(Translation)

Dear Shareholders:

Information to be Disclosed on the Internet upon Giving Notice of the 61st Ordinary General Meeting of Shareholders

June 5, 2013

Funai Electric Co., Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes on Matters Forming the Basis of Presentation of Consolidated Financial Statements

1. Matters concerning the scope of consolidation

(1) Number of consolidated subsidiaries: 18

(2) Names of major consolidated subsidiaries:

FUNAI CORPORATION, INC., Funai Electric (HK) Ltd., and DX ANTENNA Co., Ltd.

Funai India Private Limited is included in the scope of consolidation as from the fiscal year under review as it has taken on increased importance. Zhong Shan Funai Electron Co., FUNAI CMET Optical Electronics Co., Ltd., FEP REAL ESTATE, INC., and HIGH DEFINITION COMMERCIAL SOLUTIONS, subsidiaries incorporated during the fiscal year under review, are included in the scope of consolidation.

(3) Name of major non-consolidated subsidiary:

FGS Co., Ltd.

(Reason for exclusion from consolidation)
The non-consolidated subsidiary is a small company and its aggregate amount of total assets, net sales, net income (based on the Company's equity interest), and retained earnings (based on the Company's equity interest) are not material to the consolidated financial statements.

2. Matters concerning the application of equity method

(1) Number of non-consolidated subsidiaries to which the equity method is applicable: 1

(2) Name of the non-consolidated subsidiary to which the equity method is applicable:

Highsonic Industrial Ltd.

(3) Number of affiliates to which the equity method is applicable: 1

(4) Name of the affiliate to which the equity method is applicable:

CMET FUNAI Optical Electronics Co., Ltd.

CMET FUNAI Optical Electronics Co., Ltd., an affiliate incorporated during the fiscal year under review, is included in the scope of the equity method.

(5) Name of the major non-consolidated subsidiary and affiliates to which the equity method is not applicable:

Non-consolidated subsidiary:	FGS Co., Ltd.
Affiliate:	Digitec Industrial Ltd.

(Reason for exclusion from the equity method)
The non-consolidated subsidiary and affiliate have no material impact on net income (based on the Company's equity interest) and retained earnings (based on the Company's equity interest) and generally, they are not material.

(6) As the fiscal year ends of Highsonic Industrial Ltd., a non-consolidated subsidiary to which the equity method is applicable, and CMET FUNAI Optical Electronics Co., Ltd., an affiliate to which the equity method is applicable, differ from the consolidated fiscal year end, their financial statements compiled for their respective fiscal years are used.

(7) Fiscal years of consolidated subsidiaries

The consolidated subsidiaries whose fiscal year ends differ from the consolidated fiscal year end are as follows:

Name	Fiscal year end
DX ANTENNA Co., Ltd.	February 28
P&F MEXICANA, S.A. DE C.V.	December 31
Zhong Yue Funai Electron Co.	December 31
Zhong Shan Funai Electron Co.	December 31
FUNAI CMET Optical Electronics Co., Ltd.	December 31

For DX ANTENNA Co., Ltd. and P&F MEXICANA, S.A. DE C.V. listed above, their financial statements compiled as of their respective fiscal year ends are used to tabulate consolidated results. However, significant transactions that occur between that time and the consolidated fiscal year end are reflected in the consolidated financial statements as so required.

For Zhong Yue Funai Electron Co., Zhong Shan Funai Electron Co., and FUNAI CMET Optical Electronics Co., Ltd., their financial statements compiled based on the provisional settlement of accounts made as of its group's consolidated fiscal year end are used to tabulate consolidated results.

3. Matters concerning accounting policies

(1) Valuation basis and methods for major assets

(i) Securities:

Available-for-sale securities:

Marketable securities:

Stated at fair value on the balance sheet date of the fiscal year (Unrealized gain or loss and net of applicable taxes are reported in a separate component of equity. Costs of securities sold are determined by the moving-average method.)

Non-marketable securities:

Stated at cost determined by the moving-average method

(ii) Inventories:

As to Funai Electric Co., Ltd. (the "Company") and its Japanese consolidated subsidiaries, merchandise and finished goods and work-in-process are stated principally at cost-under-the-average method (book value is written down to net realizable value if not profitable). Raw materials are stated principally at cost by the first-in, first-out method (book value is written down to net realizable value if not profitable).

As to the overseas consolidated subsidiaries, finished goods, work-in-process, and raw materials are stated principally at the lower of cost or market determined by the first-in, first-out method.

(2) Method of depreciation of major fixed assets:

(i) Tangible fixed assets (excluding lease assets):

The declining-balance method is adopted by the Company and its Japanese consolidated subsidiaries (however, with regard to the buildings (excluding appurtenances thereto) acquired on or after April 1, 1998, the straight-line method has been adopted). The straight-line method is adopted by the overseas consolidated subsidiaries.

The main useful lives are as follows:

Buildings and structures:	3–50 years
Machinery, equipment, and motor vehicles:	3–10 years
Tools, furniture, and fixtures:	1–20 years

(ii) Intangible assets (excluding lease assets):

Stated by the straight-line method by the Company and its consolidated subsidiaries. However, depreciation of goodwill is made equally for five years; depreciation of patent rights is made by the straight-line method based on the estimated economically usable period; and depreciation of software for internal use is made by the straight-line method based on the internal usable years (five years).

(iii) Lease assets:

Lease assets related to finance lease transactions that do not transfer ownership are depreciated by the straight-line method based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

Any finance lease transaction that does not transfer ownership, which became effective prior to the fiscal year during which the “Accounting Standard for Lease Transactions” (Accounting Standards Board of Japan (ASBJ) Statement No. 13) first became applicable, is treated similarly to the manner in which ordinary lease transactions are treated.

(3) Standards for providing important allowances:

(i) Allowance for doubtful receivables:

To meet losses from loan default, the Company sets aside an estimated uncollectible amount by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of possible non-performing credits and other specific claims.

(ii) Accrued bonuses:

To meet the payment of bonuses to employees, some consolidated subsidiaries set aside the portion for each fiscal year of an estimated amount of bonuses to be paid in the future.

(iii) Reserve for products warranty:

To meet expenses of after-sales services with regard to the products sold, the Company sets aside an estimated amount based on the past sales record.

(iv) Liabilities for retirement benefits:

To meet the payment of retirement benefits to employees, the Company provides an amount based on estimated retirement benefit obligations and plan assets as of the end of the fiscal year.

The total transitional obligation, determined as of April 1, 2000, was charged to income when first adopted, except that of certain subsidiaries, which is amortized by the straight-line method over 15 years.

Prior service cost is amortized by the straight-line method over a period within the average remaining years of service of the employee (10 years).

Actuarial gains or losses are amortized by the straight-line method over a period within the average remaining years of service of the employee (10 years) starting from the following period.

(v) Liabilities for directors' retirement benefits:

To provide for the payment of retirement gratuities to officers, an amount payable at the end of the fiscal year under the Company's internal rules is reserved.

(4) Other significant accounting policies forming the basis of presentation of consolidated financial statements:

(i) Standards for recognizing of revenue and costs of completed construction work:

Construction work for which the outcome is deemed certain during the course of activity by the end of the fiscal year:

By the percentage-of-completion method (The percentage of completion at the end of the fiscal year shall be estimated by the method of comparison of incurred cost to date with estimated total contract costs.)

Other construction work:

By the completed-contract method

(ii) Method and period of amortization of goodwill:

Goodwill is amortized by the straight-line method over a period of five years, except for insignificant goodwill.

(iii) Accounting for consumption taxes, etc.:

By the tax-exclusive method

Note on Change in the Accounting Policy

(Change in the method of depreciation)

In accordance with the revisions to the Corporate Tax Code, as 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.

Notes to Consolidated Balance Sheet

1. Accumulated depreciation of assets

Accumulated depreciation of tangible fixed assets: ¥34,533 million

2. Accumulated impairment loss on assets

Accumulated depreciation of assets includes accumulated impairment loss on assets.

3. In accordance with the Act on Land Revaluation (Act No. 34, promulgated on March 31, 1998) of Japan, one of the consolidated subsidiaries revaluated its land used for business. The applicable taxes of the revaluation difference were ¥226 million as revalued deferred tax liabilities. Also, the revaluation difference is eliminated in consolidation, and so it is not presented in equity.

Notes to Consolidated Statement of Operations

1. Impairment losses

During the fiscal year under review, the Funai Group (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 fiscal year under review, 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. 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.

2. Income taxes - prior years

A consolidated subsidiary, FUNAI EUROPE GmbH, is under investigation by the German tax authorities with regard to transfer pricing taxation on transactions with the Company and FUNAI ELECTRIC EUROPE Sp.z o.o., which is also a consolidated subsidiary. During the fiscal year under review, the Funai Electric Group posted additional income tax expense as "Income taxes - prior years" based on the belief that a request for correction by the German tax authorities was increasingly likely under their transfer pricing taxation scheme.

Notes to Consolidated Statement of Changes in Equity

1. Matters concerning the classes and total number of issued shares, and the classes and number of shares of treasury stocks:

(thousand shares)

	Number of shares as of April 1, 2012	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2013
Issued shares				
Shares of common stock	36,130	-	-	36,130
Total	36,130	-	-	36,130
Shares of treasury stock				
Shares of common stock (Note)	2,011	0	-	2,011
Total	2,011	0	-	2,011

(Note) The number (0 thousand) of shares of common stock issued by the Company increased as a result of the purchase of less-than-one-unit shares.

2. Matters concerning dividends from surplus

(1) Amount of dividends paid:

Resolution	Class of shares	Total amount of dividends (million yen)	Amount of dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 21, 2012	Shares of common stock	1,705	50	March 31, 2012	June 14, 2012

(2) Dividends for which the record date falls during the fiscal year under review, but the effective date falls during the next fiscal year:

Resolution	Class of shares	Total amount of dividends (million yen)	Source of dividends	Amount of dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 20, 2013	Shares of common stock	1,194	Retained earnings	35	March 31, 2013	June 10, 2013

3. Matters concerning stock acquisition rights

Description of stock option	Class of shares to be issued or transferred upon exercise of stock option	Number of shares for stock option (share)
		As of March 31, 2013
The first stock option for the year ended March 31, 2005	Shares of common stock	359,900
The second stock option for the year ended March 31, 2005	Shares of common stock	25,600
The first stock option for the year ended March 31, 2006	Shares of common stock	346,400
The first stock option for the year ended March 31, 2009	Shares of common stock	330,400
Total		1,062,300

Notes to Financial Instruments

1. Matters relating to the status of financial instruments

The Group raises funds by bank loans and invests funds by short-term deposits. In principle, the Group has a policy of not using derivatives.

With regard to customers' credit risks relating to notes and accounts receivable-trade, the Group has stipulated its sales management rules to manage trading terms and credit lines by client.

Investment securities are exposed to market risks. With regard to such risks, the market values and the financial positions of the issuers are reviewed periodically and reported to the Investment and Loan Committee, an internal organ.

Notes and accounts payable-trade and accounts payable-other shall mostly become due and payable within one year.

Both short-term loans payable and long-term loans payable are funds procured in relation to business transactions. The Group has a policy of not using derivatives. However, as floating-rate loans are exposed to interest rate risk, the Group may utilize derivatives (interest rate swap agreements) as hedging instruments according to individual loan contracts. To trade in derivatives, such derivatives are executed and managed in accordance with the internal rules. To avert credit risk, the Group enters into transactions solely with financial institutions receiving high ratings.

2. Matters concerning fair values, etc. of financial instruments

The following chart shows amounts for items recorded in the consolidated balance sheet as of March 31, 2012, along with their fair values and the variances:

(million yen)

		Balance sheet amount*	Fair value*	Variance
(1)	Cash and deposits	67,813	67,813	-
(2)	Notes and accounts receivable-trade	33,193	33,193	-
(3)	Investment securities:			
	Available-for-sale securities	1,652	1,652	-
(4)	Notes and accounts payable-trade	(39,178)	(39,178)	-
(5)	Short-term bank loans	(12,981)	(12,981)	-
(6)	Accounts payable-other	(11,124)	(11,124)	-
(7)	Derivatives	-	-	-

* The items recognized as liabilities are shown in the parentheses.

(Notes) 1. Matters concerning the calculation method of the fair values of financial instruments, as well as securities and derivatives:

(1) Cash and deposits and (2) Notes and accounts receivable-trade:

The book value is used for these items, as the fair value is nearly equal to the book value as a result of their short settlement periods.

(3) Investment securities:

The fair value of stocks is determined by the prices of the stocks traded on an exchange.

(4) Notes and accounts payable-trade, (5) Short-term bank loans and (6) Accounts payable-other:

The book value is used for these items, as the fair value is nearly equal to the book value as a result of their short settlement periods.

(7) Derivatives:

The Group does not utilize any derivatives. Hence, this item is not applicable.

2. Unlisted shares (¥3,321 million on the balance sheet) have no market price and it is impossible to estimate their future cash flow. As determining the market value is recognized as being extremely difficult, they are not included in "(3) Investment in securities – Available-for-sale securities."

Notes on the Information per Share

Book-value per share:	¥3,520.11
Net loss per share:	¥250.38

Notes on Significant Subsequent Events

(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").

1. 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.

2. Name of the counterparty

Lexmark International, Inc.

3. 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.

4. Legal form of business combinations

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

5. Schedule:

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

Other Notes

Additional Information

(Tax system for dealing with tax havens)

1. On June 28, 2005 and June 16, 2008, we received a notice from the Osaka Regional Taxation Bureau regarding the implementation of a corrective action. This notice indicated a decision regarding our subsidiary in Hong Kong, suggesting that it did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens. The notification furthermore indicated that the Osaka Regional Taxation Bureau decided to incorporate the income generated by our subsidiary in Hong Kong into the income of the Company for the duration of three years, from April 1, 2001 to March 31, 2004, and from April 1, 2004 to March 31, 2007, for taxation purposes. Because the Company objected to this corrective action, we applied for assessments by the Osaka National Tax Tribunal on July 25, 2006, and again on August 6, 2008. Thereafter, we received written verdicts on this case on July 3, 2008, and again on July 23, 2009, indicating that our assertions had been dismissed. We filed an appeal to have the action cancelled with the Osaka District Court on November 16, 2006, and again on November 14, 2008, and hearings by consolidation of those actions had been held since November 26, 2008. The court dismissed the claims of the Company on June 24, 2011. Thereafter, as the Company was unable to accept the Osaka District Court's judgment, we 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 amounted to ¥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. We processed these amounts in the respective fiscal years ended March 31, 2007 and 2009, as "Income taxes-prior years," since the accounting procedures relating to additional tax amounts have been clarified through the amendment of the "Treatment of Accounting and Presentation of Taxes for the Purpose of Audits" (JICPA Audit and Assurance Practice Committee Report No. 63).

2. On June 29, 2011, we received a notice from the Osaka Regional Taxation Bureau suggesting that our subsidiary in Hong Kong did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens and indicating its decision to incorporate the income generated by the subsidiary into the income of the Company for the duration of three years from April 1, 2007 to March 31, 2010, for taxation purposes. 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, including corporate, residential, and business taxes, amounted to ¥825 million (¥935 million including incidental taxes). This amount has been processed as expenses under the category of "income taxes - prior years" in the fiscal year ended March 31, 2012.

3. 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 as from the fiscal year ended March 31, 2012.

(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") the entire 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 M&A 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 ¥17,250 million (Notes 1 and 2) Advisory fees, etc. (approximate amount) ¥830 million (Notes 1 and 3) Total (approximate amount) ¥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.

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(Note) All figures in the notes to consolidated financial statements are shown by disregarding any fractions of the relevant units. Book-value per share and net loss per share are shown by rounding off to two decimal places.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Notes on Matters Concerning Major Accounting Policies:

1. Valuation basis and methods for assets:

   (1) Valuation basis and methods for securities:

   Investment in subsidiaries and associated companies:

   At cost, determined by the moving-average method.

   Available-for-sale securities:

   Marketable securities

   Stated at fair value on the non-consolidated balance sheet date of the fiscal year (Unrealized gain or loss and net of applicable taxes reported in a separate component of equity. Selling costs are determined by the moving-average method).

   Non-marketable securities:

   Stated at cost, determined by the moving-average method.

   (2) Valuation basis and methods for inventories:

Finished goods:	Stated at cost, determined by the average method (Book value is written down to net realizable value if not profitable).
Raw materials:	Stated at cost, determined by the first-in, first-out method (Book value is written down to net realizable value if not profitable).

2. Method of depreciation of major fixed assets:

   (1) Tangible fixed assets (excluding lease assets):

   Stated by the declining balance method.

   However, with regard to the buildings (excluding appurtenances thereto) acquired on or after April 1, 1998, the straight-line method has been adopted.

   (2) Intangible assets (excluding lease assets):

   Stated by the straight-line method.

However, depreciation of goodwill is made equally for five years, depreciation of patent rights is made by the straight-line method based on the estimated economically usable period, and depreciation of software for internal use is made by the straight-line method based on the internal usable years (five years).

(3) Lease assets:

Lease assets related to finance lease transactions that do not transfer ownership are depreciated by the straight-line method, based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

Any finance lease transaction that does not transfer ownership, which became effective prior to the fiscal year during which the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13) first became applicable, is treated similarly to the manner in which ordinary lease transactions are treated.

3. Standards for providing allowances:

(1) Allowance for doubtful receivables:

To meet losses from loan default, the Company sets aside an estimated uncollectible amount by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of possible non-performing credits and other specific claims.

(2) Reserve for product warranty:

To meet expenses of after-sales services with regard to the products sold, the Company sets aside an estimated amount based on the past sales record.

(3) Liabilities for retirement benefits:

To meet the payment of retirement benefits to employees, the Company provides an amount based on estimated retirement benefit obligations and plan assets as of the non-consolidated balance sheet date.

Prior service cost is amortized by the straight-line method over a period within the average remaining years of service of the employee (10 years).

As plan assets exceeded retirement benefit obligations as of the end of the fiscal year under review, "other" in "investments and other assets" were recorded by inclusion of ¥868 million of prepaid pension cost.

Actuarial gains or losses are amortized by the straight-line method over a period within the average remaining years of service of the employee (10 years) starting from the following period.

(4) Liabilities for directors' retirement benefits:

To provide for the payment of retirement gratuities to officers, an amount payable at the end of the fiscal year under the Company's internal rules is reserved.

4. Other significant accounting policies forming the basis of presentation of non-consolidated financial statements:

Accounting for consumption taxes, etc.: By the tax-exclusive method

Note on Change in the Accounting Policy

(Change in the method of depreciation)

In accordance with the revisions to the Corporate Tax Code, as from the fiscal year under review, the Company 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 income, and income before income taxes is minor.

Notes to Non-Consolidated Balance Sheet:

1. Accumulated depreciation of assets:

Accumulated depreciation of tangible fixed assets:	¥10,770 million

2. Monetary debts due from and to subsidiaries and associated companies:

Short-term monetary debts due from associated companies:	¥26,430 million
Long-term monetary debts due from associated companies:	¥14,324 million
Short-term monetary liabilities due to associated companies:	¥19,623 million

Short-term money liabilities due to associated companies include ¥3,311 million of transfer pricing taxation adjustments due from the Company to its U.S. subsidiary as described in Note 2 to Non-Consolidated Statement of Income below.

Notes to Non-Consolidated Statement of Income:

1. Amount of transactions with subsidiaries and associated companies:

Trading transaction:

Sales:	¥126,024 million
Purchase:	¥138,402 million
Other operating expenses:	¥1,461 million
Transactions other than trading:	¥32,980 million

Transactions other than trading include ¥6,046 million of transfer pricing taxation adjustments due from the Company to its U.S. subsidiary as described in Note 2 to Non-Consolidated Statement of Income below.

2. Transfer pricing taxation adjustments:

With regard to prior confirmation concerning Japan-U.S. transfer pricing applied by the Company's consolidated group, the Japanese and U.S. taxation authorities have agreed provisionally. Transfer pricing taxation adjustments recorded as non-operating expenses are prior-year adjustments due from the Company to P&F USA, INC., pursuant to the provisional agreement.

3. Impairment losses:

During the fiscal year under review, the Company 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 fiscal year under review, 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. 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.

Notes to Non-Consolidated Statement of Changes in Equity

Matters concerning the number of shares of treasury stock:

(thousand shares)

Class of shares	Number of shares as of April 1, 2012	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2013
Common stock (Note)	2,011	0	-	2,011

(Note) The number (0 thousand) of shares of common stock issued by the Company increased as a result of the purchase of less-than-one-unit shares.

Notes on Accounting for Deferred Tax

Principal components of deferred tax assets and deferred tax liabilities:

	(million yen)
Deferred tax assets	
Liabilities for directors' retirement benefits	381
Accounts payable-other	579
Allowance for doubtful receivables	3,757
Accrued expenses (bonuses)	334
Impairment loss on investment securities	371
Impairment loss on investment in subsidiaries and associated companies	1,984
Transfer pricing taxation adjustments	1,055
Impairment loss on fixed assets	427
Tax loss carryforwards	5,862
Other	382
Subtotal	15,136
Valuation allowance	(13,412)
Total	1,723
Deferred tax liabilities	
Unrealized loss on available-for-sale securities	(211)
Prepaid pension cost	(309)
Reserve for advanced depreciation of fixed assets	(283)
Subtotal	(804)
Deferred tax assets, net	918

Notes on the Fixed Assets Used by Lease

Finance lease agreements that do not transfer ownership, which became effective on or before March 31, 2008, are treated similarly to the manner in which ordinary lease transactions are treated.

Amounts equivalent to the acquisition prices, accumulated depreciation, and balance at the end of the year:

(million yen)

	Amount equivalent to the acquisition costs	Amount equivalent to accumulated depreciation	Amount equivalent to balance at the end of the year
Tools, furniture, and fixtures	38	38	-
Total:	38	38	-

Notes on Transactions with Related Parties

1. Subsidiaries, etc.

(million yen)

Type	Name	Voting rights held by the Company (or held by others)	Relationship	Transaction	Amount	Account	Balance as of March 31, 2013
Subsidiary	DX ANTENNA Co., Ltd.	Direct, 91.40%	Sale of products of the Company	Sale of electronic products	4,494	Accounts receivable - trade	1,721
Subsidiary	Funai Electric (HK) Ltd.	Direct, 100%	Production of products of the Company	Purchase of electronic products	88,802	Accounts payable - trade	8,753
Subsidiary	FUNAI (THAILAND) CO., LTD.	Direct, 66.67% Indirect, 33.33%	Production of products of the Company	Purchase of electronic products	32,396	Accounts payable - trade	3,216
Subsidiary	Zhong Shan Funai Electron Co.	Indirect, 100.00%	Production of products of the Company	Purchase of electronic products	7,868	Accounts payable - trade	1,414
Subsidiary	FUNAI CORPORATION, INC.	Direct, 100%	Sale of products of the Company; interlocking directorate	Sale of electronic products	87,434	Accounts receivable - trade	9,392
				Transfer pricing taxation adjustments	-	Accrued expenses	3,006
Subsidiary	P&F USA, INC.	Direct, 100%	Sale of products of the Company	Sale of electronic products	18,586	Accounts receivable - trade	7,879
				Transfer pricing taxation adjustments	6,046	Accounts payable - other	702
Subsidiary	P&F MEXICANA, S.A. DE C.V.	Direct, 100.00% Indirect, 0.00%	Sale of products of the Company	Sale of electronic products	11,530	Accounts receivable - trade	2,375
				Loan of funds	1,229	Short-term loans receivable	1,524

Type	Name	Voting rights held by the Company (or held by others)	Relationship	Transaction	Amount	Account	Balance as of March 31, 2013
Subsidiary	FUNAI ELECTRIC EUROPE Sp. z o. o.	Direct, 100%	Sale of products of the Company	Sale of electronic products	2,158	Accounts receivable - trade	1,078
				Loan of funds	-	Long-term loans receivable	2,293
Subsidiary	FUNAI EUROPE GmbH	Direct, 100%	Sale of products of the Company; interlocking directorate	Loan of funds	862	Long-term loans receivable	10,431

(Note) Transaction terms and policies on the determination of transaction terms, etc.:
Like the terms of ordinary transactions, transaction terms are determined in consideration of market prices and other factors.

2. Officers and individual, principal shareholders, etc.

(million yen)

Type	Name	Voting rights held by the Company (or held by others)	Relationship	Transaction	Amount	Account	Balance as of March 31, 2013
Officer	Tetsuro Funai	(Direct, 37.25%)	Sale of land and building	Sale of land and building	380	-	-
				Gain on sale of land and building	331	-	-
			Sale of shares	Sale of shares	300	-	-

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

1. Selling prices of lands 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.

Note on the Information per Share

Book value per share: ¥2,616.22

Net income per share: ¥384.35

Note on Significant Subsequent Events

(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”).

1. 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.

2. Name of the counterparty

Lexmark International, Inc.

3. 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.

4. Legal form of business combinations

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

5. Schedule:

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

Other Notes

Additional Information

(Tax system for dealing with tax havens)

1. On June 28, 2005 and June 16, 2008, we received a notice from the Osaka Regional Taxation Bureau regarding the implementation of a corrective action. This notice indicated a decision regarding our subsidiary in Hong Kong, suggesting that it did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens. The notification furthermore indicated that the Osaka Regional Taxation Bureau decided to incorporate the income generated by our subsidiary in Hong Kong into the income of the Company for the duration of three years, from April 1, 2001 to March 31, 2004, and from April 1, 2004 to March 31, 2007, for taxation purposes. Because the Company objected to this corrective action, we applied for assessments by the Osaka National Tax Tribunal on July 25, 2006 and again on August 6, 2008. Thereafter, we received written verdicts on this case on July 3, 2008, and again on July 23, 2009, indicating that our assertions had been dismissed. We filed an appeal to have the action cancelled with the Osaka District Court on November 16, 2006, and again on November 14, 2008, and hearings by consolidation of those actions had been held since November 26, 2008. The court dismissed the claims of the Company on June 24, 2011. Thereafter, as the Company was unable to accept the Osaka District Court's judgment, we 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 amounted to ¥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. We processed these amounts in the respective fiscal years ended March 31, 2007 and 2009, as "Income taxes-prior years," since the accounting procedures relating to additional tax amounts have been clarified through the amendment of the "Treatment of Accounting and Presentation of Taxes for the Purpose of Audits" (JICPA Audit and Assurance Practice Committee Report No. 63).

2. On June 29, 2011, we received a notice from the Osaka Regional Taxation Bureau suggesting that our subsidiary in Hong Kong did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens and indicating its decision to incorporate the income generated by the subsidiary into the income of the Company for the duration of three years from April 1, 2007 to March 31, 2010, for taxation purposes. 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, including corporate, residential, and business taxes, amounted to ¥825 million (¥935 million including incidental taxes). This amount has been processed as expenses under the category of “income taxes - prior years” in the fiscal year ended March 31, 2012.

3. 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 as from the fiscal year ended March 31, 2012.

(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”) the entire 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 M&A 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 ¥17,250 million (Notes 1 and 2) Advisory fees, etc. (approximate amount) ¥830 million (Notes 1 and 3) Total (approximate amount) ¥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.

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(Note) All figures in the notes to non-consolidated financial statements are shown by disregarding any fractions of the relevant units. Book-value per share and net income per share are shown by rounding off to two decimal places.