures under the three pillars of the Group's long-term strategy. In January 2013, we reached an agreement to acquire the lifestyle entertainment (LE) business from Royal Philips, followed by an agreement in April to acquire inkjet-related technology and assets from Lexmark International Inc.

To avoid the current risk of leaning too heavily on the U.S. market, we are promoting sales in Central and South America, including Mexico, as well as in India, Thailand and other emerging markets. Of the two businesses mentioned above, the Philips business already has a global sales channel in place, centering on Europe. By acquiring this business, we expect to give a sharp boost to efforts to further accelerate the Group's globalization.

▼ Synergistic Effects with Our Growth Strategy

PHILIPS

Strengthening and expanding existing businesses

- Improve business performance stability
- Strengthen earning performance

FUNAI

R & D

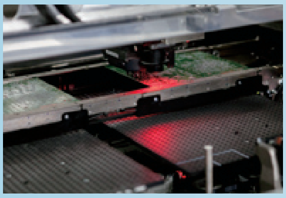
Making forays into new markets

- Accelerate globalization
  (1) Expand sales channels
  (2) Restructuring of production base
  (3) Acquire global human resources

Developing new businesses

- Strengthen patent portfolio
- Improve marketing and design capabilities

LEXMARK



Outlook for the Fiscal Year Ending March 31, 2014

By aggressively pursuing our growth strategy, we aim to expand our business and improve sales and profits.

In the upcoming fiscal year, the Group expects the operating environment to remain problematic, plagued by ongoing uncertainty in its operating environment. Nevertheless, by pulling together as a Group to enact our three growth strategies, we aim to expand our business and improve sales and profits.

In particular, to maximize synergies with our growth strategies, we will work to ensure the smooth transfer of the two businesses mentioned above and ensure their steady operation. Among our existing businesses, we expect growth in sales of LCD TVs to be in the single digits, but we expect sales of laser printers to contribute to printer sales from the start of the fiscal year. In September 2012, we commenced operations under an exclusive agreement with Philips to sell Philips-brand audio accessories in the United States, Canada and Mexico. This business will contribute to Group sales throughout the upcoming fiscal year.

As a result of these initiatives, for the fiscal year ending March 31, 2014, we anticipate consolidated net sales of ¥202.0 billion, up 5.2% from the year ended March 31, 2013, and we expect operating income of ¥0.2 billion. This forecast assumes an exchange rate of US$1=¥96.

Our performance forecasts do not include plans involving the acquisition of the Philips and Lexmark operations in the upcoming fiscal year. We will incorporate the inkjet-related patents acquired from Lexmark into our in-house branded printer development activities. We will promptly provide notice about the degree to which these businesses will impact our operating performance as soon as this information has been confirmed.

About Dividends

The Funai Electric Group is aware that providing returns to shareholders is one of the most important issues that management faces. With this in mind, the Group's basic policy on profit distribution is to maintain a stable dividend level while ensuring the operating base of the Group is continually strengthened. The basic measurement used to track the policy is the dividend-to-consolidated net assets ratio, with the current target figure being set at 1.0%. Based on this target, the Group plans to implement a stable dividend policy while taking into consideration the operating environment facing the business.

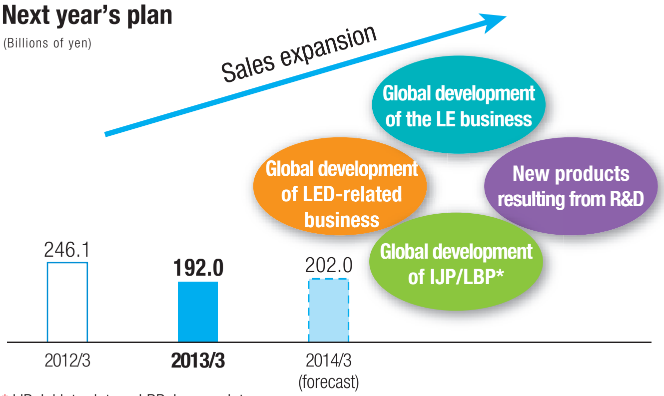
We have set the year-end dividend for the fiscal year ended March 31, 2013, at ¥35 per share.

While no change to our dividend policy is planned for the next fiscal year, the recent fluctuations in the foreign exchange markets are having a large impact on consolidated net assets, so the forthcoming dividend will be announced when possible.

We look forward to receiving your continued understanding and support as we implement our strategies in the future.

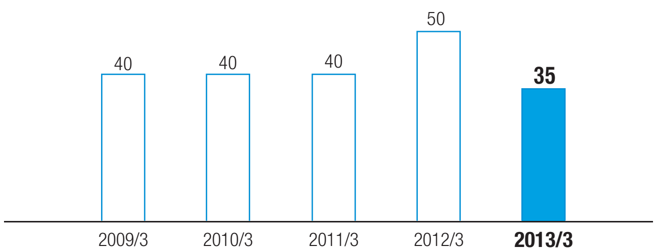
Tomonori Hayashi
President and CEO

Next year's plan
(Billions of yen)



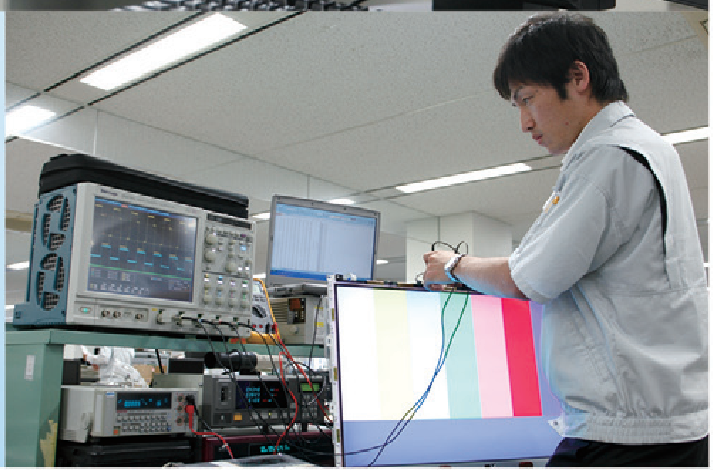
* IJP: Inkjet printers, LBP: Laser printers
Net sales

Per-share dividend
(¥)



Research & Development

We aim for continuous review and improved production of our main product designs. We also attempt to create profits from intellectual properties by promoting technological development as the source of new growth potential.



Striving to Achieve Overwhelming Cost Competitiveness

Leveraging Three Design Strengths

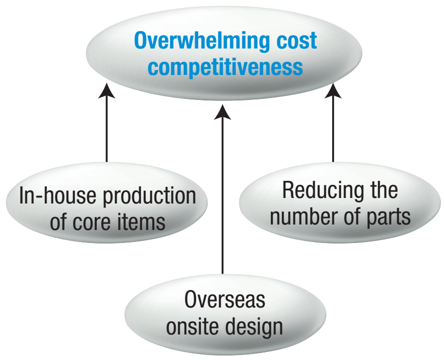
We are working to cut costs by promoting in-house production of core items, reducing the number of parts at the design stage and reviewing the materials used.

In addition, to achieve major productivity improvements we are decreasing the number of processes, while at the same time pursuing environmental measures such as using lead-free solder and developing designs aimed at ease of manufacturing.

We are also promoting globalization and reducing development costs by shifting design responsibilities previously handled in Japan to R&D facilities in locations such as Malaysia, China (Shenzhen) and Singapore.

Major Improvements to Productivity Result from Review of LCD TV Design

Traditionally, labor costs had been cheap China, and even if there were many processes involved in manufacturing there, parts were cheap. This was the thinking when it came to LCD TV design, but each year,labor costs in China continue to rise, and our thinking has changed. Our strategy has shifted to one focused on automation rather than human hands, to raising productivity and lowering costs.



Intellectual Property Strategy

Shifting to an Open Platform Basis

A number of new patent portfolios are being created that employ technology to combine equipment with dispersed functionality using the Internet. We will quickly introduce an intellectual property strategy that employs an open platform basis, representing a major change from a conventional intellectual property network based on standardization.

Formulating Optimal Strategies for Traditional Main Products and New Areas

The competition for our main LCD TVs and DVD and Blu-ray Disc-related products, major global electronics manufacturers, have an advantage regarding the development of core technologies. Because of this, Funai Electric is engaged in building a portfolio focused on related technologies to enhance the value of existing products. At the same time, we are also standing at the same starting line as the major manufacturers when it comes to the cultivation of new areas. We promote the aggressive development of core technologies in new areas in pursuit of a robust portfolio that meets or exceeds that of other companies. Looking ahead, we will focus on generating profits by providing our patented content to other companies and promoting a sound intellectual property strategy.

Sowing Seeds for Future Growth

The R&D Division promotes technical development involving the services and software that will be required during the era of cloud services and full-fledged broadband environments. We are also working on "ultra AV home electronics," which feature superior human interfaces.

Automotive/Human Interface

Funai Electric is applying the technology it has cultivated over the years in developing Blue-ray Disc-related and other products toward the development of applications for automotive and human interface products. We plan to develop and commercialize human interface devices for such promising areas as electric cars and healthcare locations.

Advanced Technology Development

As a base for leading-edge technology development and a control center for industry–academia and industry–industry R&D collaboration, the Funai Electric Advanced Applied Technology Research Institute conducts pursues research related to energy, healthcare and next-generation displays.

FUNAI ELECTRIC ADVANCED APPLIED TECHNOLOGY RESEARCH INSTITUTE INC.

Production & Sales

The Funai Production System (FPS) proprietary manufacturing system creates the world's most price-competitive products, which are provided through a diverse array of global brands.

Production

The Funai Production System (FPS) is the Realization of Global Top Class Price-Competitiveness

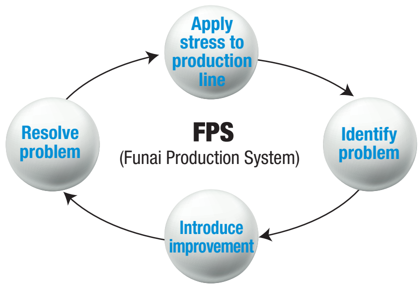
We make continual efforts to improve productivity to provide high-quality, user-friendly products at a reasonable price. The focal point of these efforts is the Funai Production System (FPS) proprietary manufacturing system. This system creates stresses on the production line, such as by reducing the number of operators or increasing the speed of the conveyor belt, until conditions are created resulting in the stoppage of the production line. The FPS creates these conditions in order to analyze what causes the line to stop, then improves on those conditions that caused the failure.

Optimizing Production Facility Locations to Further Improve Cost Competitiveness

Along with FPS, the source of Funai Electric's cost competitiveness is optimized production facility locations. Funai Electric concentrates its production facilities in the most appropriate locations and enhances cost competitiveness by purchasing parts in bulk. In particular, our production facilities are concentrated in the Asian region, where we have the ability to competitively procure raw materials and parts as well as secure a low-cost, high-quality labor force. Due to the recent labor shortages and wage increases in China, we have enhanced our Thai plant to reduce our risk of dependence on China.

In April 2013, we also acquired from Lexmark an inkjet printer factory located on the island of Cebu, in the Philippines. At the same time, we have purchased land on the island of Luzon, and we are constructing a factory there. This new production base is scheduled to commence operation in 2014.

The FPS: Continuous Productivity Enhancement



Sales

Developing a Variety of Brands with High Recognition in North America

In North America, the world's largest market and Funai's area of primary focus, our audiovisual brands PHILIPS, MAGNAVOX and Emerson enjoy high name recognition. And, we maintain a top-class share in this market through the creation of close relationships with leading mass retailers such as Walmart. In the giant European market, comparable to North America, we have facilities in Hamburg, Paris and Warsaw, where we develop FUNAI brand LCD TVs and DVD and Blu-ray Disc-related products. We also make an effort to build strong relationships with leading mass retailers in each country. In Japan, the DX BROADTEC brand sells LCD TVs and DVD and Blu-ray Disc-related products.

Cultivating Emerging Markets

Economic and population growth in BRICs and other emerging markets is increasing at a rapid pace, fueling expectations over increased audiovisual demand in these promising markets. Recognizing the importance of these markets, in 2012 Funai established a local subsidiary in Mumbai, India, which is commencing sales. Going forward, we expect to increase sales in Latin America, including Mexico. Including Thailand, where we commenced sales in 2012, we also plan to enter emerging markets that are rapidly growing, such as the ASEAN countries and the Near and Middle East regions.

Our acquisition of the LE business from Philips and inkjet-related assets from Lexmark should also enable us to expand our sales regions further.

Thai plant

North America

We develop LCD TVs and DVD and Blu-ray Disc-related products for the FUNAI, PHILIPS, MAGNAVOX and Emerson brands, which are sold at Walmart, Target and other leading mass retailers.

FUNAI PHILIPS MAGNAVOX Emerson

Europe

The FUNAI brand sells LCD TVs and DVD and Blu-ray Disc-related products.

FUNAI

Japan

The DX BROADTEC brand sells LCD TVs and DVD and Blu-ray Disc-related products. The DX ANTENNA brand sells antennas.

DX BROADTEC DX ANTENNA

India & Thailand

Selling Funai brand LCD TVs.

FUNAI

Latin America

Selling PHILIPS brand LCD TVs and DVD and Blu-ray Disc-related products.

PHILIPS

Top 5 Companies by share of shipments in North America (Based on a 2012 survey by NPD DisplaySearch)

Ranking	Company	Share (%)
1	A	19.3
2	**FUNAI**	**14.7**
3	B	14.0
4	C	10.2
5	D	6.2

Corporate Governance

Corporate Governance Policies and Organization

The Funai Electric Group's basic philosophy on corporate governance is to continuously increase the value of the corporation by being transparent to all stakeholders, both internal and external, ranging from shareholders and consumers, vendors, local communities and employees; ensuring the soundness and efficiency of management and responding to changing operating environments through quick decision-making capabilities. Based on this philosophy, the Group adopted an executive officer system in 2002, and subsequently transitioned into a "Company with Committees" system in June 2005, with both moves aimed at separating the management and execution functions of its operations. However, with the aim of nurturing internal management for the future of the Company and to strengthen the management structure, a resolution to change the organizational structure of the Group to a "Company with a Board of Corporate Auditors" was passed at the Annual General Shareholders' Meeting on June 22, 2010. We formulated the Funai Group Code of Conduct, which regulates the conduct of all members of the Funai Group. In March 2012, we established the Funai Group Procurement Policy, which is based upon the Code of Conduct, so as to strengthen our corporate social responsibility (CSR) structure. In December 2012, we established a CSR Committee as a companywide organization. We have also formulated compliance rules as part of an active campaign for more thorough compliance.

Board of Directors

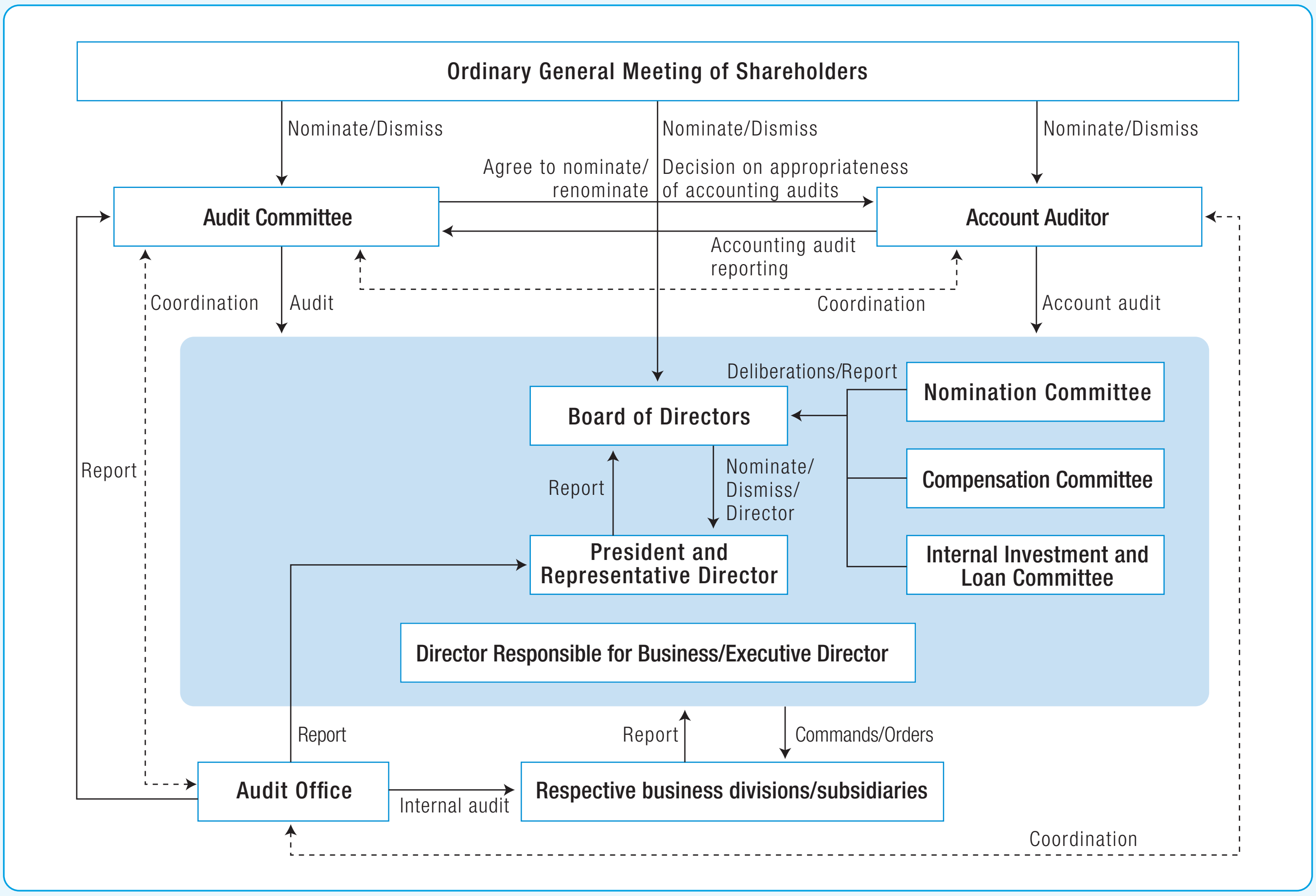
The Funai Electric Group Board of Directors consists of six directors, of whom two are highly independent outside directors. Internal directors are well-versed in Group business matters, enabling rapid decision-making. At the same time, soundness and transparency of operations is ensured through the independence of the outside directors. As a general rule, scheduled Board of Directors meetings are held once every three months. When necessary, nonscheduled meetings are also held. Additionally, to ensure that this system remains flexible and clarifies the responsibilities of the Board of Directors, the director's term of office is one year.

Board of Corporate Auditors

The Board of Corporate Auditors consists of three corporate auditors, of whom two are highly independent outside auditors. No special financial relationship exists between these outside auditors and the Funai Electric Group. Full-time Corporate Auditor Hiromu Ishizaki has sufficient knowledge of finance and accounting. As a rule, the Board of Corporate Auditors meets once each month.

Nomination Committee

An advisory body whose members are appointed by the Board of Directors to recommend candidates for the Board of Directors and other bodies, and ensure that the director nomination and other selection processes are transparent and objective.



Compensation Committee

Appointed and authorized by the Board of Directors to determine compensation for directors and executive officers and ensure that the compensation selection process is transparent and objective. Remuneration, etc. of corporate auditors is determined through consultation with the corporate auditors.

Internal Investment and Loan Committee

Appointed by the president to ensure transparency and objectivity with respect to the decision-making process regarding major investment and loan projects through council providing an individualized, companywide perspective.

Outside Director (Auditor) Support System

The administration department sends out reference materials to outside directors and corporate auditors ahead of scheduled Board of Directors and Board of Corporate Auditors meetings. In addition, meeting minutes and other necessary information are provided to outside directors and corporate auditors unable to attend meetings. Further, outside directors and corporate auditors are given the opportunity to meet regularly with the heads of various sections and view internal documents that contain important decision-making matters. In this manner, the system allows outside directors and corporate auditors to sufficiently exhibit their respective supervisory and audit functions. In addition, one employee has been assigned to assist the corporate auditors.

Internal Control System Enhancements

In accordance with resolutions passed by the Board of Directors, our internal control system will be enhanced to ensure appropriate business activities as follows.

Systems for Ensuring Director Execution of Business Duties is Compliant with the Law and Articles of Incorporation

The Funai Group Code of Conduct and Executive Compliance Regulations clarify proper conduct for directors and ensure their business duty execution is compliant with the law and articles of incorporation.

Systems for Managing and Storing Information Relating to Director Execution of Business of Duties

In accordance with the law and document management regulations, we conduct the appropriate management and storage of Board of Director's other important meeting minutes, key documents and other information necessary to ensure the appropriate execution of business duties.

Regulations Concerning Management of Exposure to the Risk of Loss and other Systems

We institute risk management regulations with regard to the management of exposure to the risk from loss. Each division and department shall manage risks to its operations and also take measures to manage those risks systematically.

Systems to Ensure that Directors Execute Business Duties Efficiently

We have implemented an executive officer system to promote quick and efficient decision-making in management, placing executive officers under the supervision of managing directors to ensure quick execution of business duties as determined by the managing director. To heighten transparency and strengthen the supervisory function, we also introduced outside directors.

Systems for Ensuring Employee Execution of Business Duties Complies with the Law and Articles of Incorporation

The Funai Group Code of Conduct and Executive Compliance Regulations clarify proper conduct for employees and ensure their business duty execution is compliant with the law and articles of incorporation. We also strive to strengthen our compliance structure with the establishment of an internal reporting system independent from normal lines of communication.

Systems to Ensure Appropriate Business Practices Across Entire Corporate Group

The Funai Group Code of Conduct establishes standards of conduct for all Group executives and employees. The Affiliate Management Regulations are intended to address important issues facing Group companies, while respecting the independence and clarifying the rights and responsibilities of those companies, to ensure appropriate business practices across the entire Group.

Matters Relating to Auditor Request for Employee Assistance with Execution of Business Duties

In the event auditors request employee assistance with execution of auditor business duties, upon deliberation of the Board of Corporate Auditors, the Office of Corporate Auditors shall assign an employee to assist the Board of Corporate Auditors.

Matters Relating to Independence from Director's Previous Employ

In the event the employee assigned to the Board of Corporate Auditors by the Office of Corporate Auditors in the previous matter is recalled, to ensure independence from the director, the Board of Corporate Auditors will respect the change of employees and/or change in personnel evaluations.

Systems for Directors and Employees to Report to Corporate Auditors

Corporate auditors attend Board of Directors and other important meetings, hear about the execution of executives' business duties from directors and view related documents. Also, in accordance with the Regulations for Reporting to the Board of Corporate Auditors, directors, executive officers and employees report important matters that they determine have the potential to impact the ability to perform job duties to corporate auditors.

Other Systems to Ensure Corporate Auditors Conduct their Duties Effectively

To ensure corporate auditors conduct their duties effectively, corporate auditors maintain a close relationship with accounting auditors and regularly meet with the president to exchange opinions regarding risk and management policies.

System for Ensuring the Reliability of Financial Reports

The Funai Group has established the Basic Policy on Internal Controls on Financial Reporting so as to ensure the reliability of financial reports and for effective and appropriate disclosure of Internal Control Reports. The Internal Control Committee, which is chaired by the President and Chief Executive Officer, is established under this policy, to conduct continuous improvement, application and evaluation of the internal controls on financial reporting, and to implement corrective measures when necessary.

System for the Exclusion of Antisocial Forces (Fundamental Perspective on Excluding Antisocial Forces)

We have formulated the Funai Group Code of Conduct targeting all Group employees. As our basic compliance policy, this code calls for us to take a determined stance against antisocial forces and organizations that threaten the peace and safety of civil society, to have no relations with such forces and to refuse any demands they might make.

In the event that our evidence appears of business partners being involved with organizations, companies or individuals involved with antisocial forces, we will swiftly cease any transactions with these partners. (Status of Preparations for Excluding Antisocial Forces) The Company has designated its Personnel and General Affairs Department as the organization in charge of dealing with antisocial forces, thereby unifying the management of information.

To ensure that all employees comply with its fundamental policy, the Company stipulates the policy clearly in related rules and regulations and has in place a system to provide education on the topic. In addition, whenever necessary, the Company devises countermeasures to prevent damage from antisocial forces.

In the event that any undue claim is put forward by an antisocial force, the Company will work closely with external specialized agencies, including the police and its legal counsel, and establish a cooperative system for emergency situations.

Corporate Social Responsibility (CSR)

We formulated the Funai Group Code of Conduct and the Environmental, Occupational Health and Safety Charter to contribute to the development of a sustainable society and comply with laws and regulations. The CSR structure was partially amended in March 2012 through the establishment of the Funai Group Procurement Guidelines. In terms of environmental activities, we are making an effort to receive ISO 14001 certification at all our facilities outside Japan. We also aim to contribute to environmental protection activities through strict compliance Furthermore, in accordance with the Home Appliance Recycling Law, we have increased the ratio of recyclable materials in our products. We engage in Green Procurement, which uses fewer materials and lessens the impact on the environment, and strive to reduce the amount of toxic substances in our products. In addition, we are moving forward with activities aimed at reducing the amount of waste generated from production, as well as the amount of energy consumed during production, in order to reduce our environmental impact. We formulated compliance rules in an attempt to improve compliance awareness among all group employees. Funai Electric is aggressively engaged in initiatives to ensure improved product quality as well as higher health and safety standard for our employees. We promote obtaining certification of an international management system at all our facilities as well as those of our vendors around the world. Given that the need for a system protecting transaction, trade, customer and stock information is increasingly critical, we also maintain an information security system. In an effort to disclose what we determine to be material information to facilitate understanding of the Company in a fair and timely manner, we have a disclosure policy to provide shareholders and investors with standardized information in accordance with the Financial Instruments and Exchange Act and securities exchanges.

Funai Group Code of Conduct

All members of the Funai Group (hereinafter "We") pledge to make a sincere effort to observe the following code of conduct. Senior management recognizes that it is their role to embody this code of conduct, and that they must take the initiative and set an example for others in the company to follow. In the event their conduct is in opposition to this code, it will be their responsibility to correct themselves publicly and ensure such conduct is never repeated.

1. We shall develop and provide products and services useful to society with sufficient consideration for the safety and privacy of personal and customer information, and strive to earn the trust and satisfy the needs of consumers and customers while ensuring the healthy development of society.
2. We shall engage in fair, transparent and free competition and transactions while maintaining a healthy and proper and relationship with politicians and political administrations.
3. We shall ensure management transparency and health through the timely, proactive and fair disclosure of Company information aimed at widening the communication channel with shareholders and greater society.
4. We shall maintain a safe and comfortable work environment where employee diversity, character and individuality are respected.
5. We shall respect fundamental human rights and do not engage in discriminatory actions or human rights violations. We do not sanction child labor or forced labor.
6. We shall voluntarily engage in initiatives aimed at mitigating environmental problems, which we see as common challenge facing all humanity, and recognize as a necessary activity of all corporations.
7. We shall aggressively promote social contribution activities as a good corporate citizen.
8. We shall firmly oppose anti-social forces or groups, block all ties with them and reject their undue claims.
9. We shall observe international law and local ordinances in terms of our international business activities, always respecting local cultures and customs to develop business efficiently.

June 22, 2012
Tomonori Hayashi President and CEO

Environmental and Occupational Health and Safety Charter

Basic Ideas

In keeping with our corporate commitment "to adopt continual product improvements, to continually promote ever deeper trust, and to seek further harmony and mutual prosperity," all employees of Funai pledge to remain aware of the need to protect the environment and to operate our business in an environment-friendly manner. We shall provide our customers with simple, high-quality products and shall make an effort to use resources effectively, minimize waste, and reduce our environmental impacts. In short, we remain committed to contributing to a society that remains in harmony with nature. We shall respect employee diversity, personality and individuality, and provide an environment that is safe and conducive to work.

Environmental Policies

1. We shall practice ethical management and comply with all laws and regulations.
2. We shall take the initiative in voluntarily eliminating the use of hazardous substances and shall offer environment-friendly products.
3. We shall establish goals for environmentally conscious design and shall offer environment-friendly products.
4. We shall implement initiatives to attain zero emissions.
5. We shall establish environmental goals, conduct periodic reviews, and implement continual improvements.
6. We shall provide all employees with environmental education and shall strive to adopt environmental improvements.

Occupational Health and Safety Policies

1. We shall practice ethical management and comply with all laws and regulations with respect to occupational health and safety.
2. We shall look into occupational health and safety risks in the workplace to prevent injury and illness to employees and visitors.
3. We shall make ongoing improvements to occupational health and safety management, while making an effort to improve occupational health and safety performance.

June 22, 2010
Tomonori Hayashi President and CEO

Funai Group Procurement Policy

Basic Policy

The Funai Group is responding to heightened societal demand for corporate social responsibility (CSR) by performing its daily business activities on the basis of the Funai Group Code of Conduct. We have established the basic policies described below with regard to our parts and materials procurement activities.

- Conform with laws, regulations and social norms, and pay attention to environmental preservation.
- Conduct fair and equitable transactions.
- Strive for mutual cooperation with business partners and build trust-based relationships.

Procurement Partner Selection Standards

In accordance with the above-mentioned basic policy, when selecting companies as procurement partners the Funai Group gives priority to those that satisfy the following conditions when commencing transactions.

1. Conformance with laws, regulations and social norms
2. Respect for human rights, occupational health and safety
3. Environmental consideration
4. Construction of systems to ensure excellent product quality
5. Provision of parts, materials and services that are priced appropriately and competitively
6. Construction of systems to ensure certain delivery dates and stable supply

CSR Procurement

From a CSR perspective, we ask our business partners to perform the following. We also ask our customers' business partners to understand the Funai Group Procurement Policy and to make requests that will promote these items.

1. Conformance with laws, regulations and social norms
2. Respect for human rights, occupational health and safety
3. Environmental consideration
4. Optimal product quality and cost assurance
5. Construction of systems to ensure certain delivery dates and stable supply
6. Technological improvement
7. Confidential information management
8. Cooperation in reporting and auditing
9. Response to the issue of conflict minerals

Third party certification acquisition status

Standard		Environmental management system ISO14001	Quality management system ISO9001	Occupational health and safety management system OHSAS18001	Information security management system ISO/IEC27001:2005 JIS Q27001:2006
Facility that has acquired certification	FUNAI ELECTRIC CO., LTD., and Group company facilities	HQ / FUNAI (THAILAND) CO., LTD. / FUNAI ELECTRIC EUROPE Sp.zo.o. / CHUGOKU FUNAI ELECTRIC CO., LTD / Zhong Shan Funai Electron Co. / FUNAI SERVICE CO., LTD. / DX ANTENNA CO., LTD.*	HQ / FUNAI (THAILAND) CO., LTD. / FUNAI ELECTRIC EUROPE Sp.zo.o. / CHUGOKU FUNAI ELECTRIC CO., LTD / Zhong Shan Funai Electron Co. / FUNAI SERVICE CO., LTD. / DX ANTENNA CO., LTD.*	HQ / FUNAI ELECTRIC EUROPE Sp.zo.o. / Zhong Shan Funai Electron Co.	Information System Department in HQ / Personnel and Administration Department in HQ / Business Administrative Department in HQ / Investor and Public Relations Department in HQ
	FUNAI ELECTRIC (H.K.), LTD. consignment production plants	HUANG JIANG PLANT	HUANG JIANG PLANT	——	——

* Only DX ANTENNA was certified by the JQA

Members of the Board and Corporate Auditors and Officers

Members of the Board

Tetsuro Funai ············ Chairman

Tomonori Hayashi ······ President and CEO

Yoshikazu Uemura ······ Director and Executive Officer

Jyoji Okada ··············· Director and Officer

Mitsuo Yonemoto ······ Outside Director

Yoshiaki Bannai ········· Outside Director

Officers

Hirofumi Nagaoka ······ Executive Officer

Hideaki Funakoshi ······ Officer

Shigeki Saji ··············· Officer

Susumu Nojii ············ Officer

Kazuo Uga ··············· Officer

Takeshi Ito ··············· Officer

Sei Kono ················· Officer

Kiyoshi Chinzei············Officer

Tetsuhiro Maeda········· Officer

Corporate Auditors

Hiromu Ishizaki ········· Full-time Corporate Auditor

Shinichi Komeda ········· Outside Corporate Auditor

Masahide Morimoto ··· Outside Corporate Auditor

Management Policies

Basic management policy

Funai Electric's basic management policy is to pursue its business activities by building strong trust and seeking the mutual prosperity of all parties related to the Group, by creating the most efficient development, production and sales organization possible and by providing stable supplies of high-quality and reasonably priced products to global markets, based on a corporate creed of continual product improvements, promotion of deeper trust and further harmony and mutual prosperity.

Target management indicators

The Group prioritizes the operating margin as its Group management indicator, seeking to achieve an operating margin of at least 5% at all companies over the medium term.

Basic policy on the distribution of profits

The Group recognizes the return of earnings to shareholders as an important management issue, and considers its fundamental policy to be the maintenance of stable dividends while strengthening the Group's management base. The Group employs a proactive dividend policy that takes into consideration factors such as the operating environment and uses a dividend ratio of 1.0% of consolidated net assets as its standard. The Group plans to implement dividend payments as a year-end dividend (once a year).

Based on this policy, for the fiscal year ended March 31, 2013, the Company awarded a year-end dividend of ¥35 per share. The dividend for the next fiscal year remains undecided.

Medium- to long-term management strategies and issues to be addressed

In the consumer electronics industry, the digital consumer electronics market continued to shrink. Under these severe conditions, demand for LCD TVs has slowed down, while demand for smartphones and tablet devices has grown sharply, in a changing role of the products that are driving the market.

Operating in this environment, the Group faces such issues as raising management responsiveness while ensuring quality and price levels to effectively compete against rival firms and at the same time expanding sales and recovering profitability by offering products that will sell. To achieve these aims, we will optimize our allocation of management resources and further cultivate the Funai Production System, one of our core competencies. We will also embark on the development of new businesses in the areas of environment, network and device modules, which have a bright future.

We will endeavor to enhance the Group's corporate value by implementing the policies outlined below.

Increasing net sales and returning to profitability

The Group has positioned the increase of net sales and improvement of earnings as its highest priority issue.

● Product strategy:

During the fiscal year under review, in the audio-visual equipment segment the Group's sales of LCD TVs declined, owing to lackluster Japanese market demand in the wake of the transition to digital terrestrial broadcasting. In products related to Blu-ray Discs, domestic sales of recorders dropped precipitously, as these devices are typically purchased at the same time as LCD TVs. In information equipment as well, orders of conventional products from OEM customers were down, lowering revenues. Consequently, segment sales and profits were down year on year for these mainstay products.

For this reason, the Group is enhancing its PSI management (PSI standing for "purchase, sales and inventory"). Through this approach, we will continue to make our products more competitive pricewise through redesigns and by restructuring our component sourcing system, with a view to augmenting sales and profitability.

With regard to product development in new business areas, during the year we introduced LED lamps into the Chinese market, and these went on sale in Japan in October 2012. In July 2012, we concluded an exclusive agreement with Royal Philips Electronics involving the sale in the United States, Canada and Mexico of Philips-brand audio accessories and other lifestyle entertainment products. Sales commenced under this agreement in September 2012. In January 2013, we reached an agreement to acquire all shares in a new company that will assume operations involving these products, and we intend to expand the business on a global scale going forward. In April 2013, we reached an agreement with Lexmark International, Inc., to acquire its inkjet-related technology and assets. This acquisition will enable Funai to start and grow its own inkjet business (including profitable ink cartridges), rather than operating as a contract manufacturer of inkjet printer products. Furthermore, in February 2013 we entered an alliance with KDDI Corporation to offer a service linking smartphones and televisions provided via a stick-type compact set-top box (STB), and we began providing these products for sale.

● Market strategy:

The Group faces the challenges of reducing the risk of overemphasizing the US market, smoothing production and sales throughout the year by mitigating the effects of seasonality and increasing sales. To address these issues, we are considering ways to develop our business in expansionary emerging markets in the ASEAN countries and Near and Middle East regions, as well as in our existing markets in Europe, Japan, Mexico and other Latin American countries. In February 2012, we established Funai India Private Limited in Mumbai, India, and we began sales at this subsidiary. Furthermore, we started selling LCD TVs in Thailand. Through the steady implementation of the above-mentioned strategies, we plan to minimize the time lags between product planning, development, material procurement, production and sales, enabling us to provide products in a timely manner that meet market needs precisely.

Reinforcing production and development systems

The Group's production structure is highly dependent on China, and we recognize this as a risk that must be mitigated. Accordingly, during the year we augmented a production base in Thailand that will become core to our provision of products in the Indian market.

In addition, after studying the potential for manufacturing in other regions, we acquired land in the Philippines and are planning to construct a plant there.

To increase groupwide development efficiency, we moved forward with efforts to expand our development facilities in Asian countries, particularly in China, where we established a development facility in the preceding fiscal year.

Training and appointment of human resources

The Group recognizes that improving employee capabilities and linking this progress to bolstering the Group's strength is critical to ensure that the Group maintains its lead in the era of global competition and successfully implements its medium- to long-term business strategy. Accordingly, our policy is to proactively train and assign employees, without regard to their age or position, and we are strengthening and expanding our internal and external language and other training systems to this end.

Business Performance

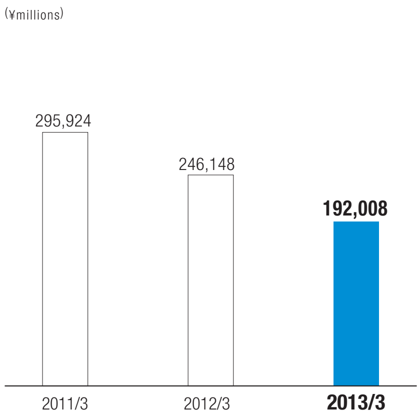
The year in review

During the fiscal year ended March 31, 2013, the economy of the United States, which is the Group's principal market, continued to grow gradually as it benefited from improvements in the housing market and job situation and a recovery in personal consumption. The European economy remained sluggish, as the European Central Bank's responses to the debt crisis failed to dispel concerns entirely. Although economic performance in China showed initial signs of decelerating, the new administration's economic policies put business conditions back on a positive track. In Japan, since the Abe administration came into office the economic outlook has brightened as the prospect of monetary easing has prompted corrections to yen appreciation and bolstered stock prices.

Within the consumer electronics industry, in 2012 the monetary value of the digital consumer electronics market continued the decline that has persisted since the Lehman Brothers collapse. Under these difficult conditions, global shipments of LCD TVs fell below the previous year's level for the first time, while demand for smartphones and tablet devices has grown sharply, in a changing role of the products that are driving the market.

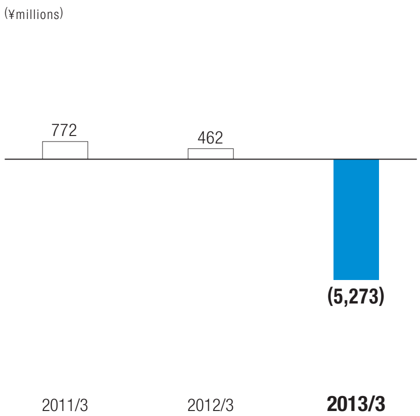
Net sales:

In the preceding fiscal year, net sales totaled ¥246,148 million. During the year under review, net sales decreased 22.0%, to ¥192,008 million.



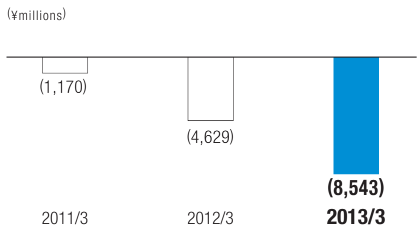
Operating income (loss):

Affected by the fall in sales, the Company posted an operating loss of ¥5,273 million, compared with operating income ¥462 million in the preceding fiscal year.



Net loss:

The net loss was ¥8,543 million, compared with net loss of ¥4,629 million in the preceding fiscal year, after reversing deferred tax assets and posting a corporate tax adjustment.



Performance by geographical area

North America:
Sales of our mainstay LCD TVs were up slightly due to favorable sales of affordable products at a major mass retailer. Additionally, we began selling Philips-branded audio and accessory products in September 2012, which contributed to sales. Sales of information equipment were down, however, owing to a decrease in printer orders.

In DVD-related products, sales of Blu-ray Disc players increased, but a shrinking overall market demand and increasingly severe competition led to a decrease in segment sales.

As a result of these factors, sales came to ¥133,309 million, down 0.6% year on year.

Japan:
Conditions in Japan were difficult, with sales of Blu-ray Disc recorders declining significantly year on year due to weakening demand.

In addition, sales of LCD TVs, antennas and related devices fell sharply due to slower demand in the wake of Japan's transition to digital terrestrial broadcasting. Sales consequently fell 55.9% from the preceding year, to ¥35,865 million.

Europe:
Sales of LCD TVs and DVD-related products declined as a result of a market slowdown and increasingly severe competition. Furthermore, lower printer orders caused sales of information equipment to fall, resulting in sales of ¥6,201 million, down 50.8% year on year.

Asia and others:
A decline in printer orders prompted a substantial drop in sales of information equipment, but stronger sales of LCD TVs caused sales to increase in the Mexican market. Sales in Asia amounted to ¥3,542 million, down 61.9% year on year, but sales in other regions increased 47.7%, to ¥13,091 million.

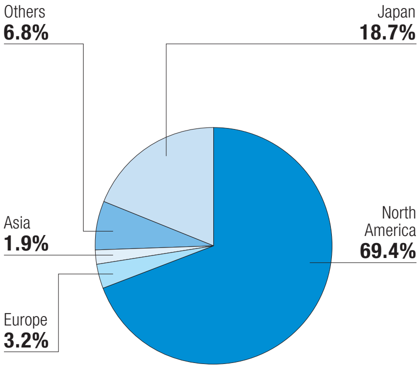
Sales by product category

Audiovisual equipment:
In the audiovisual equipment sector, the DVD-related products witnessed a decline in revenue due to weakness in the domestic Blu-ray Disc recorder market. Despite expansion in the Mexican market, the LCD TV market experienced an overall decline in the wake of Japan's transition to digital terrestrial broadcasting. As a result, net sales of this equipment were ¥155,686 million, a decrease of 15.2% year on year.

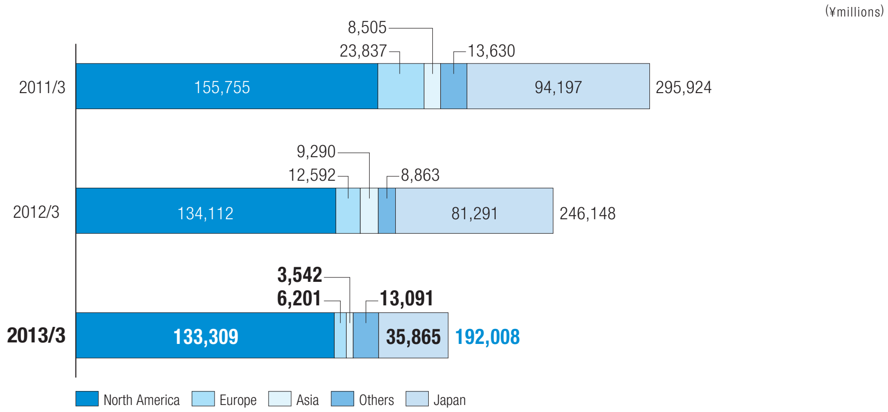
Information equipment:
In the information equipment sector, a decrease in printer orders resulted in net sales of ¥11,966 million, a decrease of 60.1% year on year.

Others:
Although sales commenced for Philips-branded audio and accessory products, sales of other products not included in the above categories declined because sales of antennas and related devices fell in the wake of Japan's transition to digital terrestrial broadcasting. As a result, net sales were ¥24,356 million, a decrease of 25.3% year on year.

Sales composition by geographical area (Year ended March 31, 2013)



Sales by geographical area (Years ended March 31)



Financial condition

● Current assets:

As of March 31, 2013, total current assets stood at ¥164,343 million, up ¥18,653 million from ¥145,690 million one year earlier. Principal factors including an increase in goods and products (up ¥12,160 million, from ¥22,387 million to ¥34,547 million) and higher raw materials and supplies (up ¥8,993 million, from ¥10,005 million to ¥18,998 million. Lackluster sales were the primary reason.

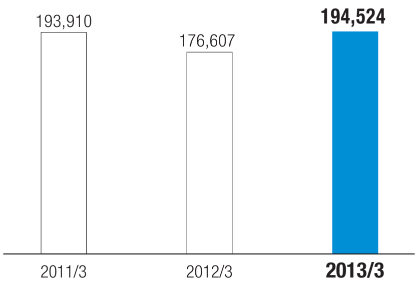
● Fixed assets:

Fixed assets totaled ¥30,181 million at year-end, falling ¥736 million from ¥30,917 million a year earlier.

The main reason was a ¥1,734 million decline in patents, from ¥3,813 million to ¥2,079 million. The principal cause of the decline was the recording of an impairment loss stemming from the revaluation of licensing of patents based on their expected future degree of use.

Total assets

(¥millions)



● Current liabilities:

As of March 31, 2013, current liabilities amounted to ¥69,453 million, up ¥19,398 million from ¥50,055 million one year earlier.

Major factors included increases in notes and accounts payable–trade (up ¥9,556 million, from ¥29,623 million to ¥39,179 million) and short-term loans payable (up ¥8,399 million, from ¥4,583 million to ¥12,982 million). An increase in purchases of raw materials was the main reason for the rise in notes and accounts payable–trade. The expansion in short-term loans payable was due mostly to bank borrowings employed as working capital.

● Long-term liabilities:

Long-term liabilities increased ¥965 million during the year under review, from ¥2,708 million to ¥3,673 million. The primary reason was a ¥1,164 million increase in deferred tax liabilities, from ¥5 million to ¥1,169 million.

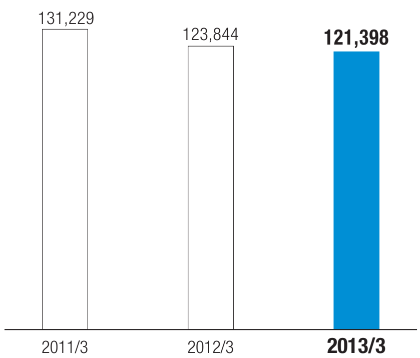
● Equity:

Total equity at the end of the fiscal year was down ¥2,446 million from the end of the preceding term, from ¥123,844 million to ¥121,398 million.

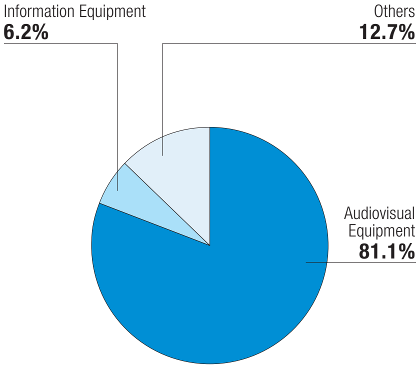
Major factors included a ¥10,249 million decrease in retained earnings, from ¥111,385 million to ¥101,136 million, and foreign currency translation adjustments, which improved ¥7,195 million from a negative ¥28,918 million to a negative ¥21,723 million.

Total equity

(¥millions)

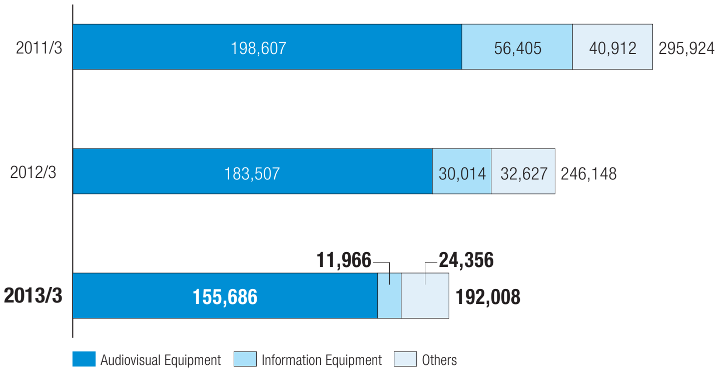


Sales composition by product category (Year ended March 31, 2013)



Sales by product category (Years ended March 31)

(¥millions)



Cash flows

Cash and cash equivalents amounted to ¥50,238 million as of March 31, 2013, up ¥13,671 million, or 37.4%, from one year previously. The primary reason was an increase in short-term loans payable, while accounts receivable and time deposits declined. Cash flows during the fiscal year under review and the factors behind these changes are described below.

● Cash flows from operating activities:
Net cash used in operating activities came to ¥8,023 million, compared with ¥16,416 million provided by these activities in the preceding fiscal year. Negative income before income taxes and an increase in inventories were the main reasons.

● Cash flows from investing activities:
Net cash provided by investing activities amounted to ¥12,864 million, compared with ¥6,435 million used in these activities in the previous term. Principal factors included an increase in the purchase of property, plant and equipment, while payments into time deposits declined.

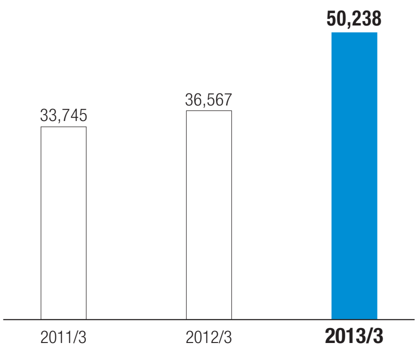
● Cash flows from financing activities:
Net cash provided by financing activities was ¥5,129 million, compared with ¥6,717 million used in these activities one year earlier. An increase in short-term loans payable was the primary factor.

Capital investment:

During the fiscal year under review, Group capital investment totaled ¥5,346 million. Of this amount, investment in Japan totaled ¥943 million, in North America ¥38 million, in Asia ¥4,364 million and in Europe ¥1 million. This capital investment was mainly for the expansion of production facilities. The Group did not dispose of or sell any major facilities during the year under review.

Cash and cash equvalents, end of year

(¥millions)



Business and other risks

Risks that may have a significant impact on the Group's financial situation and operating results are outlined below. Forward-looking statements in this text are based on decisions made by the Group as of June 21, 2013.

Funai Group management policy

The Group has adopted a policy of providing high-quality, low-cost products to consumers based upon optimized production and sales systems on a global scale. We manufacture and sell our principal products, such as audiovisual equipment (DVD-related products, LCD TVs, etc.) and information equipment (printers, etc.), in addition to other products (receiver-related electronics, etc.). Price competition in these product areas is intense. Additionally, the life cycle of digital products is short and the competition to develop new technologies and functions is also growing more severe. Accordingly, these factors may affect the Group's financial situation and operating results.

❶ Product cost and market prices
The Group's primary target is customers of mass merchandisers such as Walmart and therefore we must deliver low prices. Consequently, the Group is working to cut costs through measures such as establishing production systems in optimal locations, pursuing further application of the Funai Production System (FPS), the unique productivity improvement system developed by Funai, and utilizing internal production of parts and centralized purchasing. However, competition in the home electronic appliance industry is intense and when the cost of parts and raw materials rise, cost pressures may affect the Group's financial situation and operating results regardless of the fact that we have implemented these measures.

2 New technologies

As the number of digital products in the home electronic appliance industry increases and the needs of the market become more diverse, Funai must improve the quality, volume and speed of its new product development. The Group must be able to respond to such issues and we will improve our technical capabilities, primarily in the digital product area, by collaborating with other companies, industry and academia, and through personnel training. We also will consider mergers and acquisitions among our options. However, a diversification of market needs or technological innovation beyond our expectations may affect the Group's financial situation and operating results.

3 Defects relating to products and services

The Group efforts to increase quality are centered on the departments that are responsible for quality management and technologies. In addition, a service platform consisting of service companies in both domestic and international markets has been established. However, if there is a defect in a product that requires the Group to respond by repairing or replacing such product, the impact of the warranty and/or the resultant decrease in corporate reputation may have negative implications for the Group's financial situation and operating results.

4 Intellectual property rights

Recent years have seen an increase in activity by so-called "patent trolls." These are entities that sell no products of their own, but that attempt to generate income from patent royalties by filing lawsuits using intellectual property rights acquired from third parties.

This is a worrisome trend for all companies involved in manufacturing and sales. In the United States, legislation to limit trolls' activities is going to be submitted and is under deliberation.

However, as a result of this trend we could be compelled to make high compensation payments that may affect the Group's financial situation and operating results.

5 Corporate Acquisitions and Business Alliances

The Group pursues corporate acquisitions and business alliances as ways to improve its business portfolio and efficiently bolster sales and profits. However, in the event that, for various reasons, the synergies that are achieved fall short of initial expectations and affiliate relationships cannot be maintained, this may affect the Group's financial situation and operating results, as well as growth forecasts.

Impact of overseas market trends

1 Dependence on the North American market

A large portion of the Group's net sales originates in overseas markets. The North American market in particular accounted for 69.4% of net sales in the current consolidated fiscal year. Should the North American economy rapidly enter a recession, this may affect the Group's financial situation and operating results.

2 Dependence on Chinese production

The Group is working to improve the cost competitiveness of its products by concentrating production in positive cost-benefit regions and purchasing parts in bulk. In the current consolidated fiscal year 98.4% of our products were produced overseas, with 70.3% produced under consignment fabrication and at our own plants in China. Changes in the Chinese government, the outbreak of conflict or natural disasters or other unforeseen circumstances may affect the Group's financial situation and operating results.

3 Foreign currency risk

The Group selects production sites for its principal products after giving consideration to optimal production sites and sales systems. DVD-related products, LCD TVs, and printers are produced in China. LCD TVs are also manufactured in Europe and Thailand.

Funai purchases products from overseas subsidiaries in these countries and sells them in overseas markets, particularly North America, either through Funai's overseas sales subsidiaries or through direct sales to OEM supply partners. Domestic sales are also conducted through direct sales and sales subsidiaries. Purchases from overseas subsidiaries in these countries accounted for 85.0% of gross purchases during the current consolidated fiscal year. Likewise, overseas net sales accounted for 81.3% of net sales. The majority of our purchasing and sales are conducted in U.S. dollars. We believe this reduces the risks that accompany currency fluctuations.

However, it is impossible to completely eliminate foreign currency risk, and large currency fluctuations may affect the Group's financial situation and operating results.

Other Risks

1 Statutory regulations

The Group conducts business in accordance with the laws and regulations of Japan and other countries. These laws and regulations pertain to areas such as commercial transactions, antitrust, intellectual property, product liability, environmental protection, consumer protection and financial transactions, and legislation related to corporate taxation. Increasingly stringent legislation or the stricter interpretation of existing legislation could affect the Group's financial situation and operating results.

❷ Management of information
The Group has in place internal systems to prevent information leaks and protect itself against viruses. However, factors such as operational mistakes and the advent of new virus strains may preclude efforts to avoid information leaks and system shutdowns altogether. Such events could affect the Group's financial situation and operating results.

❸ Retirement benefit obligations
The Group and its consolidated domestic subsidiaries have in place defined benefit corporate pension systems, and retirement benefit obligations are based on actuarial assumptions on pension assets, such as rates of return and discount rates. The Group's financial situation and operating results could be affected if changes in these assumptions become necessary, if a deterioration in the investment environment results causes pension assets to decrease, or if changes in the pension system cause future retirement benefit expenses to increase.

❹ Deferred tax assets
The Group bases its decisions on the recoverability of deferred tax assets on various forecasts and assumptions related to future taxable earnings. If these forecasts and assumptions about future taxable earnings change or if the Group determines that part or all of its deferred tax assets cannot be recovered, subsequent reductions in deferred tax assets could affect the Group's financial situation and operating results.

Tax assessment based on the anti-tax haven system

❶ Funai received a rectification notices from the Osaka Regional Taxation Bureau on June 28, 2005, and June 16, 2008. The Bureau determined that Funai's Hong Kong subsidiary does not meet the requirements for exclusion under the anti-tax haven system and the Hong Kong subsidiary's income for the three fiscal years ended March 31, 2002 through 2004, and the three years from March 31, 2005 through 2007, will be considered, and taxed as, Funai's income. Funai objected to this supplementary tax assessment, and filed petitions seeking a review of the decision with the Osaka Regional Tax Tribunal on July 25, 2006, and August 6, 2008. On July 3, 2008, and July 23, 2009, we received written verdicts on this case from the Administrative Review Office of the Osaka Regional Taxation Bureau, which indicated that our assertions had been dismissed. On November 16, 2006 and November 14, 2008, the Company filed suits in the Osaka District Court to overturn the supplementary tax assessment orders, and a hearing for consolidation of those actions was filed on November 26, 2008. The court dismissed the claims of our Company on June 24, 2011.

As the Company is unable to accept the Osaka District Court's judgment, we filed a notice of appeal at the Osaka Superior Court on July 7, 2011. With respect to this action, on July 20, 2012, the court dismissed the claims of the Company. The Company, unable to accept the judgment, filed appeal and an application for the acceptance of the appeal with the Supreme Court on August 1, 2012.

The additional taxes of ¥16,651 million (¥19,184 million including incidental taxes) and ¥15,038 million (¥16,838 million including incidental taxes) include corporate, enterprise and residence taxes. In accordance with the "Accounting Practices, Disclosure and Audit Treatment for Various Taxes" (Japanese Institute of Certified Public Accountants, Auditing and Assurance Practice Committee, Audit Committee Report No. 63) Funai charged the tax assessments to income as "prior year's taxes" in the fiscal year ended March 31, 2007, and the fiscal year ended March 31, 2009.

❷ Funai received a rectification notice from the Osaka Regional Taxation Bureau on June 29, 2011. The Bureau determined that Funai's Hong Kong subsidiary does not meet the requirements for exclusion under the anti-tax haven system and the Hong Kong subsidiary's income for the three fiscal years ended March 31, 2008 through 2010, will be considered, and taxed as Funai's income.

Because the Company objected to this corrective action, we applied for assessments by the Osaka National Tax Tribunal on August 25, 2011. On July 18, 2012, we received written verdicts on this case indicating that our assertions had been dismissed. The Company, unable to accept the verdicts, filed an appeal to have the action cancelled with the Tokyo District Court on January 17, 2013.

The additional tax of ¥825 million (¥935 million including incidental taxes) includes corporate, enterprise and residence taxes. This amount is charged to income as "prior year's taxes" for the year ended March 31, 2012.

❸ With regard to the actions the Company filed with the Osaka District Court on June 28, 2005 and June 16, 2008, seeking the rescission of supplementary tax assessments, on June 24, 2011, a decision was reached in which the court dismissed the claims of the Company. Accordingly, the Company determined to treat the amount that would be affected if the taxation were applied in the fiscal year ended March 31, 2011, which is the fiscal year following the year to which the assessment was applied, as an expense for the fiscal year ended March 31, 2012.

Financial Section

Contents

Consolidated Balance Sheets

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
March 31, 2013

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	March 31,		March 31,
ASSETS	**2013**	2012	***2013***
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	**¥ 50,238**	¥ 36,567	***$ 534,447***
Time deposits (Note 15)	**17,575**	36,079	***186,968***
Receivables:			
Trade (Note 15)	**33,194**	32,296	***353,128***
Other	**2,025**	1,418	***21,543***
Allowance for doubtful accounts	**(178)**	(120)	***(1,894)***
Inventories (Note 4)	**55,641**	33,963	***591,925***
Deferred tax assets (Note 14)	**2,887**	2,915	***30,713***
Prepaid expenses and other current assets	**2,961**	2,572	***31,500***
Total current assets	**164,343**	145,690	***1,748,330***
PROPERTY, PLANT AND EQUIPMENT:			
Land	**6,170**	5,171	***65,638***
Buildings and structures	**12,332**	12,742	***131,191***
Machinery, equipment and other	**30,778**	32,092	***327,426***
Lease assets (Note 13)	**698**	773	***7,426***
Construction in progress	**1,099**	80	***11,691***
Total	**51,077**	50,858	***543,372***
Accumulated depreciation	**(34,401)**	(36,073)	***(365,968)***
Net property, plant and equipment	**16,676**	14,785	***177,404***
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6 and 15)	**2,900**	2,330	***30,851***
Investments in and advances to unconsolidated subsidiaries and associated companies	**3,270**	2,440	***34,787***
Patents (Note 5)	**2,079**	3,813	***22,117***
Long-term loans	**169**	223	***1,798***
Long-term prepaid expenses (Note 5)	**1,474**	1,361	***15,681***
Goodwill	**4**	14	***42***
Prepaid pension costs (Note 8)	**879**	887	***9,351***
Deferred tax assets (Note 14)	**437**	3,662	***4,649***
Other assets	**2,486**	1,700	***26,447***
Allowance for doubtful accounts	**(193)**	(298)	***(2,053)***
Total investments and other assets	**13,505**	16,132	***143,670***
TOTAL	**¥194,524**	¥176,607	***$2,069,404***

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	(Millions of yen) March 31, 2013	2012	(Thousands of U.S. dollars) (Note 1) March 31, 2013
CURRENT LIABILITIES:			
Short-term bank borrowings (Notes 7 and 15)	¥ 12,982	¥ 4,550	$ 138,106
Current portion of long-term debt (Notes 7, 13 and 15)	163	258	1,734
Payables:			
Trade (Note 15)	39,179	29,623	416,798
Other (Note 15)	11,124	11,158	118,341
Income taxes payable (Note 14)	1,691	326	17,989
Other current liabilities (Note 14)	4,314	4,140	45,894
Total current liabilities	69,453	50,055	738,862
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 13 and 15)	147	281	1,564
Liability for retirement benefits (Note 8)	2,009	2,108	21,372
Long-term payables – other	4	8	42
Deferred tax liabilities (Note 14)	1,169	5	12,436
Other	344	306	3,660
Total long-term liabilities	3,673	2,708	39,074
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13)			
EQUITY (Notes 9, 10 and 18):			
Common stock:			
Authorized, 80,000,000 shares; issued,			
36,130,796 shares in 2013 and 2012	31,308	31,308	333,064
Capital surplus	33,272	33,272	353,957
Stock acquisition rights	122	107	1,298
Retained earnings	101,136	111,385	1,075,915
Treasury stock – at cost 2,011,615 shares in 2013 and 2,011,607 shares in 2012	(24,341)	(24,341)	(258,947)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	451	56	4,798
Foreign currency translation adjustments	(21,723)	(28,918)	(231,096)
Total	120,225	122,869	1,278,989
Minority interests	1,173	975	12,479
Total equity	121,398	123,844	1,291,468
TOTAL	¥194,524	¥176,607	$2,069,404

Consolidated Statements of Operations

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2013

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	Years ended March 31,		Years ended March 31,
	2013	2012	***2013***
NET SALES	**¥192,008**	¥246,148	***$2,042,638***
COST OF SALES (Note 12)	**163,341**	208,780	***1,737,670***
Gross profit	**28,667**	37,368	***304,968***
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 12)	**33,940**	36,906	***361,064***
Operating (loss) income	**(5,273)**	462	***(56,096)***
OTHER INCOME (EXPENSES):			
Interest and dividend income	**321**	335	***3,415***
Interest expense	**(112)**	(127)	***(1,191)***
Foreign exchange gain (loss) - net	**4,691**	(379)	***49,904***
Gain on sale or disposal of property, plant and equipment	**421**	8	***4,479***
Equity in losses of associates	**(70)**	(28)	***(745)***
Loss on sales of investment securities - net (Note 6)	**(92)**	(311)	***(979)***
Loss on investments in limited partnership - net	**(57)**	(136)	***(606)***
Loss on impairment of investment securities	**(413)**	(0)	***(4,394)***
Loss on impairment of long-lived assets (Note 5)	**(1,614)**	(397)	***(17,170)***
Other – net	**(313)**	12	***(3,330)***
Other income (expenses) – net	**2,762**	(1,023)	***29,383***
NET LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS	**(2,511)**	(561)	***(26,713)***
INCOME TAXES (Note 14)**:**			
Current	**725**	1,386	***7,713***
Prior years	**967**	935	***10,287***
Deferred	**4,326**	1,618	***46,021***
Total income taxes	**6,018**	3,939	***64,021***
NET LOSS BEFORE MINORITY INTERESTS	**(8,529)**	(4,500)	***(90,734)***
MINORITY INTERESTS	**(14)**	(129)	***(149)***
NET LOSS	**¥ (8,543)**	¥ (4,629)	***$ (90,883)***

	(Yen)		(U.S. dollars)
PER SHARE OF COMMON STOCK (Notes 2.v and 17)**:**			
Basic net loss	**¥ (250.38)**	¥ (135.69)	***$ (2.66)***
Cash dividends applicable to the year	**35.00**	50.00	***0.37***

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2013

	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
	Years ended March 31,		*Year ended March 31,*
	2013	2012	***2013***
NET LOSS BEFORE MINORITY INTERESTS	**¥(8,529)**	¥(4,500)	***$(90,734)***
OTHER COMPREHENSIVE INCOME (LOSS) (Note 16)**:**			
Unrealized gain (loss) on available-for-sale securities	**396**	(556)	***4,213***
Foreign currency translation adjustments	**7,190**	(1,418)	***76,489***
Share of other comprehensive income (loss) in associates	**33**	(13)	***351***
Total other comprehensive income (loss)	**7,619**	(1,987)	***81,053***
COMPREHENSIVE LOSS (Note 16)	**¥ (910)**	¥(6,487)	***$(9,681)***
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO (Note 16)**:**			
Owners of the parent	**¥ (953)**	¥(6,616)	***$(10,138)***
Minority interests	**43**	129	***457***

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2013

	(Thousands)	(Millions of yen)									
							Accumulated other comprehensive income (loss)				
	Number of shares of common stock outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Total	Minority interests	Total equity
BALANCE, APRIL 1, 2011	**34,112**	**¥31,300**	**¥33,265**	**¥ 88**	**¥116,739**	**¥(24,341)**	**¥612**	**¥(27,487)**	**¥130,176**	**¥1,053**	**¥131,229**
Net loss					(4,629)				(4,629)		(4,629)
Cash dividends, ¥40.00 per share					(1,364)				(1,364)		(1,364)
Adjustment of retained earnings due to change in scope of the consolidation					639				639		639
Exercise of stock options	7	8	7						15		15
Net change in the year				19			(556)	(1,431)	(1,968)	(78)	(2,046)
BALANCE, MARCH 31, 2012	**34,119**	**31,308**	**33,272**	**107**	**111,385**	**(24,341)**	**56**	**(28,918)**	**122,869**	**975**	**123,844**
Net loss					**(8,543)**				**(8,543)**		**(8,543)**
Cash dividends, ¥50.00 per share					**(1,706)**				**(1,706)**		**(1,706)**
Purchase of treasury stock						**(0)**			**(0)**		**(0)**
Net change in the year				**15**			**395**	**7,195**	**7,605**	**198**	**7,803**
BALANCE, MARCH 31, 2013	**34,119**	**¥31,308**	**¥33,272**	**¥122**	**¥101,136**	**¥(24,341)**	**¥451**	**¥(21,723)**	**¥120,225**	**¥1,173**	**¥121,398**

	(Thousands of U.S. dollars) (Note.1)									
						Accumulated other comprehensive income (loss)				
	Common stock	*Capital surplus*	*Stock acquisition rights*	*Retained earnings*	*Treasury stock*	*Unrealized gain (loss) on available-for-sale securities*	*Foreign currency translation adjustments*	*Total*	*Minority interests*	*Total equity*
BALANCE, MARCH 31, 2012	***$333,064***	***$353,957***	***$1,138***	***$1,184,947***	***$(258,947)***	***$596***	***$(307,638)***	***$1,307,117***	***$10,372***	***$1,317,489***
Net loss				***(90,883)***				***(90,883)***		***(90,883)***
Cash dividends, $0.53 per share				***(18,149)***				***(18,149)***		***(18,149)***
Net change in the year			***160***			***4,202***	***76,542***	***80,904***	***2,107***	***83,011***
BALANCE, MARCH 31, 2013	***$333,064***	***$353,957***	***$1,298***	***$1,075,915***	***$(258,947)***	***$4,798***	***$(231,096)***	***$1,278,989***	***$12,479***	***$1,291,468***

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2013

	(Millions of yen) Years ended March 31, 2013	2012	(Thousands of U.S. dollars) (Note 1) Year ended March 31, 2013
OPERATING ACTIVITIES:			
Net loss before income taxes and minority interests	¥ (2,511)	¥ (561)	$ (26,713)
Adjustments for:			
Income taxes – paid	(1,010)	(3,578)	(10,745)
Prior years' income taxes – paid		(935)	
Income taxes – refund	684	1,353	7,277
Depreciation and amortization	5,265	6,548	56,011
Gain on sale or disposal of property, plant and equipment	(421)	(8)	(4,479)
Loss on impairment of long-lived assets	1,614	397	17,170
Equity in losses of associates	70	28	745
Loss on sales of investment securities – net	92	311	979
Changes in assets and liabilities			
Decrease in trade receivable	4,389	3,473	46,691
(Increase) Decrease in inventories	(15,194)	9,098	(161,638)
Increase in trade payable	1,328	1,087	14,128
Decrease in liability for employees' retirement benefits	(112)	(316)	(1,192)
Other – net	(2,217)	(481)	(23,585)
Total adjustments	(5,512)	16,977	(58,638)
Net cash (used in) provided by operating activities	(8,023)	16,416	(85,351)
INVESTING ACTIVITIES:			
Payments for time deposits	(59,777)	(96,744)	(635,926)
Proceeds from time deposits	80,150	96,372	852,660
Proceeds from sale of property, plant and equipment	497	102	5,287
Purchases of property, plant and equipment	(5,384)	(3,608)	(57,277)
Purchases of intangible assets	(415)	(2,678)	(4,415)
Proceeds from sales of investment securities	357	486	3,798
Purchases of investment securities	(702)	(290)	(7,468)
Payments for loans receivable	(1,074)	(4)	(11,425)
Proceeds from collection of loans receivable	85	11	904
Other – net	(873)	(82)	(9,287)
Net cash provided by (used in) investing activities	12,864	(6,435)	136,851
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans – net	6,900	(5,068)	73,404
Repayments of long-term debt		(33)	
Purchase of treasury stock	(0)		(0)
Dividends paid	(1,706)	(1,364)	(18,149)
Other – net	(65)	(252)	(691)
Net cash provided by (used in) financing activities	5,129	(6,717)	54,564
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	3,667	227	39,011
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,637	3,491	145,075
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	34		362
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO EXCLUSION OF SUBSIDIARIES FROM CONSOLIDATION		(669)	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	36,567	33,745	389,010
CASH AND CASH EQUIVALENTS, END OF YEAR	¥50,238	¥36,567	$534,447

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2013

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2012 consolidated financial statements to conform to the classifications used in 2013.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Funai Electric Co., Ltd. (the "Company"), is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥94 to $1, the approximate rate of exchange at March 31, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2013, include the accounts of the Company and its 18 significant (13 in 2012) subsidiaries (together, the "Group"). Funai India Private Limited is included in the scope of consolidation from the fiscal year under review as it has gained increased importance. Zhong Shan Funai Electron Co., FUNAI CMET Optical Electronics Co., Ltd. and the others, the subsidiaries incorporated during the fiscal year review, are included in the scope of consolidation.

Under the control or influence concept, those companies over whose operations the Company, directly or indirectly, is able to exercise control are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

In 2013, investments in 1 (1 in 2012) unconsolidated subsidiary and 1 (0 in 2012) associated company are accounted for by the equity method. CMET FUNAI Optical Electronics Co., Ltd., an affiliate incorporated during the fiscal year under review, is included in the scope of the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process, so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of research and development (R&D); (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if included in net income.

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted, so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if included in net income.

d. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

e. **Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. **Inventories**—Inventories of the Company and its consolidated domestic subsidiaries are mainly stated at the lower of cost, determined by the average method for finished products and work in process and by the first-in, first-out method for raw materials, or net selling value.

Inventories of the consolidated foreign subsidiaries are mainly stated at the lower of cost, determined by the first-in, first-out method, or net selling value.

g. **Investment Securities**—Investment securities are classified and accounted for depending on management's intent. All investment securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

h. **Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially using the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the estimated useful lives of the assets. Depreciation of property, plant and equipment of consolidated foreign subsidiaries is principally computed using the straight-line method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 1 to 20 years for machinery, equipment and other.

Lease assets are depreciated by the straight-line method over the respective lease periods.

(Change in the method of depreciation)

In accordance with the revisions to the Corporate Tax Code, from the fiscal year under review, the Company and some of its consolidated subsidiaries in Japan switched to the method of depreciation based on the revised Corporate Tax Code for tangible fixed assets acquired on or after April 1, 2012.

The resultant impact on operating loss, ordinary loss and loss before income taxes and minority interests is minor.

i. **Patents**—Patents are carried at cost, less accumulated amortization, which is computed using the straight-line method over the estimated useful lives.

j. **Goodwil**—Cost in excess of the net assets of subsidiaries acquired is amortized on a straight-line basis over 5 years.

k. **Intangible Assets**—Intangible assets are stated at cost. Amortization of intangible assets of the Company and its consolidated subsidiaries is computed using the straight-line method. Amortization of software for internal use is computed by the straight-line method based over the estimated useful life (5 years).

l. **Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the sum of the discounted cash flows from the continued use and eventual disposition of the asset, or the net selling price at disposition.

m. **Retirement and Pension Plans**—The Company and certain consolidated subsidiaries have non-contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain consolidated foreign subsidiaries also have defined contributed pension plans.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The total transitional obligation determined as of April 1, 2000, was charged to income when adopted, except that of a certain domestic subsidiary, which is being amortized over 15 years.

Actuarial gains or losses are amortized using the straight-line method over a period within the average remaining years of service of the employees (10 years) starting from the following period. Prior service cost is amortized using the straight line method over a period within the average remaining years of service of the employees (10 years).

Retirement allowances for directors, corporate auditors and executive officers are recorded as a liability at the amount that would be required if all directors, corporate auditors and executive officers retired at each balance sheet date.

From starting of the annual period beginning on April 1, 2012, the Company and its domestic consolidated subsidiaries have transferred their respective retirement benefit plans from the tax-qualified pension plan to defined benefit pension plans. The effect of this transfer on the consolidated statements of operations is immaterial.

n. Asset Retirement Obligations—In March 2008, the ASBJ published ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. Stock Options—In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received.

The Company recognizes compensation expense for stock options granted to directors, corporate auditors, executive officers and employees based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. A domestic subsidiary also measures options at their intrinsic value if it cannot reliably estimate the fair value. In the consolidated balance sheets, the stock option is presented as "Stock acquisition right" as a separate component of equity until exercised.

p. R&D Costs—R&D costs are charged to income as incurred.

q. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in a note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheets. In addition, the revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group continues to account for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

r. Construction Contracts —In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date is deemed to be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

s. Income Taxes—The provision for income taxes is computed based on the pretax income and included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

t. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.

u. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income (loss) as a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

v. Per Share Information—Basic net income (loss) per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if stock options were exercised into common stock. Diluted net income per share of common stock assumes full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years, including dividends to be paid after the end of the year.

w. Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied after revision of an accounting standards, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentations—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

x. New Accounting Pronouncements

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidance and followed by partial amendments from time to time through 2009. Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of operations and the statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and guidance are effective for the end of annual periods beginning on or after April 1, 2013, with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

3. BASIS OF PRESENTING FINANCIAL STATEMENTS

Certain reclassifications have been made to the 2012 financial statements to conform to the classifications used in 2013.

Prior to April 1, 2012, the Gain on sale or disposal of property, plant and equipment was included in the other-net among the other income (expenses) – net section of the operations. During this fiscal year ended March 31, 2013, the amount increased significantly, as such amount is disclosed separately in the other income (expenses) - net section of the operations as of March 31, 2013. The amount included in the other-net as of March 31, 2012, was ¥8 million.

Prior to April 1, 2012, the Loss on impairment of investment securities was included in the other-net among the other income (expenses) – net section of the operations. During this fiscal year ended March 31, 2013, the amount increased significantly, as such amount is disclosed separately in the other income (expenses) - net section of the operations as of March 31, 2013. The amount included in the other-net as of March 31, 2012, was ¥0 million.

4. INVENTORIES

Inventories at March 31, 2013 and 2012, consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2013	2012	***2013***
Merchandise and finished products	**¥34,547**	¥22,387	***$367,521***
Work in process	**2,096**	1,571	***22,298***
Raw materials and supplies	**18,998**	10,005	***202,106***
Total	**¥55,641**	¥33,963	***$591,925***

5. LONG-LIVED ASSETS

During the year ended March 31, 2013, the Group recorded losses on impairment in the following asset groups:

Use	Location	Type
Idle assets	FUNAI ELECTRIC CO., LTD. (Daito City, Osaka)	Long-term prepaid expenses, etc.

In principle, the Group groups business assets on the basis of legal units that strive to maintain an ongoing understanding of income and expenses. The idle assets are grouped by individual asset.

During the year ended March 31, 2013, the Company revised its production model in line with decreasing global demand. As a result, the Group revalued its licensing of patents based on their expected future degree of use, thereby reducing the expected amount collectible for these assets by ¥1,614 million ($17,170 thousand). This impairment loss was recorded as an extraordinary loss.

As the recoverable value of these assets is estimated as their value in use and no future cash flows can be expected, their value in use has been reduced to zero.

6. INVESTMENT SECURITIES

The costs and aggregate fair values of investment securities at March 31, 2013 and 2012, were as follows:

	(Millions of yen)			
March 31, 2013	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥1,287**	**¥453**	**¥88**	**¥1,652**
March 31, 2012				
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,228	¥269	¥131	¥1,366

	(Thousands of U.S. dollars)			
March 31, 2013	*Cost*	*Unrealized gains*	*Unrealized losses*	*Fair value*
Securities classified as:				
Available-for-sale:				
Equity securities	***$13,691***	***$4,819***	***$936***	***$17,574***

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2013 and 2012, were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2013	2012	***2013***
Available-for-sale:			
Equity securities	**¥957**	¥593	***$10,181***
Investments in limited partnerships	**291**	371	***3,096***
Total	**¥1,248**	¥964	***$13,277***

The proceeds, realized gains and realized losses of the available-for-sale securities, which were sold during the years ended March 31, 2013 and 2012, were as follows:

	(Millions of yen)		
March 31, 2013	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	**¥348**		**¥92**
Total	**¥348**		**¥92**
March 31, 2012			
Available-for-sale:			
Equity securities	¥450	¥3	¥314
Total	¥450	¥3	¥314

	(Thousands of U.S. dollars)		
March 31, 2013	*Proceeds*	*Realized gains*	*Realized losses*
Available-for-sale:			
Equity securities	***$3,702***		***$979***
Total	***$3,702***		***$979***

The impairment losses on available-for-sale equity securities for the years ended March 31, 2013 and 2012, were ¥413 million ($4,394 thousand) and ¥0 million, respectively.

7. SHORT-TERM BANK LOANS AND LONG TERM DEBT

Short-term bank loans bore interest at annual average rate of 1.6% and 1.8% at March 31, 2013 and 2012, respectively.

Long-term debt at March 31, 2013 and 2012, consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2013	2012	***2013***
Unsecured loans from banks and other financial institutions	**¥**	¥ 33	***$***
Obligations under finance leases	**310**	506	***3,298***
Total	**¥310**	¥539	***$3,298***
Less current portion	**(163)**	(258)	***(1,734)***
Long-term debt, less current portion	**¥147**	¥281	***$1,564***

8. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees, directors, corporate auditors and executive officers. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain consolidated subsidiaries have non-contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain consolidated foreign subsidiaries also have defined contribution pension plans.

The liability for employees' retirement benefits at March 31, 2013 and 2012, consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2013	2012	***2013***
Projected benefit obligation	**¥9,258**	¥8,771	***$98,489***
Fair value of plan assets	**(8,013)**	(7,289)	***(85,245)***
Unrecognized prior service cost	**521**	630	***5,543***
Unrecognized actuarial loss	**(1,284)**	(1,401)	***(13,660)***
Unrecognized transitional obligation	**(434)**	(559)	***(4,617)***
Prepaid pension cost	**879**	887	***9,351***
Net liability	**¥ 927**	¥1,039	***$ 9,861***

The components of net periodic benefit costs for the years ended March 2013 and 2012, are as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2013	2012	***2013***
Service cost	**¥473**	¥572	***$5,032***
Interest cost	**155**	155	***1,649***
Expected return on plan assets	**(133)**	(131)	***(1,415)***
Amortization of prior service cost	**(109)**	(83)	***(1,160)***
Recognized actuarial gain	**185**	226	***1,968***
Amortization of transitional obligation	**125**	125	***1,330***
Net periodic benefit costs	**¥696**	¥864	***$7,404***

Assumptions used for the years ended March 31, 2013 and 2012, are as follows:

	2013	2012
Discount rate	**1.1~1.4%**	1.4~2.0%
Expected rate of return on plan assets	**1.1~1.4%**	1.4~2.0%
Amortization period of prior service cost	**10 years**	10 years
Recognition period of actuarial gain/loss	**10 years**	10 years

Retirement allowances for directors, corporate auditors and executive officers at March 31, 2013 and 2012, were ¥1,082 million ($11,511 thousand) and ¥1,069 million, respectively, which were included in liability for retirement benefits. Retirement allowances for directors, corporate auditors and executive officers are paid subject to the approval by the Compensation Committee or at shareholders' meeting.

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a Board of Directors, (2) having the independent auditors, (3) having the Board of Corporate Auditors and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock options outstanding as of March 31, 2013, are as follows:

(The Company)

Stock option	Persons granted	Number of options granted	Date of grant	Exercise price	Exercise period
2003 Stock option	4 directors 313 employees 6 other persons	378,500 shares	July 22, 2003	¥13,646 *($ 145)*	From August 1, 2005 to July 31, 2012
2004 Stock option ①	2 directors 293 employees 5 other persons	359,900 shares	July 21, 2004	¥16,167 *($ 172)*	From August 1, 2006 to July 31, 2013
2004 Stock option ②	20 employees 1 other person	25,600 shares	August 13, 2004	¥16,836 *($ 179)*	From August 1, 2006 to July 31, 2013
2005 Stock option	2 directors 293 employees 5 other persons	346,400 shares	July 12, 2005	¥12,369 *($ 132)*	From August 1, 2007 to July 31, 2014
2008 Stock option	1 director officer 10 executive officers 315 employees	431,700 shares	November 20, 2008	¥ 1,609 *($ 17)*	From August 1, 2010 to July 31, 2017

(DX ANTENNA CO., LTD.)

Stock option	Persons granted	Number of options granted	Date of grant	Exercise price	Exercise period
2010 Stock option	4 directors 29 employees	152,000 shares	February 13, 2010	¥384 *($ 4)*	From February 11, 2012 to February 10, 2019
2011 Stock option	2 directors 39 employees	116,900 shares	May 27, 2011	¥807 *($ 9)*	From May 27, 2013 to May 26, 2020

The stock option activity is as follows:

(The Company)

	2003 Stock option	2004 Stock option ①	2004 Stock option ②	2005 Stock option	2008 Stock option
Year ended March 31, 2011	(Shares)	(Shares)	(Shares)	(Shares)	(Shares)
Non-vested					
March 31, 2011 – Outstanding					
Granted					
Canceled					
Vested					
March 31, 2012 – Outstanding					
Vested					
March 31, 2011 – Outstanding	378,500	359,900	25,600	346,400	386,200
Vested					
Exercised					7,200
Canceled					18,500
March 31, 2012 – Outstanding	378,500	359,900	25,600	346,400	360,500
Year ended March 31, 2012					
Non-vested					
March 31, 2012 – Outstanding					
Granted					
Canceled					
Vested					
March 31, 2013 – Outstanding					
Vested					
March 31, 2012 – Outstanding	378,500	359,900	25,600	346,400	360,500
Vested					
Exercised					
Canceled					30,100
March 31, 2013 – Outstanding	378,500	359,900	25,600	346,400	330,400
Exercise price	¥13,646 *($ 145)*	¥16,167 *($ 172)*	¥16,836 *($ 179)*	¥12,369 *($ 132)*	¥1,609 *($ 17)*
Average stock price at exercise					
Fair value price at grant date					
From August 1, 2010 to July 31, 2017					¥ 440 *($ 5)*
From August 1, 2011 to July 31, 2017					¥ 447 *($ 5)*
From August 1, 2012 to July 31, 2017					¥ 454 *($ 5)*
From August 1, 2013 to July 31, 2017					¥ 458 *($ 5)*
From August 1, 2014 to July 31, 2017					¥ 475 *($ 5)*
From August 1, 2015 to July 31, 2017					¥ 487 *($ 5)*
From August 1, 2016 to July 31, 2017					¥ 510 *($ 5)*

(DX ANTENNA CO., LTD.)

	2012 Stock option	2013 Stock option
For the year ended March 31, 2011	(Shares)	(Shares)
Non-vested		
March 31, 2011 – Outstanding	150,000	
Granted		116,900
Canceled	3,500	5,600
Vested	146,500	
March 31, 2012 – Outstanding		111,300
Vested		
March 31, 2011 – Outstanding		
Vested	146,500	
Exercised		
Canceled		
March 31, 2012 – Outstanding	146,500	
Year ended March 31, 2012		
Non-vested		
March 31, 2012 – Outstanding		111,300
Granted		
Canceled		17,500
Vested		
March 31, 2013 – Outstanding		93,800
Vested		
March 31, 2012 – Outstanding	146,500	
Vested		
Exercised		
Canceled	24,000	
March 31, 2013 – Outstanding	122,500	
March 31, 2013 – Outstanding	¥384 *($ 4)*	¥807 *($ 9)*

The Assumption Used to Measure Fair Value

(DX ANTENNA CO., LTD.)

On February 13, 2010 and May 27, 2011, DX ANTENNA CO., LTD., one of the subsidiaries, granted stock options. As DX ANTENNA CO., LTD., was a non-public company, the fair unit value of the stock options was measured at their intrinsic value.

The total intrinsic value of the stock options granted on February 13, 2010, for the year ended March 31, 2013, was ¥68 million ($723 thousand). The total intrinsic value of the stock options granted on May 27, 2011, for the year ended March 31, 2013, was ¥12 million ($128 thousand).

Estimated Method of Number of Vested Options

(The Company)

Estimated number of vested options of the Company is determined based on the historical data.

(DX ANTENNA CO., LTD.)

Estimated number of vested options of DX ANTENNA CO., LTD., is determined based on the actual cancellation data because the number of options canceled in the future cannot be reasonably estimated.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March, 31 2013 and 2012, principally consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2013	2012	***2013***
Promoting fee	**¥ 991**	¥1,961	***$10,543***
Royalty on patents	**8,916**	9,037	***94,851***
Depreciation	**1,565**	1,986	***15,649***
Amortization of goodwill	**9**	21	***96***
Provision for accrued pension and severance costs	**359**	467	***3,819***

12. R&D COSTS

R&D costs charged to income were ¥9,383 million ($99,819 thousand) and ¥10,531 million for the years ended March 31, 2013 and 2012, respectively.

13. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Obligations under finance leases were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2013	2012	***2013***
Due within 1 year	**¥ 163**	¥ 225	***$ 1,734***
Due after 1 year	**147**	281	***1,564***
Total	**¥ 310**	¥ 506	***$ 3,298***

The minimum rental commitments under noncancelable operating leases at March 31, 2013 and 2012, are as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2013	2012	***2013***
Due within 1 year	**¥ 859**	¥1,018	***$ 9,138***
Due after 1 year	**2,185**	2,072	***23,245***
Total	**¥3,044**	¥3,090	***$32,383***

Pro forma information for leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheets. However, ASBJ Statement No. 13 permits leases that do not transfer ownership of the leased property to the lessee and whose lease inception was before March 31, 2008, to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Company applied the ASBJ Statement No. 13 effective April 1, 2008 and continued to account for such leases as operating lease transactions.

Pro forma information for leased property whose lease inception is before March 31, 2013, was as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2013	2012	**2013**
Acquisition cost	**¥ 98**	¥ 375	**$ 1,043**
Accumulated depreciation	**97**	365	**1,032**
Net leased property	**¥ 1**	¥ 10	**$ 11**

Obligations under finance leases:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2013	2012	**2013**
Due within 1 year	**¥ 1**	¥ 10	**$ 11**
Due after 1 year		1	
Total	**¥ 1**	¥ 11	**$ 11**

Depreciation expense, interest expense and other information under finance leases:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2013	2012	**2013**
Depreciation expense	**¥ 10**	¥ 57	**$ 106**
Interest expense	**0**	1	**0**
Total	**¥ 10**	¥ 58	**$ 106**
Lease payments	**¥ 10**	¥ 61	**$ 106**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed using the straight line method and the interest method, respectively.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.0% and 40.7% for the years ended March 31, 2013 and 2012.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, at March 31, 2013 and 2012, were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2013	2012	**2013**
Deferred tax assets:			
Liability for retirement benefits	**¥ 718**	¥ 752	**$ 7,638**
Accounts payable – other	**650**	1,247	**6,915**
Allowance for doubtful accounts	**3,792**	3,381	**40,340**
Accrued employees' bonuses	**396**	426	**4,213**
Impairment loss on investment securities	**399**	253	**4,245**
Inventories	**807**	652	**8,585**
Intercompany profit	**6**	20	**64**
Tax loss carryforwards	**9,659**	9,869	**102,755**
Other	**2,464**	823	**26,213**
Less valuation allowance	**(15,885)**	(10,176)	**(168,989)**
Total	**¥3,006**	¥7,247	**$31,979**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 243**	¥ 25	**$ 2,585**
Prepaid pension cost	**310**	316	**3,298**
Other	**299**	335	**3,181**
Total	**¥ 852**	¥ 676	**$ 9,064**
Net deferred tax assets	**¥2,154**	¥6,571	**$22,915**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the years ended March 31, 2013 and 2012, was not presented because of the net loss for the period.

On June 28, 2005 and June 16, 2008, the Company received notices of supplementary tax assessment for additional tax on the income of its subsidiary in Hong Kong under the tax haven rules for the three financial years ended March 31, 2002 to March 31, 2004 and the three financial years ended March 31, 2005 to March 31, 2007, from the Osaka Regional Taxation Bureau, as the subsidiary in Hong Kong did not satisfy the conditions for exemption from the application of tax haven rules. The Company has contested the validity in court as the Company disagreed with this assessment and considered it to be unacceptable. Therefore, the Company asked the Osaka National Tax Tribunal to examine the case on July 25, 2006 and again on August 6, 2008. Thereafter, the Company received written verdicts on this case on July 3, 2008 and July 23, 2009, indicating that its assertions had been dismissed. The Company brought a case for the cancellation of the notice to the Osaka District Court on November 16, 2006 and again on November 14, 2008 and these cases had been consolidated and held since November 26, 2008. The court dismissed the claims of the Company on June 24, 2011. Thereafter, as the Company did not accept the Osaka District Court's judgment, the Company filed a notice of appeal at the Osaka High Court on July 7, 2011. With respect to this action, on July 20, 2012, the court dismissed the claims of the Company. The Company, unable to accept the judgment, filed appeal and an application for the acceptance of the appeal with the Supreme Court on August 1, 2012.

The additional tax assessments were ¥16,651 million (¥19,184 million, including incidental taxes) and ¥15,038 million (¥16,838 million, including incidental taxes), including corporate income taxes, inhabitant taxes and enterprise taxes. They were recognized as "INCOME TAXES – Prior years" for the fiscal years ended March 31, 2007 and 2009 in accordance with the "Treatment of Accounting and Presentation of Taxes for the Purpose of Audits" (JICPA Audit and Assurance Practice Committee Report No. 63).

On June 29, 2011, the Company received notices of supplementary tax assessment for additional tax on the income of its subsidiary in Hong Kong under the tax haven rules for the three financial years ended March 31, 2008 to March 31, 2010 from the Osaka Regional Taxation Bureau, as the subsidiary in Hong Kong did not satisfy the conditions for exemption from the application of tax haven rules. The Company has contested the validity in court as the Company disagreed with this assessment and considered it to be unacceptable. Therefore, the Company asked the Osaka National Tax Tribunal to examine the case on August 25, 2011. On July 18, 2012, the Company received written verdicts on this case indicating that its assertions had been dismissed. The Company, unable to accept the verdicts, filed an appeal to have the action canceled with the Tokyo District Court on January 17, 2013.

The additional tax assessments were ¥825 million (¥935 million including incidental taxes), including corporate income taxes, inhabitant taxes and enterprise taxes. They were recognized as "INCOME TAXES – Prior years" for the year ended March 31, 2012.

The cases that were brought to the Osaka District Court by the Company on June 28, 2005 and June 16, 2008, were dismissed on June 24, 2011. Accordingly, the Company has been accounting at an amount that was estimated based on an assumption that the Company had been applying the tax haven rules for expenses from the fiscal year ended March 31, 2011, which is the fiscal year following the year when the assessment was applied, as an expense from the fiscal year ended March 31, 2012.

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

1. The Situation of Financial Instruments

(1) Group Policy for Financial Instruments

The Group uses bank loans for fund-raising and short-term deposits to fund operations. The Group does not use derivatives. In principle, derivatives are not permitted.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk.

To avoid such a risk, the Group sets up sales management regulations and determines trading conditions and credit limit by each customer.

The Company has many receivables and payables based on foreign currencies due to its overseas operations. Basically, the Group does not make forward foreign currency contracts because of its U.S. dollar basis trading.

Investment securities, mainly equity instruments, are exposed to the market risk. Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis. This risk should be reported to investment committee internally.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Loans, both short-term and long-term, are financed for sales operations. Basically, derivatives are not permitted. Although the variable interest rates of loans are exposed to market risks, those risks may be mitigated by using interest rate swap derivatives. This derivative transaction should be executed and managed by corporate regulations. To decrease credit risks, the Group enters into relationships with highly rated financial institutions only.

Trade credit and loans are exposed to liquidity risks. The Group manages these risks by having the associated companies make monthly financial plans.

2. Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, another rational valuation technique is used instead. The list below does not contain financial instruments for which fair values are difficult to determine.

(a) Fair value of financial instruments

	(Millions of yen)		
March 31, 2013	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	**¥ 50,238**	**¥ 50,238**	
Time deposits	**17,575**	**17,575**	
Receivables trade	**33,194**	**33,194**	
Investment securities	**1,652**	**1,652**	
Total	**¥102,659**	**¥102,659**	
Short-term bank loans (excluding finance lease obligation)	**¥ 12,982**	**¥ 12,982**	
Payables trade	**39,179**	**39,179**	
Payables other	**11,124**	**11,124**	
Long-term debt (excluding finance lease obligation)			
Total	**¥ 63,285**	**¥ 63,285**	
March 31, 2012			
Cash and cash equivalents	¥ 36,567	¥ 36,567	
Time deposits	36,079	36,079	
Receivables trade	32,296	32,296	
Investment securities	1,366	1,366	
Total	¥106,308	¥106,308	
Short-term bank loans (excluding finance lease obligation)	¥ 4,583	¥ 4,583	
Payables trade	29,623	29,623	
Payables other	11,158	11,158	
Long-term debt (excluding finance lease obligation)			
Total	¥ 45,364	¥ 45,364	

	(Thousands of U.S. dollars)		
March 31, 2013	*Carrying amount*	*Fair value*	*Unrealized gain/loss*
Cash and cash equivalents	***$ 534,447***	***$ 534,447***	
Time deposits	***186,968***	***186,968***	
Receivables trade	***353,128***	***353,128***	
Investment securities	***17,574***	***17,574***	
Total	***$1,092,117***	***$1,092,117***	
Short-term bank loans (excluding finance lease obligation)	***$ 138,106***	***$ 138,106***	
Payables trade	***416,798***	***416,798***	
Payables other	***118,341***	***118,341***	
Total	***$ 673,245***	***$ 673,245***	

Assets

Cash and cash equivalents, time deposits and receivables trade

The carrying values of cash and cash equivalents, time deposits and receivables trade approximate fair values because of their short maturities.

Investment securities

The investment securities are measured at the quoted market prices on the stock exchange for the equity instruments.

Liabilities

Short-term bank loans, payables trade and payables other

The carrying value of short-term bank loans and payables approximate fair value because of their short maturities.

Long-term debt

The carrying value of long-term debt approximates the fair value because loans based on floating rates reflect market interest rates over a short period of time, as long as the credit standing of the Group does not change significantly from the time of borrowing.

Derivatives

Not applicable because derivatives are not permitted.

(b) Financial instruments whose fair values cannot be reliably determined

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2013	2012	***2013***
Investments in equity instruments and investment in limited partnerships that do not have a quoted market price in an active market	**¥1,248**	¥ 964	***$13,277***

(c) Maturity analysis for financial assets and securities with contractual maturities

	(Millions of yen)			
March 31, 2013	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**¥ 50,238**			
Time deposits	**17,575**			
Receivables trade	**33,194**			
Total	**¥101,007**			
March 31, 2012				
Cash and cash equivalents	¥ 36,567			
Time deposits	36,079			
Receivables trade	32,296			
Total	¥104,942			

	(Thousands of U.S. dollars)			
March 31, 2013	*Due in 1 year or less*	*Due after 1 year through 5 years*	*Due after 5 years through 10 years*	*Due after 10 years*
Cash and cash equivalents	***$ 534,447***			
Time deposits	***186,968***			
Receivables trade	***353,128***			
Total	***$1,074,543***			

Please see Note 13 for obligations under finance leases.

16. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2013	2012	***2013***
Unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	**¥ 201**	¥(1,388)	***$ 2,138***
Reclassification adjustments to profit or loss	**413**	445	***4,394***
Amount before income tax effect	**614**	(943)	***6,532***
Income tax effect	**(218)**	387	***(2,319)***
Total	**¥ 396**	¥ (556)	***$ 4,213***
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥7,190**	¥(1,418)	***$76,489***
Total	**¥7,190**	¥(1,418)	***$76,489***
Share of other comprehensive income (loss) in associates:			
Loss arising during the year	**¥ 33**	¥ (13)	***$351***
Total	**¥ 33**	¥ (13)	***$351***
Total other comprehensive loss	**¥7,619**	¥(1,987)	***$81,053***

17. NET INCOME PER SHARE

Information on basic net loss per share ("EPS") for the years ended March 31, 2013 and 2012, were as follows:

	Millions of yen	Thousands of shares	Yen	Dollars
	Net Loss	Weighted-Average Shares	EPS	
For the year ended March 31, 2013:				
Basic EPS				
Net loss available to common shareholders	**¥(8,543)**	**34,119**	**¥(250.38)**	**$(2.66)**
For the year ended March 31, 2012:				
Basic EPS				
Net loss available to common shareholders	¥(4,629)	34,114	¥(135.69)	

Diluted net income per share in 2013 and 2012 are not disclosed due to the loss positions.

18. SUBSEQUENT EVENT

(1) Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2013, was approved at meeting of the Company's Board of Directors held on May 20, 2013:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year-end cash dividends, ¥35.00 ($0.37) per share	**¥1,194**	***$12,702***

(2) Acquisition of Ink-jet Patents, as well as Related Technologies and Assets

The Company, pursuant to the resolution adopted at the meeting of its Board of Directors held on February 26, 2013, entered into an agreement with Lexmark International, Inc. (head office: the United States, NYSE: LXK; hereinafter, "Lexmark") on April 2, 2013, to acquire its ink-jet patents, as well as related technologies and assets (hereinafter, the "Transaction").

(a) Reasons for the acquisition

As a contract manufacturer, the Company has supplied ink-jet printer ("IJP") hardware to Lexmark since July 1997. The Company has worked closely with Lexmark for around 16 years in developing printer hardware and has established a strong relationship with Lexmark.

The acquisition of the patents for printer-related products, including ink cartridges that have long been marketed by Lexmark globally (specifically, in North America), as well as product developing functions and technologies and manufacturing functions and technologies, enables the Company to start and grow its own ink-jet business, including manufacture and sale of more profitable ink cartridges, not as a contract manufacturer of printer products any longer, with the strong inkjet business platform that Lexmark has established for years. As a result, the Company believes the Group will be able to expand its business going forward sustainably.

(b) Name of the counterparty

Lexmark International, Inc.

(c) Assets, etc., to be acquired

(1) Details of the assets, etc.

(i) Ink-jet patents
(ii) IJP-related product R&D resources in the United States
(iii) All of outstanding shares in an IJP-related product manufacturing subsidiary of Lexmark in the Philippines
(iv) Other related technologies and assets

(2) Amount of the assets, etc., to be acquired

The acquisition price in the Transaction is ¥9,947 million (US $100 million). The items and amounts of the individual assets, etc., are currently under review.

(d) Legal form of business combinations

Acquisition of patents, development facilities and manufacturing subsidiary's shares

(e) Schedule:

(1) Conclusion of agreements	April 2, 2013
(2) Acquisition date	April 30, 2013

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group is engaged in the manufacture and sale of consumer electronics products. The reportable segments of the Group are composed of four segments: "Japan," "North America," "Asia" and "Europe," which consist of geographic segments based on the manufacturing and sales operations.

Those areas, Japan, North America, Asia and Europe, are mainly covered by the Company and DX ANTENNA CO., LTD., FUNAI CORPORATION, INC. and P&F USA, INC., FUNAI ELECTRIC (H.K.) LTD. and FUNAI ELECTRIC EUROPE Sp.zo.o., respectively. Each local entity sets up and carries out its own strategy as a single business unit.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Intersegment sales are based on arm's-length price.

(3) Information about Sales, Profit (Loss), Assets and Other Items:

	(Millions of yen)						
	2013						
	Japan	North America	Asia	Europe	Total	Reconciliations (Note.1)	Consolidated
Sales:							
Sales to external customers	**¥51,678**	**¥136,165**	**¥812**	**¥3,353**	**¥192,008**	**¥**	**¥192,008**
Intersegment sales or transfers	**120,863**	**0**	**133,492**	**0**	**254,355**	**(254,355)**	
Total	**¥172,541**	**¥136,165**	**¥134,304**	**¥3,353**	**¥446,363**	**¥(254,355)**	**¥192,008**
Segment (loss) profit (Note.2)	**¥(4,295)**	**¥ 1,529**	**¥ (491)**	**¥ (390)**	**¥(3,647)**	**¥ (1,626)**	**¥ (5,273)**
Segment assets	**¥108,875**	**¥ 55,362**	**¥ 66,697**	**¥4,382**	**¥235,316**	**¥ (40,792)**	**¥194,524**
Other							
Depreciation	**¥ 1,797**	**¥ 87**	**¥ 3,320**	**¥ 61**	**¥ 5,265**	**¥**	**¥ 5,265**
Amortization of goodwill	**9**				**9**		**9**
Investment in equity method affiliate	**71**		**222**		**293**		**293**
Increase in property, plant and equipment and intangible assets	**1,318**	**38**	**4,373**	**5**	**5,734**	**(5)**	**5,729**
Impairment losses of assets	**1,614**				**1,614**		**1,614**

	(Millions of yen)						
	2012						
	Japan	North America	Asia	Europe	Total	Reconciliations (Note.1)	Consolidated
Sales:							
Sales to external customers	¥111,871	¥124,127	¥4,717	¥5,433	¥246,148	¥	¥246,148
Intersegment sales or transfers	112,132	0	160,758	5	272,895	(272,895)	
Total	¥224,003	¥124,127	¥165,475	¥5,438	¥519,043	¥(272,895)	¥246,148
Segment profit (loss) (Note.2)	¥ 4,690	¥ (1,344)	¥426	¥(1,530)	¥2,242	¥ (1,780)	¥462
Segment assets	¥111,957	¥ 35,895	¥ 77,704	¥4,286	¥229,842	¥ (53,235)	¥176,607
Other							
Depreciation	¥ 2,421	¥ 109	¥ 3,914	¥ 106	¥ 6,550	¥ (2)	¥ 6,548
Amortization of goodwill	21				21		21
Investment in equity method affiliate			231		231		231
Increase in property, plant and equipment and intangible assets	3,523	23	3,171	20	6,737	(128)	6,609
Impairment losses of assets	397				397		397

	(Thousands of U.S. dollars)						
	2013						
	Japan	*North America*	*Asia*	*Europe*	*Total*	*Reconciliations (Note.1)*	*Consolidated*
Sales:							
Sales to external customers	*$ 549,766*	*$1,448,564*	*$ 8,638*	*$35,670*	*$2,042,638*	*$ -*	*$2,042,638*
Intersegment sales or transfers	*1,285,777*	*0*	*1,420,128*	*0*	*2,705,905*	*(2,705,905)*	*-*
Total	*$1,835,543*	*$1,448,564*	*$1,428,766*	*$35,670*	*$4,748,543*	*$(2,705,905)*	*$2,042,638*
Segment (loss) profit (Note.2)	*$(45,692)*	*$ 16,266*	*$ (5,223)*	*$ (4,149)*	*$ (38,798)*	*$ (17,298)*	*$ (56,096)*
Segment assets	*$1,158,245*	*$ 588,957*	*$ 709,543*	*$46,617*	*$2,503,362*	*$ (433,958)*	*$2,069,404*
Other							
Depreciation	*$ 19,117*	*$ 926*	*$ 35,319*	*$ 649*	*$ 56,011*	*$ -*	*$ 56,011*
Amortization of goodwill	*96*				*96*		*96*
Investment in equity method affiliate	*755*		*2,362*		*3,117*		*3,117*
Increase in property, plant and equipment and intangible assets	*14,021*	*405*	*46,521*	*53*	*61,000*	*(53)*	*60,947*
Impairment losses of assets	*17,170*			*-*	*17,170*		*17,170*

Note.1 Components of reconciliation are as follows:

	(Millions of yen) March 31, 2013	(Millions of yen) March 31, 2012	(Thousands of U.S. dollars) March 31, 2013
Segment (loss) profit			
Elimination of intersegment transactions	¥ (1)	¥ 10	$ (11)
Company-wide expenses(*1)	(886)	(948)	(9,425)
Adjustment of inventory	(739)	(842)	(7,862)
Total	¥(1,626)	¥(1,780)	$(17,298)

	(Millions of yen) March 31, 2013	(Millions of yen) March 31, 2012	(Thousands of U.S. dollars) March 31, 2013
Segment assets			
Company-wide assets	¥ 37,615	¥ 27,148	$ 400,160
Adjustment of inventory	(1,698)	(958)	(18,064)
Elimination of intersegment assets and liabilities, etc.	(76,709)	(79,425)	(816,053)
Total	¥(40,792)	¥(53,235)	$(433,957)

(*1) Company-wide expenses are mainly general and administrative expenses not attributable to any reportable segments.
(*2) Company-wide asset mainly consists of cash surplus (cash and deposits) and long-term-investments (investment securities, etc.) that are not attributable to any reportable segments.

Note.2 Segment profit (loss) is adjusted to operating income in consolidated statements of operations.

(4) Related Information

1. Information about product or service

	Audiovisual equipment	Information equipment	Other	Total
(Millions of yen) 2013				
Sales to external customers	¥155,686	¥11,966	¥24,356	¥192,008
(Millions of yen) 2012				
Sales to external customers	¥183,507	¥30,014	¥32,627	¥246,148
(Thousands of U.S. dollars) 2013				
Sales to external customers	$1,656,234	$127,298	$259,106	$2,042,638

2. Information about geographical areas

a. Sales

	Japan	North America USA	North America Other	Asia	Europe	Other	Total
(Millions of yen) 2013	¥35,865	¥127,327	¥5,982	¥3,542	¥6,201	¥13,091	¥192,008
(Millions of yen) 2012	¥81,291	¥127,989	¥6,123	¥9,290	¥12,592	¥8,863	¥246,148
(Thousands of U.S. dollars) 2013	$381,542	$1,354,543	$63,638	$37,681	$65,968	$139,266	$2,042,638

Note: Sales are classified in countries or regions based on location of customers.

b. Property, plant and equipment

(Millions of yen)						
2013						
		Asia				
Japan	North America	China	Thailand	Other	Europe	Total
¥9,694	**¥96**	**¥1,966**	**¥2,440**	**¥1,032**	**¥1,448**	**¥16,676**

(Millions of yen)					
2012					
		Asia			
Japan	North America	China	Other	Europe	Total
¥9,473	¥106	¥2,570	¥1,203	¥1,433	¥14,785

(Thousands of U.S. dollars)						
2013						
		Asia				
Japan	*North America*	*China*	*Thailand*	*Other*	*Europe*	*Total*
$103,128	***$1,021***	***$20,915***	***$25,957***	***$10,979***	***$15,404***	***$177,404***

3. Information about major customer

	Sales			
	(Millions of yen)		*(Thousands of U.S. dollars)*	
Name of Customer	**2013**	2012	***2013***	Related Segment Name
WAL-MART STORES, INC.	**¥93,918**	¥82,791	***$999,128***	North America

(5) Goodwill by Reportable Segment

	(Millions of yen)					
	2013					
	Japan	North America	Asia	Europe	Elimination	Total
Amortization of goodwill	**¥ 9**					**¥ 9**
Goodwill at March 31, 2013	**4**					**4**

	(Millions of yen)					
	2012					
	Japan	North America	Asia	Europe	Elimination	Total
Amortization of goodwill	**¥21**					**¥21**
Goodwill at March 31, 2012	**14**					**14**

	(Thousands of U.S. dollars)					
	2013					
	Japan	*North America*	*Asia*	*Europe*	*Elimination*	*Total*
Amortization of goodwill	**$96**					**$96**
Goodwill at March 31, 2013	**42**					**42**

20. RELATED PARTY TRANSACTIONS

Transactions of the Company with officer for the year ended March 31, 2013, were as follows:

Type	Name	Voting rights held by the Company (or held by others)	Relationship	Transaction	Amount (Millions of yen)	*Amount (Thousands of U.S. dollars)*
Director	Tetsuro Funai	(Direct, 37.25%)	Sale of land and building	Sale of land and building	**¥380**	***$4,043***
				Gain on sale of land and building	**¥331**	***$3,521***
			Sale of shares	Sale of shares	**¥300**	***$3,191***

(Notes) Transaction terms and policies on the determination of transaction terms, etc.:

1. Selling prices of land and buildings are determined by reference to appraisal values by real estate appraisers.
2. Selling prices of shares, in case of a sale and purchase of unlisted shares, are determined upon mutual consultation.

21. ADDITIONAL INFORMATION

(Acquisition of a Company by Acquisition of Shares)

The Company, pursuant to the resolution adopted at the meeting of its Board of Directors held on January 24, 2013, determined on January 29, 2013, to acquire from Royal Philips Electronics (head office: the Netherlands, NYSE: PHG, AEX: PHIA; hereinafter, "Philips") all the shares of a company (the "New Company") assuming operations (the "Operation") of Philips' Lifestyle Entertainment business (see Note) and entered into a share purchase agreement on the same day (the "Transaction").

(Note) The Lifestyle Entertainment business involves the development and design, sale and (partial) manufacture of the following Philips-brand products:

Audio, video and multimedia products:	Home audio equipment, headphone, speaker, in-car audio, video-related products, portable audio, portable video player, home media player, etc.
Home communication products:	DECT cordless phone
Accessories products:	Batteries, cables/connectors, storages products, power solutions, portable chargers for cell phone, antennas, etc.

The Transaction does not include the acquisition of business related to general-purpose remote control equipment within the Lifestyle Entertainment business. In addition, as part of the Transaction, it has been agreed that businesses related to the development and design and manufacture of video-related products will be transferred to the New Company in 2017.

1. Reasons for acquiring the shares

In September 2008, the Company entered into a brand licensing agreement maintaining responsibility for the sourcing, distribution, marketing and sales activities of Philips consumer televisions in the United States and Canada. Following this, in July 2012, the Company entered into an agreement with Philips involving the sale in the United States, Canada and Mexico of products that Philips designed and developed through the Operation.

The Company has positioned the "strengthening and expanding existing businesses," "making forays into new markets" and "developing new businesses" as the three pillars of its growth strategy. To achieve this growth strategy, in addition to reinforcing its existing management resources, the Company has searched for growth opportunities through business alliances and merger and acquisition activities with other companies, such as those outlined above.

The Transaction to assume the Operation will enable the Group to expand the lineup of products that it handles and expand its sales region to include Asia, South America and other emerging markets, as well as advanced countries in Europe. The Company decided to acquire the shares in the New Company, based on the belief that the acquisition would foster sustained growth of the Group's business.

2. Name of the counterparty to the share acquisition

Royal Philips Electronics

3. Name of the New Company, etc.

(1) Name: Undecided (Note)
(2) Location: Undecided (Note)
(3) Name and position of representative: Undecided (Note)
(4) Capital: Undecided (Note)
(5) Business: Development and design, sale and (partial) manufacture of products in the Operation

Note: As the New Company is to be established in the first half of the fiscal year ending March 31, 2014, these decisions are not in place at present

4. Schedule for the acquisition of the shares

(1) Conclusion of share purchase agreement	January 29, 2013
(2) Expected date of share transfer	Within 2013 (expected) (Note)

(Note) The share transfer date is expected to be during 2013, after confirming items related to competition laws in various regions, including most probably the United States, Germany, Ukraine, Russia, Poland, Turkey and Taiwan.

5. Number of shares acquired, acquisition price and shareholding ratio after the acquisition

(1) Ratio of the number of shares held to the number of shares issued prior to transfer	- % (Ratio of voting rights: - %)	
(2) Ratio of the number of shares acquired to the number of shares issued	100.0%	
(3) Acquisition price	Shares of the New Company's stock Advisory fees, etc. (approximate amount) Total (approximate amount)	¥17,250 million (Notes 1 and 2) ¥830 million (Notes 1 and 3) ¥18,080 million
(4) Ratio of the number of shares held to the number of shares issued after transfer	100.0% (Ratio of voting rights: 100.0%)	

(Notes) 1.These calculations assume an exchange rate of ¥115 to the euro.

2.The acquisition price of the New Company's shares is expected to be as indicated above. However, this figure is expected to be adjusted based on the Operation's cash and deposits, interest-bearing liabilities, tangible fixed assets and working capital as of the share transfer date.

3.Advisory fees, etc., are approximations. This total includes amounts for the payment of advisory fees for the services of financial advisors, legal advisors, accounting advisors and tax advisors, as well as other costs related to the acquisition of the New Company's shares.

6. Method of procuring funds

Costs for the Transaction are all to be funded through resources on hand.

Independent Auditors' Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Funai Electric Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As described in the "Additional Information" (Acquisition of a Company by Acquisition of Shares), the Company determined on January 29, 2013, to acquire from Royal Philips Electronics ("Philips") all the shares of a company assuming operations of Philips' Lifestyle Entertainment business during the fiscal year ending March 31, 2014, and entered into a share purchase agreement on the same day.

Our opinion is not qualified in respect of this matter.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 17, 2013

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

Outline

Name	FUNAI ELECTRIC CO., LTD.
Established	August 1961
Head office	7-7-1 Nakagaito, Daito, Osaka 574-0013, Japan
Phone	+81-72-870-4303
Fax	+81-72-871-1112
URL	http://www.funaiworld.com/
Capital	¥31,307 million (March 31, 2013)
Net Sales	¥192,008 million (Year ended March 31, 2013)
Employees	1,032 (March 31, 2013 / Non-Consolidated)
Category	Electrical Equipment

Major Business Operations

Display Business
LCD TVs

Digital Media Business
DVD Players / Recorders
Blu-ray Disc Players / Recorders

Office Solutions Business
Printers

Others Business
Audio accessories
Antennas

History

Aug. 1961	FUNAI ELECTRIC CO., LTD. was established in Ikuno-ku, Osaka capitalized at ¥20 million.
Mar. 1964	CHUGOKU FUNAI ELECTRIC CO., LTD. was established as a production subsidiary in Fukayasu-gun (now Fukuyama), Hiroshima.
Sep. 1976	The head office was relocated to Daito, Osaka.
May 1991	FUNAI CORPORATION, INC. was established as a sales subsidiary in New Jersey, U.S.
Mar. 1992	HIGHSONIC INDUSTRIAL LTD. (now FUNAI ELECTRIC (H.K.), LTD.) was established in Hong Kong, China.
Jan. 1996	FUNAI SERVICE CO., LTD. was established as a service subsidiary in Higashi-Osaka, Osaka.
May 1996	HIGHSONIC INDUSTRIAL LTD. (now FUNAI ELECTRIC (H.K.), LTD.) established H.F.T. INDUSTRIAL LTD. by joint investment with a Japan company.
Feb. 1999	FUNAI ELECTRIC CO., LTD. was listed on the Second Section of Osaka Securities Exchange.
Mar. 2000	FUNAI ELECTRIC CO., LTD. was listed on the First Section of Tokyo Stock Exchange and the First Section of Osaka Securities Exchange.
Nov. 2001	Acquired the majority stocks of DX ANTENNA CO., LTD. in Japan.
July. 2003	FUNAI (THAILAND) CO., LTD. was established as a production subsidiary in Nakornratchasima, Kingdom of Thailand.
Dec. 2003	HUANG JIANG PLANT in Dongguan City, Guangdong Province started operations as a consignment production plant in China.
Apr. 2004	FUNAI ELECTRIC ADVANCED APPLIED TECHNOLOGY RESEARCH INSTITUTE INC. was established.
Oct. 2006	FUNAI ELECTRIC (POLSKA) Sp. z o.o. (now FUNAI ELECTRIC EUROPE Sp. z o.o.) was established as a production subsidiary in the city of Nowa Sol, Poland.
Oct. 2007	FUNAI SERVICE CORPORATION was established as a service subsidiary in Ohio, U.S.
Jun. 2008	P&F USA, Inc. was established as a sales subsidiary in Georgia, U.S., for PHILIPS brand consumer TVs. Tetsuro Funai, President and CEO, assumed the post of Chairman. Tomonori Hayashi, Senior Executive Officer, assumed the post of President and CEO.
Apr. 2009	P&F MEXICANA, S.A. DE C.V. was established as a sales subsidiary in Mexico.
Feb. 2012	Funai India Private Limited was established as a sales subsidiary in Mumbai, India.
Jun. 2012	Zhong Shan Funai Electron Co. was established as a production subsidiary in Guangdong Province, China.
Apr. 2013	Acquired FUNAI ELECTRIC CEBU, INC. (the former Lexmark International (Philippines), Inc.) from Lexmark.

FUNAI

FUNAI ELECTRIC CO., LTD.

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