

FY 2013 SECOND QUARTER IN CUMULATIVE FINANCIAL REPORT

〔 From April 1, 2013
To September 30, 2013 〕



FUNAI ELECTRIC CO., LTD.

Second Quarter (April-September) Consolidated Financial Summary
for the Period Ending March 2014

(Million yen)

	Previous Year Second Quarter 〔 From April 1, 2012 to September 30, 2012 〕		Current Year Second Quarter 〔 From April 1, 2013 to September 30, 2013 〕		Rate of increase or decrease
	Amount	%	Amount	%	
Net Sales	89,050	100.0	120,570	100.0	35.4
Operating Income (Loss)	(1,451)	(1.6)	567	0.5	—
Ordinary Income (Loss)	(3,064)	(3.4)	2,163	1.8	—
Net Income (Loss) before Taxes and Other Adjustments	(3,234)	(3.6)	937	0.8	—
Net Income (Loss) after Tax	(2,991)	(3.4)	612	0.5	—
Net Income (Loss) per Share	(87.68)		17.96		

Notes: Includes 20 consolidated subsidiaries, 1 non-consolidated subsidiary of equity method, 1 affiliated company of equity method.



Financial Report for the 6-Month Period ended September 30, 2013

November 11, 2013

Listed company name: Funai Electric Co., Ltd. Securities Code: 6839 Tokyo Stock Exchange First Section

(URL <http://www.funai.jp/>)

Representative: President and CEO Tomonori Hayashi

Inquiries: General Manager, Accounting Department Keichi Ikegami TEL: (072) 870-4395

Scheduled date of Quarterly Report; November 13, 2013

Scheduled date of Commencement of Annual Dividend Payment; —

Quarterly Financial Results Supplementation: Yes

Quarterly Financial Results Seminar: Yes

1. Second Quarter Consolidated Results for the Period Ending March 2014 (April 1, 2013 – September 30, 2013)

(1) Operating Results (Consolidated)

(% denotes year on year)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2 nd Quarter FY2013	120,570	35.4	567	—	2,163	—	612	—
2 nd Quarter FY2012	89,050	(36.7)	(1,451)	—	(3,064)	—	(2,991)	—

(Reference) Comprehensive Income 2nd Quarter FY 2013 ended September 30, 2013 2,614 million yen (—%)
 2nd Quarter FY 2012 ended September 30, 2012 (5,893) million yen (—%)

	Net Income Per Share		Net Income Per Share on a Fully Diluted Basis	
	Yen		Yen	
2 nd Quarter FY2013	17.96		—	
2 nd Quarter FY2012	(87.68)		—	

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
2 nd Quarter FY2013	181,052	122,640	67.1
Fiscal Year 2012	194,524	121,398	61.7

(Reference) Equity 2nd Quarter FY 2013 ended September 30, 2013 121,504 million yen
 Fiscal Year 2012 ended March 31, 2013 120,103 million yen

2. Dividends

	Dividend per Share				
	1 st Quarter	2 nd Quarter	3 rd Quarter	Year-End	Annual
	yen	yen	yen	yen	yen
Fiscal Year 2012	—	0.00	—	35.00	35.00
Fiscal Year 2013	—	0.00			
Fiscal Year 2013 (Projection)			—	—	—

(Note) Revision of Annual Dividends Forecast in this 2nd Quarter: No

The dividend for FY 2013 has been undecided. The company's dividend policy of DOE is unchanged.

Because of the high impact stemmed from the recent fluctuations in exchange rates give to the consolidated net assets, the dividend is to be disclosed at the time of disclosure has become possible to public.

3. Forecast of Consolidated Results for the Fiscal Year ending March 2014 (April 1, 2013 - March 31, 2014)

(% denotes year on year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income Per Share
Full Year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	229,000	19.3	500	—	2,100	—	100	—	2.93

(Note) Revision of Forecast of Consolidated Results for the six month period or the Full Year in this 2nd Quarter: Yes

*Note

(1) Changes in Consolidated Subsidiaries (Changes in Scope of Consolidation): Yes

New Subsidiary : Funai Electric Cebu, Inc.

(2) Application of simplified accounting procedure and use of unique accounting procedure for preparation of financial statements covering consolidated accounting in this 2nd quarter: Yes

(3) Changes in Accounting Practices, Procedures and Presentation Methods for Consolidated Financial Results

1. Changes arising from revision of accounting standards: No

2. Changes arising from other factors: No

3. Changes in accounting estimates: No

4. Restatement: No

(4) Number of Shares Outstanding (Ordinary Shares)

1. Number of shares outstanding (including treasury stock) as of September 30, 2013; 36,130,796 shares
as of March 31, 2013; 36,130,796 shares

2. Number of shares of treasury stock as of September 30, 2013; 2,011,615 shares

as of March 31, 2013; 2,011,615 shares

3. The Average number of outstanding shares on September 30, 2013; 34,119,181 shares
on September 30, 2012; 34,114,189 shares

* The Recording of Implementation Conditions Regarding Quarterly Review Procedures

This quarterly financial summary does not fall within the scope of the Quarterly Review Procedures referenced in the Financial Instruments and Exchange Act. At the time of disclosure of the quarterly financial summary, the Group was in the process of implementing the quarterly review procedures for its quarterly financial statements.

Disclaimer;

This document contains forward-looking statements and projections regarding business performance which are not historical facts. Please note that these statements are based on information relating to factors that may impact future business performance that was available for analysis at the time this document was printed. These factors include industry trends relating to the business areas of Funai Electric Co., Ltd. or the Funai Group, such as audio-visual devices and information communication equipment, the economic conditions of both domestic and international markets, and fluctuations in currency exchange rates. Actual performance may greatly differ from projections included in this document because of the impacts of uncertainty in such areas as the competitive conditions of the electronics industry, market trends, currency exchange rate, introduction and success of new products, and various other global conditions that may affect the tax system and other systems.

1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation of Business Performance

During the second quarter of the current fiscal term, the economy of the United States, which is the Funai Group's mainstay market, almost overall continued to grow mode, despite improvements job situation slower than expected and the housing market remains flat, but a recovery in personal consumption. The European economy bottoming out, while the European Central Bank's responses to the debt crisis to have several countermeasures. Economic performance in China is also showed bottoming out due to increasing amount of the public investment. In Japan, also continued modest recovering after the countermeasures of monetary easing at the Bank of Japan, due to a personal consumption's mind and increasing amount of the capital investments.

Within the consumer electronics industry, still under these difficult conditions, global shipments of LCD TVs still slow due to mainly slump in US, Europe and Japan, moreover, China was continuously slow due to ended subsidies for promoting energy efficiency at end-May, and a new system has not been put in place, while demand for smartphones and tablet devices has kept grown sharply, in a changing role of the products that are driving the market.

As a result of the above factors, the Funai Group posted net sales of JPY 120,570 million, a 35.4% increase compared with the same period last year.

On the profit front, operating income was JPY 567 million (the operating loss for the same period last year was JPY 1,451 million); ordinary income was JPY 2,163 million (the ordinary loss for the same period last year was JPY 3,064 million); and a net income of JPY 612 million (the net loss for the same period last year was JPY 2,991 million).

Segment conditions by location were as follows:

i) Japan

Sales of information equipment recorded increases in revenues due to printer order increase. In addition, sales of LCD TVs and DVD-related equipment increased.

As a result, net sales were JPY 28,137 million, an increase of 23.1% year on year. Our segment income (operating income) was JPY 832 million (the operating loss for this segment for the same period last year was JPY 501 million).

ii) North America

Revenues for LCD TVs increased year on year due to strong sales competitively priced products at a major mass retailer in addition to expansion of sales in Mexican market. Additionally, the Philips branded audio and accessories products contributed to the sales, and DVD-related equipment also increased as the result of healthy sales of Blu-ray Disc players.

As a result, net sales amounting to JPY 89,112 million, an increase of 38.6% year on year. Our segment income (operating income) was JPY 32 million (the operating loss for this segment for the same period last year was JPY 387 million).

iii) Asia

Funai Electric Cebu, Inc. which was acquired all shares from Lexmark International, Inc. started its operation and the ink cartridges contributed to the sales.

Net sales came to JPY 2,126 million, an increase of 401.6% year on year. Our segment income (operating income) was JPY 369 million, a decrease of 26.4% year on year.

iv) Europe

Sales of LCD TVs and DVD-related products declined due to sluggish market conditions.

As a result, net sales down 20.1% year on year, to JPY 1,193 million, and an segment loss (operating loss) of JPY 310 million (operating loss for the same period last year was JPY 176 million).

Sales by product segment were as follows:

i) Audiovisual Equipment

In the audiovisual equipment sector, sales of LCD TVs increased revenue because of strong sales in North America and Mexican market. Sales of DVD-related equipment also increased year on year due to revenue growth of Blu-ray Disc players.

As a result, net sales of this equipment were JPY 93,893 million, an increase of 26.0% year on year.

ii) Information Equipment

In the information equipment sector, sales of printer increased due to increase in orders and ink cartridges contributed to the sales.

As a result, net sales of JPY 10,730 million, an increase of 163.7% year on year.

iii) Other Products

Net sales were JPY 15,946 million, an increase of 52.6% year on year due to contribution of the Philips branded audio accessories products.

(2) Qualitative Information Relating to Consolidated Financial Position

Our financial position at the end of first quarter is described below.

Total assets decreased by JPY 13,472 million as compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease of JPY 27,442 million in cash and deposits, and an increase of JPY 7,024 million and JPY 5,647 million in notes and accounts receivable-trade, tangible fixed asset.

Total liabilities decreased by JPY 14,714 million as compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease of JPY 9,308 million and JPY 7,019 million in notes and accounts payable-trade, short-term loans payable, and an increase of JPY 1,125 million in long-term loans payable.

Net assets increased by JPY 1,242 million as compared to the end of the previous consolidated fiscal year. This was mainly due to an increase of JPY 1,870 million in the foreign currency translation adjustment account, and a decreased of JPY 581 million in retained earnings.

(3) Qualitative Information Relating to Consolidated Performance Forecasts:

Please refer to the “Funai Electric Announces Differences between Forecast and Actual Performance for the First Six Months of the Fiscal Year, a Revision in Its Operating Performance Forecasts for the Full Fiscal Year, and the Recording of an Extraordinary Loss (Expenses Incurred on Business Restructuring)” published on November 11, 2013 for information regarding earnings forecasts.

Note: The operating results outlook is a forward-looking statement about the future performance of the Company and is based on management’s assumptions and beliefs in light of information currently available, and involves known and unknown risks and uncertainties. Various factors such as changes in economic conditions overseas, especially in the main U.S. market, and severe price fluctuations may cause actual events and results to differ materially from those anticipated in these statements.

2. Summary Information

(1) Important changes relating to subsidiaries and affiliates during the fiscal term

The newly-established Funai Electric Philippines Inc. has also been included within the scope of consolidation in the first quarter. In addition, we acquired all shares of manufacturing subsidiary where manufactures inkjet printer-related products located in Philippines from Lexmark International, Inc. And the newly-established Funai Electric Cebu, Inc. has also been included within the scope of consolidation.

(2) Unique accounting procedure for preparation of consolidated financial statements for fiscal quarter

Expenses relating to taxes are calculated by applying the estimated effective tax rates on the before-tax net profit for the fiscal quarter, through a practical estimation of the effective tax rates that will take effect after the application of the tax effect accounting for before-tax net profits of the consolidated fiscal year, including this second fiscal quarter.

(3) Additional Information

About Anti-Tax Haven Law

1. The Funai Group received a rectification notices from the Osaka Regional Taxation Bureau on June 28, 2005, and June 16, 2008. The Bureau determined that our 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, our income. We 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. In response to this judgment, the company will promptly examine the contents of the judgment. We intend to appeal this matter with the High Court.

The additional taxes of JPY 16,651 million (JPY 19,184 million including incidental taxes) and JPY 15,038 million (JPY 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) we 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.

2. The Funai Group received a rectification notice from the Osaka Regional Taxation Bureau on June 29, 2011. The Bureau determined that our 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 our income. We objected to these supplementary tax assessments, and filed a petition with the Osaka Regional Tax Tribunal on August 25, 2011, to overturn the supplementary tax assessment order. Thereafter, we received written verdicts on this case on July 24, 2012 indicating that our assertions had been dismissed. We will continue to assert the validity of its arguments in the future. The additional tax of JPY 825 million (JPY 935 million including incidental taxes) includes corporate, enterprise and residence taxes. We charged the tax assessments to income as "prior year's taxes" in the fiscal year ended March 31, 2012.
3. With regard to the actions The Funai Group 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, we treated this amount as an expense during the fiscal year under review, which is the fiscal year ended March 31, 2012 following the year to which the assessment was applied.

3. Consolidated Financial Statements

(1) Consolidated Quarterly Balance Sheets

(Units : Million Yen)

	Fiscal year 2012 (As of March 31, 2013)	2nd Quarter FY2013 (As of September 30, 2013)
ASSETS;		
Current Assets		
Cash and deposits	67,813	40,370
Notes and accounts receivable-trade	33,193	40,218
Merchandise and finished goods	34,547	34,205
Work in process	2,095	1,794
Raw materials and supplies	18,997	16,601
Other	8,332	8,764
Allowance for doubtful accounts	(178)	(165)
Total current assets	164,802	141,789
Noncurrent assets		
Tangible fixed assets	16,675	22,323
Intangible fixed assets	3,107	6,986
Investment and other assets		
Other	10,131	10,145
Allowance for doubtful accounts	(192)	(192)
Total investments and other assets	9,938	9,953
Total noncurrent assets	29,721	39,262
TOTAL ASSETS	194,524	181,052
LIABILITIES;		
Current Liabilities		
Notes and accounts payable-trade	39,178	29,870
Short-term loans payable	12,981	5,962
Income taxes payable	1,690	401
Provision	1,188	1,311
Other	14,412	15,622
Total current liabilities	69,452	53,168
Noncurrent liabilities		
Long-term loans payable	—	1,125
Provision	2,008	2,251
Other	1,663	1,866
Total noncurrent liabilities	3,672	5,243
TOTAL LIABILITIES	73,125	58,411

	Fiscal year 2012 (As of March 31, 2013)	2nd Quarter FY2013 (As of September 30, 2013)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,272	33,272
Retained earnings	101,135	100,554
Treasury stock	(24,341)	(24,341)
Total shareholders' equity	141,374	140,793
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	451	563
Foreign currency translation adjustment	(21,722)	(19,852)
Total accumulated other comprehensive income	(21,271)	(19,289)
Subscription right to shares	122	127
Minority interests	1,173	1,009
Total net asset	121,398	122,640
TOTAL LIABILITIES AND NET ASSETS	194,524	181,052

(2) Consolidated Quarterly Statements of Income and Consolidated Quarterly Statement of Comprehensive Income
(Consolidated Quarterly Statements of Income)

(Units : Million Yen)

	2nd Quarter FY2012 (from April 1, 2012 to September 30, 2012)	2nd Quarter FY2013 (from April 1, 2013 to September 30, 2013)
Net sales	89,050	120,570
Cost of sales	73,615	100,961
Gross profit	15,435	19,608
Selling, general and administrative expenses	16,887	19,040
Operating income (loss)	(1,451)	567
Non-operating income		
Interest income	140	70
Dividends income	22	23
Foreign exchange gains	—	1,851
Other	198	59
Total non-operating income	361	2,004
Non-operating expenses		
Interest expenses	51	103
Equity in losses of affiliates	35	55
Foreign exchange losses	1,730	—
Payment compensation cost	—	147
Other	157	101
Total non-operating expenses	1,974	407
Ordinary income (loss)	(3,064)	2,163
Extraordinary income		
Gain on disposal of noncurrent assets	3	0
Gain on negative goodwill	—	8
Total extraordinary income	3	8
Extraordinary loss		
Expenses incurred on business restructuring	—	* ₁ 1,149
Loss on valuation of investment securities	164	70
Other	9	15
Total extraordinary loss	173	1,234
Income (loss) before income taxes	(3,234)	937
Income taxes	(255)	305
Income (loss) before minority interests	(2,979)	631
Minority interests in income	11	19
Net income (loss)	(2,991)	612

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	2nd Quarter FY2012 (from April 1, 2012 to September 30, 2012)	2nd Quarter FY2013 (from April 1, 2013 to September 30, 2013)
Income (loss) before minority interest adjustment	(2,979)	631
Other comprehensive Income		
Valuation difference on available-for-sale securities	15	112
Foreign currency translation adjustment	(2,935)	1,828
Share of other comprehensive income of associates accounted for using equity method	5	41
Total other comprehensive Income	(2,914)	1,982
Comprehensive income	(5,893)	2,614
(Breakdown)		
Comprehensive income attributable to owners of parent	(5,900)	2,595
Comprehensive income attributable to minority interests	6	19

(3) Consolidated quarterly statements of cash flows

(Units : Million Yen)

	2nd Quarter FY2012 (from April 1, 2012 to September 30, 2012)	2nd Quarter FY2013 (from April 1, 2013 to September 30, 2013)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	(3,234)	937
Depreciation and amortization	2,885	3,217
Increase(decrease) in allowance for doubtful accounts	(100)	(23)
Increase(decrease)in provision for retirement benefits	(47)	(10)
Interest and dividends income	(163)	(93)
Interest expenses	51	103
Equity in (earnings) losses of affiliates	35	55
Loss (gain) on sales of property, plant and equipment	(2)	(0)
Loss (gain) on valuation of investment securities	164	70
Decrease (increase) in notes and accounts receivable-trade	(6,683)	(5,355)
Decrease (increase) in inventories	(8,117)	4,964
Increase (decrease) in notes and accounts payable-trade	9,378	(11,948)
Other, net	1,382	1,092
Subtotal	(4,451)	(6,991)
Interest and dividends income received	137	120
Interest expenses paid	(50)	(179)
Income taxes paid	(225)	(1,028)
Income taxes refund	338	522
Income taxes for prior periods paid	-	* ₁ (1,171)
Net cash provided by (used in) operating activities	(4,251)	(8,725)
Net cash provided by (used in) investment activities		
Payments into time deposits	(21,550)	-
Repayments from time deposits	32,835	13,129
Purchase of property, plant and equipment	(2,128)	(3,012)
Proceeds from sales of property, plant and equipment	41	0
Purchase of intangible assets	(150)	(3,807)
Purchase of investment securities	(111)	(244)
Proceeds from sales of investment securities	308	-
Payment for acquisition of shares of newly consolidated subsidiaries	-	(5,534)
Payments for loan receivables	(1,264)	(1)
Other, net	3	(316)
Net cash provided by (used in) investment activities	7,984	213
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	587	(7,562)
Repayment of long-term loans payable	-	1,500
Cash dividends paid	(1,705)	(1,194)
Other, net	(39)	(476)
Net cash provided by (used in) financing activities	(1,157)	(7,733)
Effect of exchange rate change on cash and cash equivalents	(950)	1,323
Net increase (decrease) in cash and cash equivalents	1,625	(14,922)
Cash and cash equivalents at beginning of period	36,567	50,238
Increase in cash and cash equivalents from newly consolidated subsidiaries	33	-
Cash and cash equivalents at end of period	38,226	35,315

(4) Notes of Consolidated Quarterly Financial Statements
 (Notes for Continuing Enterprises)
 Not Applicable

(Notes of remarkable changes in Shareholders Equity)
 Not Applicable

(Consolidated quarterly statements of income)

Second Quarter Consolidated Fiscal Period – Year to Date (April 1, 2012 to September 30, 2013)

*1 Expenses incurred on business restructuring stem mainly from costs incurred due to the shrinking of the overseas LED business, principally including an inventory valuation loss of JPY 217 million, an impairment loss on investment in subsidiaries and associated companies of JPY 646 million and impairment losses of JPY 255 million.

(Consolidated quarterly statements of cash flows)

Second Quarter Consolidated Fiscal Period – Year to Date (April 1, 2012 to September 30, 2013)

*1 During the first six months of the fiscal year, a consolidated subsidiary, FUNAI EUROPE GmbH, received from the German tax authorities a request for correction in with regard to transfer pricing taxation on transactions with Funai Electric, as well as with another consolidated subsidiary, FUNAI ELECTRIC EUROPE Sp.z o.o. A supplementary tax assessment was accordingly paid.

(Information by Segment)
 [Segment Information]

I . Second Quarter Consolidated Fiscal Period – Year to Date (April 1, 2012 to September 30, 2012)
 Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	N. America	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	22,861	64,271	424	1,494	89,050	—	89,050
(2) Inter-segment sales	67,974	0	68,077	0	136,051	(136,051)	—
Total	90,835	64,271	68,501	1,494	225,102	(136,051)	89,050
Segment Income (Loss)	(501)	(387)	502	(176)	(563)	(888)	(1,451)

Note:

1. JPY -888 million adjustment amount under segment loss includes items such as the JPY 14 million relating to the cancellation of inter-segment transactions, JPY -433 million of overall Group expenses that are not apportioned to each reporting segment, and the JPY -468 million negative adjustment relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment loss has been adjusted to operating loss noted on the second quarter consolidated income statement.

II . Second Quarter Consolidated Fiscal Period – Year to Date (April 1, 2013 to September 30, 2013)
 Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	N. America	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	28,137	89,112	2,126	1,193	120,570	—	120,570
(2) Inter-segment sales	75,389	0	83,207	0	158,597	(158,597)	—
Total	103,526	89,112	85,334	1,194	279,167	(158,597)	120,570
Segment Income (Loss)	832	32	369	(310)	924	(356)	567

Note:

1. JPY -356 million adjustment amount under segment income includes items such as the JPY 20 million relating to

the cancellation of inter-segment transactions, JPY -399 million of overall Group expenses that are not apportioned to each reporting segment, and the JPY 22 million adjustment relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.

2. Segment income has been adjusted to operating income noted on the second quarter consolidated income statement.

(Relationships, etc., in the Corporate Combination)

Corporate Combination through Acquisition

1. Overview of the Corporate Combination

- i) Name of other company and content of acquired businesses

Name of other company Lexmark International, Inc. (hereinafter, "Lexmark")

Content of acquired businesses Inkjet-related technologies and assets, including patent rights

- ii) Reason for conducting the corporate combination

As a contract manufacturer, Funai has supplied inkjet hardware to Lexmark since July of 1997. Funai 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 IJ technology and assets enables Funai to start and grow our own inkjet business, not as a contract manufacturer of printer products (excluding lucrative supplies) any longer, with the inkjet patents, manufacturing facilities and comprehensive R&D capabilities for the products (including supplies) related to inkjet printers, the strong inkjet business platform which Lexmark has established for years. As a result, Funai believes it will be able to expand its business going forward sustainably.

- iii) Date of the corporate combination

April 30, 2013

- iv) Legal form of the corporate combination

Acquisition of patent rights and development facilities, and acquisition of shares in manufacturing subsidiary

- v) Name of company after combination

Funai Electric Cebu, Inc.

- vi) Percentage of voting rights acquired : 100%

2. Performance Period of Acquired Business Included in Quarterly Consolidated Income Statement for the Quarterly Fiscal Period under Review

From May 1, 2013 to September 30, 2013

3. Acquisition Cost and Content of Acquired Business

		(million yen)
Consideration for acquisition	Cash	10,036
Expenses directly associated with acquisition	Advisory fees, etc	<u>242</u>
Acquisition cost		10,278

4. Amount of Goodwill Generated, Source of Generation, Amortization Method and Amortization Period

- i) Amount of goodwill generated : JPY 8 million

- ii) Source of generation

Because the net amount of acquired assets and assumed liabilities exceeded the acquisition cost, the difference was recorded as negative goodwill.

5. Amounts of Assets Received and Liabilities Assumed on the Date of the Corporate Combination and Their Principal Content

	(million yen)
Current asset	544
Noncurrent assets	<u>10,397</u>
Total asset	<u>10,942</u>
Current liability	402
Noncurrent liability	<u>252</u>
Total liability	<u>655</u>

6. Allocation of Acquisition Cost

As the allocation of acquisition costs had not been completed as of the end of the second quarter under review, provisional accounting procedures were employed, based on the reasonable information available as of that date.

(Significant Subsequent Event)

Funai Electric Co., Ltd. (hereinafter, "Funai") reached an agreement with Koninklijke PHILIPS N.V. (hereinafter, "PHILIPS") on January 29, 2013 to acquire from PHILIPS all shares in a company that will hold the operations of the PHILIPS' Lifestyle Entertainment Business, but PHILIPS filed against Funai a petition for legal action to claim for damages on the grounds of breach of contract by Funai and the petition has been served on it as of November 8, 2013 by the International Chamber of Commerce.

As Funai believes that it has not breached the contract with PHILIPS, Funai intends to carefully review the details of the petition and defend itself vigorously in the pending arbitration proceedings.

Following is the details of arbitration filed against Funai.

1. Institution and date of arbitration

- (1) Institution where petition for arbitration is filed: International Chamber of Commerce
- (2) Date of petition for arbitration: October 25, 2013

2. Petitioner of arbitration

- (1) Name : Koninklijke PHILIPS N.V.
- (2) Location : Eindhoven, The Netherlands
- (3) Title & name of representative : Chief Executive Officer Frans van Houten

3. Details of petition and claimed amount for damages

- (1) Details of petition : A claim for damages on the grounds of breach of contract by Funai.
- (2) Claimed amount : A specific claimed amount has not been stipulated.

SECOND QUARTER IN CUMULATIVE FINANCIAL RESULTS SUPPLEMENTATION

FY 2013

(from 2013.4.1
to 2013.9.30)

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FUNAI ELECTRIC CO., LTD.

1. Summary of 2Q (April to September) Financial Statements (Consolidated)

(1) Operating Results, Financial Conditions

(Units : 100 million yen, %)

	FY 2012						FY 2013					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Net Sales	890	100.0	(36.7)	1,920	100.0	(22.0)	1,205	100.0	35.4	2,290	100.0	19.3
Operating Income (Loss)	(14)	(1.6)	—	(52)	(2.7)	—	5	0.5	—	5	0.2	—
Ordinary Income (Loss)	(30)	(3.4)	—	(3)	(0.2)	—	21	1.8	—	21	0.9	—
Net Income (Loss) after Tax	(29)	(3.4)	—	(85)	(4.4)	—	6	0.5	—	1	0.0	—
Total Assets	1,762	—	—	1,945	—	—	1,810	—	—	—	—	—
Net Assets	1,163	—	—	1,213	—	—	1,226	—	—	—	—	—

(※) Yen-Dollars / Exchange rate

(Units : Yen / Dollars)

	FY 2012		FY 2013	
	2Q (Apr. - Sep.)	Full-Year	2Q (Apr. - Sep.)	Full-Year (Projections)
Average Rate in each Period	78.96	83.32	98.64	97.32

(2) Profitability and Per Share Data etc.

	FY 2012		FY 2013	
	2Q (Apr. - Sep.)	Full-Year	2Q (Apr. - Sep.)	Full-Year (Projections)
Gross Profit Ratio (%)	17.3	14.9	16.3	16.2
Operating Income Ratio (%)	(1.6)	(2.7)	0.5	0.2
Ordinary Income Ratio (%)	(3.4)	(0.2)	1.8	0.9
Shareholders' Equity Ratio (%)	65.3	61.7	67.1	—
Net Assets Per Share (yen)	3,375.08	3,520.11	3,561.17	—
Net Income Per Share (yen)	(87.68)	(250.38)	17.96	2.93
Return on Assets (%)	(1.7)	(4.6)	0.3	—
Return on Shareholders' Equity (%)	(2.5)	(7.0)	0.5	—
Number of Total Employees	4,838	4,776	4,976	—

(3) Capital Expenditures, Depreciation, R&D Expenses

(Units : 100 million yen, %)

	FY 2012				FY 2013			
	2Q (Apr. - Sep.)		Full-Year		2Q (Apr. - Sep.)		Full-Year (Projections)	
	Amount	Change	Amount	Change	Amount	Change	Amount	Change
Capital Expenditures	19	(17.4)	53	32.5	92	384.2	122	130.2

	FY 2012						FY 2013					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Depreciation Expenses	20	2.2	(16.7)	40	2.1	(18.4)	26	2.2	30.0	60	2.6	50.0
R&D	47	5.3	(13.0)	93	4.8	(11.4)	43	3.6	(8.5)	93	4.1	—

(4) CashFlow

(Units : 100 million yen)

	FY 2012		FY 2013	
	2Q (Apr. - Sep.)	Full-Year	2Q (Apr. - Sep.)	Full-Year (Projections)
Cash flows provided by operating activities	(42)	(80)	(87)	—
Income Before Income Taxes	(32)	(25)	9	—
Depreciation Expenses	28	52	32	—
Others	(38)	(107)	(128)	—
Cash flows used in investing activities	79	128	2	—
Free cash flows	37	48	(85)	—
Cash flows provided by financing activities	(11)	51	(77)	—
Effect of exchange rate changes on cash and cash equivalents	(9)	36	13	—
Net increase in cash and cash equivalents	16	136	(149)	—

2. Operating Activities (Consolidated)

(1) Sales by Equipment

(Units : 100 million yen, %)

	FY 2012						FY 2013					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	745	83.7	(26.3)	1,557	81.1	(15.2)	939	77.9	26.0	1,766	77.1	13.4
DVD	83	9.3	(33.1)	184	9.6	(16.0)	81	6.7	(2.4)	158	6.9	(14.1)
BD	57	6.4	(74.1)	141	7.3	(62.9)	75	6.2	31.6	162	7.1	14.9
LCD TV	594	66.8	(9.5)	1,199	62.5	(0.8)	767	63.7	29.1	1,396	60.9	16.4
Others	11	1.2	—	33	1.7	22.2	16	1.3	45.5	50	2.2	51.5
Information Equipment	41	4.6	(77.6)	119	6.2	(60.1)	107	8.9	163.7	185	8.1	55.5
Others	104	11.7	(50.9)	244	12.7	(25.3)	159	13.2	52.6	339	14.8	38.9
Total	890	100.0	(36.7)	1,920	100.0	(22.0)	1,205	100.0	35.4	2,290	100.0	19.3

(2) Sales by Areas in Equipment

(Units : 100 million yen, %)

	FY 2012						FY 2013					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	745	83.7	(26.3)	1,557	81.1	(15.2)	939	77.9	26.0	1,766	77.1	13.4
North America	616	69.2	(3.9)	1,213	63.2	(0.7)	753	62.4	22.2	1,326	57.9	9.3
Europe	23	2.6	(25.8)	43	2.2	(35.8)	14	1.1	(39.1)	28	1.2	(34.9)
Asia and Others	31	3.4	106.7	117	6.1	172.1	86	7.2	177.4	237	10.4	102.6
Japan	75	8.5	(76.9)	184	9.6	(63.4)	86	7.2	14.7	175	7.6	(4.9)
Information Equipment	41	4.6	(77.6)	119	6.2	(60.1)	107	8.9	163.7	185	8.1	55.5
North America	15	1.7	(75.0)	53	2.8	(48.5)	60	5.0	300.0	113	4.9	113.2
Europe	4	0.4	(89.5)	19	1.0	(67.8)	25	2.1	525.0	45	2.0	136.8
Asia and Others	22	2.5	(72.2)	42	2.2	(67.9)	20	1.7	(9.1)	24	1.0	(42.9)
Japan	0	0.0	—	5	0.2	(28.6)	2	0.1	—	3	0.2	(40.0)
Others	104	11.7	(50.9)	244	12.7	(25.3)	159	13.2	52.6	339	14.8	38.9
Total	890	100.0	(36.7)	1,920	100.0	(22.0)	1,205	100.0	35.4	2,290	100.0	19.3

(3) Sales by Equipment in Areas

(Units : 100 million yen, %)

	FY 2012						FY 2013					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
North America	644	72.4	(9.6)	1,333	69.4	(0.6)	882	73.1	36.8	1,590	69.4	19.3
Audio Visual Equipment	616	69.2	(3.9)	1,213	63.2	(0.7)	753	62.4	22.2	1,326	57.9	9.3
Information Equipment	15	1.7	(75.0)	53	2.8	(48.5)	60	5.0	300.0	113	4.9	113.2
Others	13	1.5	8.3	67	3.4	318.8	69	5.7	430.8	151	6.6	125.4
Europe	27	3.0	(61.1)	62	3.2	(50.8)	39	3.2	44.4	73	3.2	17.7
Audio Visual Equipment	23	2.6	(25.8)	43	2.2	(35.8)	14	1.1	(39.1)	28	1.2	(34.9)
Information Equipment	4	0.4	(89.5)	19	1.0	(67.8)	25	2.1	525.0	45	2.0	136.8
Others	0	0.0	—	0	0.0	—	0	0.0	—	0	0.0	—
Asia and Others	55	6.1	(44.4)	166	8.7	(8.3)	114	9.6	107.3	286	12.5	72.3
Audio Visual Equipment	31	3.4	106.7	117	6.1	172.1	86	7.2	177.4	237	10.4	102.6
Information Equipment	22	2.5	(72.2)	42	2.2	(67.9)	20	1.7	(9.1)	24	1.0	(42.9)
Others	2	0.2	(60.0)	7	0.4	—	8	0.7	300.0	25	1.1	257.1
Japan	164	18.5	(68.7)	359	18.7	(55.9)	170	14.1	3.7	341	14.9	(5.0)
Audio Visual Equipment	75	8.5	(76.9)	184	9.6	(63.4)	86	7.2	14.7	175	7.6	(4.9)
Information Equipment	0	0.0	—	5	0.2	(28.6)	2	0.1	—	3	0.2	(40.0)
Others	89	10.0	(54.6)	170	8.9	(43.9)	82	6.8	(7.9)	163	7.1	(4.1)
Total	890	100.0	(36.7)	1,920	100.0	(22.0)	1,205	100.0	35.4	2,290	100.0	19.3

3. Summary of 2Q (July to September) Financial Statements (Consolidated)

(1) Operating Results

(Units : 100 million yen, %)

	FY 2012			FY 2013		
	2Q (Jul. - Sep.)			2Q (Jul. - Sep.)		
	Amount	%	Change	Amount	%	Change
Net Sales	490	100.0	(34.7)	700	100.0	42.9
Operating Income (Loss)	(5)	(1.0)	—	22	3.3	—
Ordinary Income (Loss)	(10)	(2.0)	—	20	2.9	—
Net Income (Loss) after Tax	(11)	(2.3)	—	6	0.9	—

(※) Yen-Dollars / Exchange rate

(Units : Yen / Dollars)

	FY 2012		FY 2013	
	2Q (Jul. - Sep.)		2Q (Jul. - Sep.)	
Average Rate in each Period		78.12		98.06

(2) Sales by Equipment

(Units : 100 million yen, %)

	FY 2012			FY 2013		
	2Q (Jul. - Sep.)			2Q (Jul. - Sep.)		
	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	424	86.5	(22.9)	560	80.0	32.1
DVD	45	9.2	(29.7)	38	5.4	(15.6)
BD	19	3.9	(81.2)	33	4.7	73.7
LCD TV	354	72.2	(6.6)	481	68.7	35.9
Others	6	1.2	—	8	1.2	33.3
Information Equipment	15	3.1	(84.2)	58	8.3	286.7
Others	51	10.4	(51.4)	82	11.7	60.8
Total	490	100.0	(34.7)	700	100.0	42.9



FUNAI ELECTRIC CO., LTD.

(Company)

FUNAI ELECTRIC CO., LTD.

INVESTOR / RELATIONSDEPARTMENT

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