FY 2012 FINANCIAL REPORT

From April 1, 2012
To March 31, 2013

FUNAI ELECTRIC CO., LTD.

May 7, 2013
Funai Electric Co., Ltd.

Financial Summary for the Period Ending March 2013

1. Summary of Operating Results (Consolidated)

(Million yen)

	Fiscal Year 2011 (From April 1, 2011 to March 31, 2012)		Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)		Rate of increase or decrease
	Amount	%	Amount	%	
Net Sales	246,147	% 100.0	192,008	% 100.0	% (22.0)
Operating Income (Loss)	461	0.2	(5,273)	(2.7)	—
Ordinary Income (Loss)	174	0.1	(355)	(0.2)	—
Net Loss after Tax	(4,629)	(1.9)	(8,542)	(4.4)	—
Net Loss per Share	(135.69)		(250.38)		

Notes: Includes 18 consolidated subsidiaries, 1 equity method non-consolidated subsidiary, 1 equity method affiliate company.

2. Summary of Operating Results (Non-Consolidated)

(Million yen)

	Fiscal Year 2011 (From April 1, 2011 to March 31, 2012)		Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)		Rate of increase or decrease
	Amount	%	Amount	%	
Net Sales	195,880	% 100.0	157,549	% 100.0	% (19.6)
Operating Loss	(307)	(0.2)	(5,604)	(3.6)	—
Ordinary Income	10,165	5.2	19,235	12.2	89.2
Net Income after Tax	2,621	1.3	13,113	8.3	400.2
Net Income per Share	76.86		384.35		

Financial Report for the 12-Month Period ended March 31, 2013

May 7, 2013

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

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

Representative: President and CEO Tomonori Hayashi

Inquiries: Associate Officer, Administrative HQ Hisao Fuke TEL: (072) 870-4395

Scheduled date of Annual General Shareholders Meeting; June 21, 2013

Scheduled date of Securities Report to be filed to the Kinki Finance Bureau; June 21, 2013

Scheduled date of Commencement of Annual Dividend Payment; June 10, 2013

Financial Results Supplementation: Yes

Financial Results Seminar: Yes

1. Summary of Consolidated Results for the Fiscal Year ended March 2013 (April 1, 2012 – March 31, 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	%
Fiscal Year 2012	192,008	(22.0)	(5,273)	−	(355)	−	(8,542)	−
Fiscal Year 2011	246,147	(16.8)	461	(40.2)	174	(86.5)	(4,629)	−

(Note) Comprehensive Income Fiscal Year ended March 31, 2013 (909) million yen (—%)
Fiscal Year ended March 31, 2012 (6,486) million yen (—%)

	Net Income Per Share	Net Income Per Share on a Fully Diluted Basis	Net Income to Shareholders' Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
Fiscal Year 2012	(250.38)	−	(7.0)	(0.2)	(2.7)
Fiscal Year 2011	(135.69)	−	(3.7)	0.1	0.2

(Reference) Equity in earning of affiliates Fiscal Year ended March 31, 2013 (69) million yen
Fiscal Year ended March 31, 2012 (28) million yen

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets Per Share
	Million yen	Million yen	%	Yen
Fiscal Year 2012	194,524	121,398	61.7	3,520.11
Fiscal Year 2011	176,607	123,843	69.5	3,598.03

(Reference) Shareholders' Equity Fiscal Year ended March 31, 2013 120,103 million yen
Fiscal Year ended March 31, 2012 122,762 million yen

(3) Consolidated Cash Flows

	Net Cash Provided by (Used in) Operating Activities	Net Cash Provided by (Used in) Investing Activities	Net Cash Provided by (Used in) Financing Activities	Cash and Cash Equivalents at the End of Period
	Million yen	Million yen	Million yen	Million yen
Fiscal Year 2012	(8,022)	12,863	5,128	50,238
Fiscal Year 2011	16,416	(6,434)	(6,717)	36,567

2. Dividends

Corresponding Date	Dividend per Share 1Q End	2Q End	3Q End	Year-End	Annual	Total Dividend Payment	Pay-out Ratio (Consolidated)	Dividend on Equity Ratio (Consolidated)
	yen	yen	yen	yen	yen	Million yen	%	%
Fiscal Year 2011	–	0.00	–	50.00	50.00	1,705	–	1.3
Fiscal Year 2012	–	0.00	–	35.00	35.00	1,194	–	1.0
Fiscal Year 2013 (Projection)	–	–	–	–	–		–	

(Note) 1. Breakdown of dividends for FY 2011: Ordinary dividend, JPY 40 ＋ Commemorative dividend, JPY 10

2. 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 2013 (April 1, 2013 - March 31, 2014)

(% denotes year on year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income Per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending Sep.30.2013	96,000	7.8	20	–	300	–	10	–	0.29
Full Year	202,000	5.2	200	–	500	–	100	–	2.93

*Note

(1) Changes in Consolidated Subsidiaries (Changes in Scope of Consolidation): No

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

1. Changes arising from revision of accounting standards: Yes
2. Changes arising from other factors: No
3. Changes in accounting estimates: Yes
4. Restatement: No

(3) Number of Shares Outstanding (Ordinary Shares)

1. Number of shares outstanding (including treasury stock) as of March 31, 2013; 36,130,796 shares
as of March 31, 2012; 36,130,796shares
2. Number of shares of treasury stock as of March 31, 2013; 2,011,615 shares
as of March 31, 2012; 2,011,607 shares
3. The Average number of outstanding shares on March 31, 2013; 34,119,186 shares
on March 31, 2012; 34,114,415 shares

(Reference)
Summary of Non-consolidated Results for the Fiscal Year ended March 2013 (April 1, 2012– March 31, 2013)

(1) Operating Results (Non-consolidated)

(% denotes year on year)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal Year 2012	157,549	(19.6)	(5,604)	－	19,235	89.2	13,113	400.2
Fiscal Year 2011	195,880	(21.1)	(307)	－	10,165	71.0	2,621	(58.2)

	Net Income Per Share	Net Income Per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year 2012	384.35	－
Fiscal Year 2011	76.86	76.71

(2) Financial Position(Non-consolidated)

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets Per Share
	Million yen	Million yen	%	Yen
Fiscal Year 2012	119,151	89,385	74.9	2,616.22
Fiscal Year 2011	112,717	77,584	68.7	2,270.78

(Reference) Shareholders' Equity Fiscal Year ended March 31, 2013 89,263 million yen
Fiscal Year ended March 31, 2012 77,477 million yen

Note:
This document contains forward-looking statements and projections regarding business performance which are not historical facts. Please note that these statements are based on the current expectations, assumptions, estimates and projections of the Funai Group in light of the information currently available to it. Actual performance may materially differ from projections included in this document because of the impacts of uncertainty in various factors. For the assumptions and other related matters concerning consolidated results forecast, please refer to "(1)Analysis of Business Performance"of "1 Business Performance."

1. Business Performance

(1) Analysis of Business Performance

1. Summary of the consolidated fiscal year under review

(Market environment)

During the fiscal year ended March 31, 2013, the economy of the United States, which is the Funai 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.

As a result of the above factors, the Funai Group posted net sales of JPY 192,008 million, a 22.0% decrease compared with the same period last year.

On the profit front, operating loss was JPY 5,273 million (the operating income for the same period last year was JPY 461 million); ordinary loss was JPY 355 million (the ordinary income for the same period last year was JPY 174 million); and a net loss of JPY 8,542 million (the net loss for the same period last year was JPY 4,629 million).

Segment conditions by location were as follows:

i) Japan

A reduction in printer orders prompted a major revenue falloff in information equipment. Moreover, sales of Blu-ray Disc recorders significantly declined year-over-year due to weakening demand.

Sales of LCD TVs, antennas and related devices declined year-over-year due to reduced demand in the wake of Japan's transition to digital terrestrial broadcasting.

As a result, net sales were JPY 51,678 million, a decrease of 53.8% year on year. Our segment loss (operating loss) was JPY 4,294 million (the operating profit for this segment for the same period last year was JPY 4,690 million).

ii) North America

While sales of Blu-ray Disc players increased, sales of DVD-related equipment declined year-over-year due to market contraction. Meanwhile, sales of LCD TVs increased year-over-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 that started selling on September 2012 contributed to the sales.

As a result, net sales amounting to JPY 136,165 million, an increase of 9.7% year on year. Our segment profit (operating profit) was JPY 1,528 million (the operating loss for this segment for the same period last year was JPY 1,343 million).

iii) Asia

Net sales came to JPY 812 million, a decrease of 82.8% year-on-year. Our segment loss (operating loss) was JPY 491 million (the operating profit for this segment for the same period last year was JPY 425 million).

iv) Europe

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

As a result, net sales down 38.3% year on year, to JPY 3,352 million, and an segment loss (operating loss) of JPY 389 million (operating loss for the same period last year was JPY 1,530 million).

Sales by product segment were as follows:

i) Audio-Visual Equipment

In the audio-visual equipment sector, the DVD-related equipment field witnessed a decline in revenue due to weakness in the domestic Blu-ray Disc recorder market. Despite extension 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 JPY 155,686 million, a decrease of 15.2% year on year.

ii) Information Equipment

In the information equipment sector, a decrease in printer orders resulted in net sales of JPY 11,965 million, a decrease of 60.1% year on year.

iii) Other Products

Although the Philips branded audio and accessories products started selling, sales of other products that not included in the above categories declined because of the decrease of sales of antennas and related devices fell in the wake of Japan's transition to digital terrestrial broadcasting.

As a result, net sales were JPY 24,356 million, a decrease of 25.3% year-over-year.

2. Outlook for the next consolidated fiscal year

For the fiscal year ending March 31, 2014, the Funai Group expects the operating climate to remain problematic, plagued by ongoing uncertainty in its operating environment. To this end, we will further cultivate the Funai Production System (FPS), entrench cost reductions, promote the use of information technologies, improve operations and reinforce risk management.

The outlook for the next consolidated fiscal year is provided below.

< Consolidated operating results >

Net sales	JPY 202,000 million	(5.2% increase year-on-year)
Operating income	200 million	(－)
Ordinary income	500 million	(－)
Net income	100 million	(－)

For its earnings estimates, the Funai Group has assumed an exchange rate of JPY 96 = US$1.00. 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) Analysis of Financial Position

1. Condition of total assets, total liabilities and net assets

Total assets increased by JPY 17,917 million as compared to the end of the previous consolidated fiscal year. This was mainly due to an increase of JPY 12,160 million, JPY 8,992 million and JPY 4,500 million for merchandise and finished goods, raw materials and supplies, securities.

Total liabilities increased by JPY 20,362 million as compared to the end of the previous consolidated fiscal year. This was mainly due to an increase of JPY 9,555 million and JPY 8,398 million for notes and accounts payable-trade, short-term loans payable.

Net assets decrease by JPY 2,445 million as compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease of 10,248 million in the retained earnings. And the foreign currency translation adjustment account was increased 7,195 million.

2. Condition of cash flow

With regard to consolidated cash flow for the consolidated fiscal year under review, net cash used in operating activities was JPY 8,022 million. Net cash used in investing activities was JPY 12,863 million. Net cash provided by financing activities was JPY 5,128 million. The balance of cash and cash equivalents at end of the consolidated fiscal year under review was JPY 50,238 million.

The cash flow indicator trends for the Funai Group are provided below.

	FY ended March 2009	FY ended March 2010	FY ended March 2011	FY ended March 2012	FY ended March 2013
Shareholders' equity ratio	67.6	69.6	67.1	69.5	61.7
Shareholders' equity ratio on a market capitalization basis	49.1	65.8	43.6	35.8	20.2
Ratio of cash flow to interest-bearing debt	－	1.9	－	0.3	－
Interest coverage ratio	－	43.7	－	130.5	－

Shareholders' equity ratio: Equity capital/total assets

Shareholders' equity ratio on a market capitalization basis: Total market capitalization/Total assets

Ratio of cash flow to interest-bearing debt: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Operating cash flow/Interest payments

* All indicators are calculated using financial values on a consolidated basis.
* Total market capitalization is calculated by multiplying the closing share price at the end of the consolidated fiscal year by the number of shares outstanding (after deducting treasury stock) at the end of the consolidated fiscal year.
* Net cash provided by (used in) operating activities shown on the Consolidated Statements of Cash Flows is used as operating cash flow. Interest-bearing liabilities include all liabilities on which the Company pays interest that are accounted for on the Consolidated Balance Sheets. The amounts shown as interest expense on the Consolidated Statements of Cash Flows are used as interest payments.
* The ratio of cash flow to interest-bearing debt and the interest coverage ratio for the fiscal years ended March 2009 and March 2011 have been omitted because cash flow from operating activities was negative.

(3) Basic Policy Concerning Distribution of Earnings and Dividends for the Consolidated Fiscal Year under Review and Next Fiscal Year

With regard to the distribution of earnings, the Funai Group recognizes the return of earnings to shareholders is an important management issue, and considers the maintenance of stable dividends while taking steps to strengthen the Company's management base to be a fundamental policy. The Funai Group implements a positive dividend policy, which takes into consideration factors such as the operating environment, based on a dividend ratio of 1.0% of consolidated net assets as a specific standard. The Funai 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 plans to award a year-end dividend of JPY 35 per share. The dividend of the next fiscal year has been undecided.

(4) Business and Other Risks

Risks that may have a significant impact on the Funai Group's financial situation and operating results are outlined below.

(Funai Group management policy)

The Funai 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 (antennas and related devices, 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.

i) Product cost and market prices

The Funai Group's primary target is customers of mass merchandisers such as Walmart and therefore we must deliver low prices. Consequently, the Funai 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 Funai Group's financial situation and operating results regardless of the fact that we have implemented these measures.

ii) 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 Funai 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 Funai Group's financial situation and operating results.

iii) Defects relating to products and services

The Funai 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 Funai 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 Funai Group's financial situation and operating results.

iv) 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 has been 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.

v) Corporate Acquisitions and Business Alliances

The Funai 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 Funai Group’s financial situation and operating results, as well as growth forecasts.

(Impact of overseas market trends)

i) 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.

ii) Dependence on Chinese production

The Funai 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 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.

iii) Foreign currency risk

The Funai 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 produced in Poland and Thailand.

The Funai Group 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)

i) Statutory Regulations

The Funai 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 Funai Group’s financial situation and operating results.

ii) Management of Information

The Funai 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 Funai Group’s financial situation and operating results.

iii) Retirement Benefit Obligations

The Funai 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 Funai 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.

iv) Tax Assets Carried Forward

The Funai 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 Funai Group's financial situation and operating results.

2. Current Conditions of the Company's Group

The Funai Group has omitted disclosure of this item because there are no material changes from the information reported in "Diagram of Operating Business Relationships (Business Contents)" and "Affiliated Companies" in the most recent financial statements (submitted on June 22, 2013).

3. Management Policies

(1) Basic Management Policy of the Company

As its basic management policy, the Funai Group will pursue its business activities by building strong trust and seeking the mutual prosperity of all parties related to the Company as its basic policy, by creating the most efficient development, manufacturing and sales organization possible and stably supplying high quality and fairly priced products to global markets, based on a corporate creed of continual product improvements, promotion of deeper trust and further harmony and mutual prosperity.

(2) Management Indicators Established as Objectives

As a management indicator for the Funai Group, the Company places the greatest emphasis on operating income margin, and will seek to achieve an operating income margin of at least 5% at all companies over the medium term.

(3) Medium to Long-term Management Strategy and Issues to be addressed

The consumer electronics market is globalizing with unprecedented speed. Amid such changes as business restructuring efforts that transcend traditional business borders, Internet proliferation and a growing societal focus on environmental issues, leading companies are undergoing a process of selection and focus, posting net losses or near-losses on an annual basis as the industry undergoes major structural reforms.

Operating in this difficult environment, the Funai Group faces such issues as raising management speed while ensuring quality and price levels to predominate against rival firms and at the same time expanding sales and recovering profitability by offering products that will sell.

We will also embark on the development of new businesses, centered on eco-products, which have a bright future.

In this environment, we will endeavor to enhance the Group's corporate value by implementing the policies outlined below.

i) Increasing net sales and returning to profitability

The Funai 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 Funai 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 Funai 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 (hereinafter, "PHILIPS") 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 lucrative supplies), 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 offering these products for sale.

(Market strategy)

The Funai Group faces the challenges of reducing the risk of overemphasizing the US market, mitigating the effects of seasonality by smoothing production and sales throughout the year, and increasing sales. To address these issues, we are considering ways to develop our business in expansionary emerging markets in the ASEAN, Near and Middle East regions, Mexico and other Latin American countries, as well as in our existing markets in Europe, Japan. In February 2012, the Funai Group established Funai India Private Limited in Mumbai, India and started selling at this subsidiary in the upcoming fiscal year. In addition, we started selling the 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.

ii) Reinforcing manufacturing and development systems

The Funai Group's manufacturing structure is highly dependent on China, and we recognize this as a risk that must be mitigated. Accordingly, during the year we augmented FUNAI (THAILAND) CO., LTD. a production base that will become core to our provision of products in the Indian market. We acquired land in Philippines and plan to build the plant.

To increase groupwide development efficiency, we moved forward with efforts to expand our development facilities in Asian countries, establishing a development facility in China during the year.

iii) Training and appointment of human resources

The Company recognizes that improving each employee's capabilities and being able to link this to bolstering the strength of the Funai Group will be critical for ensuring the Funai Group stays in the lead in the new era of global competition and implementing the Group's medium to long-term business strategy. Therefore the Company's policy is to actively train and assign employees, without regard to whether they are younger employees or mid-career staff, by strengthening and expanding its internal or external training systems.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million Yen)

	Fiscal year 2011 (As of March 31, 2012)	Fiscal year 2012 (As of March 31, 2013)
ASSETS;		
Current Assets		
Cash and deposits	68,146	67,813
Notes and accounts receivable-trade	32,296	33,193
Securities	4,500	—
Merchandise and finished goods	22,387	34,547
Work in process	1,570	2,095
Raw materials and supplies	10,005	18,997
Deferred tax assets	2,915	2,886
Other	3,989	5,445
Allowance for doubtful accounts	(120)	(178)
Total current assets	145,689	164,802
Noncurrent assets		
Tangible fixed assets		
Buildings and structures	12,741	12,332
Depreciation and amortization	(7,335)	(6,783)
Buildings and structures (net)	5,406	5,548
Machinery,equipment and motor vehicles	10,850	9,219
Depreciation and amortization	(9,101)	(7,582)
Machinery,equipment and motor vehicles (net)	1,749	1,637
Tools,furniture and fixtures	21,241	21,558
Depreciation and amortization	(19,215)	(19,571)
Tools,furniture and fixtures (net)	2,025	1,986
Lands	5,170	6,169
Lease assets	773	697
Depreciation and amortization	(420)	(464)
Lease assets (net)	352	233
Other	80	1,099
Total tangible fixed assets	14,785	16,675
Intangible assets		
Patent right	3,813	2,078
Other	982	1,028
Total intangible fixed assets	4,795	3,107
Investment and other assets		
Investment securities	4,641	4,973
Deferred tax assets	3,661	436
Other	3,331	4,720
Allowance for doubtful accounts	(297)	(192)
Total investments and other assets	11,336	9,938
Total noncurrent assets	30,917	29,721
TOTAL ASSETS	176,607	194,524

(Million Yen)

	Fiscal year 2011 (As of March 31, 2012)	Fiscal year 2012 (As of March 31, 2013)
LIABILITIES;		
Current Liabilities		
Notes and accounts payable-trade	29,623	39,178
Short-term loans payable	4,583	12,981
Accounts payables	11,158	11,124
lease liabilities	224	163
Income taxes payable	325	1,690
Deferred tax liabilities	1	1
Allowance for bonus	248	241
Reserve for products guarantee	798	927
Other	3,091	3,143
Total current liabilities	50,054	69,452
Noncurrent liabilities		
lease liabilities	281	147
Deferred tax liabilities	4	1,168
Revalued deferred tax liabilities	226	226
Reserve for retirement benefits	1,038	927
Allowance for officers' retirement gratuities	1,069	1,081
Other	87	121
Total noncurrent liabilities	2,708	3,672
TOTAL LIABILITIES	52,763	73,125
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,272	33,272
Retained earnings	111,384	101,135
Treasury stock	(24,341)	(24,341)
Total shareholders' equity	151,623	141,374
Accumulated other comprehensive income		
Valuation difference on avaiable-for-sale securities	56	451
Foreign currency translation adjustment	(28,917)	(21,722)
Total accumulated other comprehensive income	(28,861)	(21,271)
Subscription right to shares	106	122
Minority interests	974	1,173
Total net asset	123,843	121,398
TOTAL LIABILITIES AND NET ASSETS	176,607	194,524

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

(Million Yen)

	Fiscal year 2011 (from April 1, 2011 to March 31, 2012)	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)
Net sales	246,147	192,008
Cost of sales	208,779	163,340
Gross profit	37,368	28,667
Selling, general and administrative expenses	36,906	33,940
Operating income (loss)	461	(5,273)
Non-operating income		
Interest income	240	280
Dividends income	94	39
Foreign exchange gains	―	4,691
Other	233	326
Total non-operating income	567	5,338
Non-operating expenses		
Interest expenses	126	111
Equity in losses of affiliates	28	69
Foreign exchange losses	378	―
Penalty	―	70
Loss on investments in partnership	141	57
Syndicated loan fee	50	52
Other	128	58
Total non-operating expenses	854	420
Ordinary income (loss)	174	(355)
Extraordinary income		
Gain on sales of noncurrent assets	9	423
Gain on sales of investment securities	3	―
Other	―	2
Total extraordinary income	12	425
Extraordinary loss		
Loss on disposal of noncurrent assets	30	89
Loss on sales of investment securities	0	413
Loss on impairment	※1 396	※1 1,614
Integration expenses of consignment production base	―	343
Other	320	120
Total extraordinary loss	748	2,581
Income (loss) before income taxes	(560)	(2,511)
Income taxes	1,385	725
Income taxes for prior periods	※2 935	※2 966
Income Tax Adjustments	1,617	4,325
Total income taxes	3,939	6,017
Income (loss) before minority interests	(4,500)	(8,528)
Minority interests in income	129	13
Net income (loss)	(4,629)	(8,542)

(Consolidated Statement of Comprehensive Income) (Million Yen)

	Fiscal year 2011 (from April 1, 2011 to March 31, 2012)	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)
Loss before minority interest adjustment	(4,500)	(8,528)
Other comprehensive Income		
Valuation difference on avaiable-for-sale securities	(555)	396
Foreign currency translation adjestment	(1,417)	7,190
Share of other comprehensive income of associates accounted for using equity method	(13)	32
Total other comprehensive Income	(1,986)	7,619
Comprehensive income	(6,486)	(909)
(Breakdown)		
Comprehensive income attributable to owners of parent	(6,616)	(952)
Comprehensive income attributable to minority interests	129	43

(3) Consolidated Statements of Changes in Shareholders' Equity

(Million Yen)

	Fiscal year 2011 (from April 1, 2011 to March 31, 2012)	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)
Shareholders' equity		
Capital stock		
Balance at the end of previous period	31,300	31,307
Changes of items during the period		
New issue of stock	7	—
Total changes of items during the period	7	—
Balance at the end of current period	31,307	31,307
Capital surplus		
Balance at the end of previous period	33,265	33,272
Changes of items during the period		
New issue of stock	7	—
Total changes of items during the period	7	—
Balance at the end of current period	33,272	33,272
Retained earnings		
Balance at the end of previous period	116,738	111,384
Changes of items during the period		
Dividends from surplus	(1,364)	(1,705)
Net income (loss)	(4,629)	(8,542)
Increase due to merger of a non-consolidated subsidiary by a consolidated subsidiary	639	—
Total changes of items during the period	(5,354)	(10,248)
Balance at the end of current period	111,384	101,135
Treasury stock		
Balance at the end of previous period	(24,341)	(24,341)
Changes of items during the period		
Purchase of treasury stock	—	(0)
Total changes of items during the period	—	(0)
Balance at the end of current period	(24,341)	(24,341)
Total shareholders' equity		
Balance at the end of previous period	156,962	151,623
Changes of items during the period		
New issue of stock	14	—
Dividends from surplus	(1,364)	(1,705)
Net income (loss)	(4,629)	(8,542)
Purchase of treasury stock	—	(0)
Increase due to merger of a non-consolidated subsidiary by a consolidated subsidiary	639	—
Total changes of items during the period	(5,339)	(10,248)
Balance at the end of current period	151,623	141,374

(Million Yen)

	Fiscal year 2011 (from April 1, 2011 to March 31, 2012)	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	612	56
Changes of items during the period		
Net changes of items other than shareholders' equity	(555)	394
Total changes of items during the period	(555)	394
Balance at the end of current period	56	451
Foreign currency translation adjustment		
Balance at the end of previous period	(27,486)	(28,917)
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,430)	7,195
Total changes of items during the period	(1,430)	7,195
Balance at the end of current period	(28,917)	(21,722)
Total accumulated other comprehensive income		
Balance at the end of previous period	(26,874)	(28,861)
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,986)	7,589
Total changes of items during the period	(1,986)	7,589
Balance at the end of current period	(28,861)	(21,271)
Subscription rights to shares		
Balance at the end of previous period	87	106
Changes of items during the period		
Net changes of items other than shareholders' equity	19	15
Total changes of items during the period	19	15
Balance at the end of current period	106	122
Minority interests		
Balance at the end of previous period	1,052	974
Changes of items during the period		
Net changes of items other than shareholders' equity	(77)	198
Total changes of items during the period	(77)	198
Balance at the end of current period	974	1,173
Total net assets		
Balance at the end of previous period	131,228	123,843
Changes of items during the period		
New issue of stock	14	―
Dividends from surplus	(1,364)	(1,705)
Net income (loss)	(4,629)	(8,542)
Purchase of treasury stock	―	(0)
Increase due to merger of a non-consolidated subsidiary by a consolidated subsidiary	639	―
Net changes of items other than shareholders' equity	(2,045)	7,803
Total changes of items during the period	(7,384)	(2,445)
Balance at the end of current period	123,843	121,398

(4) Consolidated quartely statements of cash flows

(Million Yen)

	Fiscal year 2011 (from April 1, 2011 to March 31, 2012)	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	(560)	(2,511)
Depreciation and amortization	6,547	5,264
Loss on impairment	396	1,614
Increase(decrease) in allowance for doubtful accounts	(69)	(66)
Increase(decrease)in provision for retirement benefits	(315)	(111)
Interest and dividends income	(334)	(320)
Interest expenses	126	111
Equity in (earnings) losses of affiliates	28	69
Loss (gain) on sales of property, plant and equipment	(7)	(421)
Loss (gain) on sales of investment securities	310	92
Loss (gain) on valuation of investment securities	0	413
Decrease (increase) in trade receivables	3,472	4,388
Decrease (increase) in inventories	9,097	(15,193)
Increase (decrease) in trade payables	1,087	1,328
Other, net	(394)	(2,601)
Subtotal	19,384	(7,944)
Interest and dividends income received	317	363
Interest expenses paid	(125)	(115)
Income taxes paid	(3,577)	(1,010)
Income taxes refund	1,353	684
	(935)	―
Net cash provided by (used in) operating activities	16,416	(8,022)
Net cash provided by (used in) investment activities		
Payments into time deposits	(96,743)	(59,777)
Repayments from time deposits	96,372	80,150
Purchase of property, plant and equipment	(3,607)	(5,384)
Proceeds from sales of property, plant and equipment	102	497
Purchase of intangible assets	(2,678)	(415)
Purchase of investment securities	(290)	(702)
Proceeds from sales of investment securities	485	356
Payment of partial purchase of shares of consolidated subsidiarie	(196)	―
Payments for loan receivables	(3)	(1,073)
Collection of loan receivables	10	85
Other, net	114	(872)
Net cash provided by (used in) investment activities	(6,434)	12,863

(Million Yen)

	Fiscal year 2011 (from April 1, 2011 to March 31, 2012)	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(5,068)	6,900
Repayment of long-term loans payable	(33)	—
Proceeds from issue of stock option	11	—
Purchase of fractional shares	—	(0)
Cash dividends paid	(1,364)	(1,705)
Other, net	(263)	(65)
Net cash provided by (used in) financing activities	(6,717)	5,128
Effect of exchange rate change on cash and cash equivalents	227	3,667
Net increase (decrease) in cash and cash equivalents	3,490	13,637
Cash and cash equivalents at beginning of period	33,745	36,567
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	33
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(669)	—
Cash and cash equivalents at end of period	36,567	50,238

(5) Notes on Consolidated Financial Statements

(Fundamental important matters for preparation of consolidated financial statements)

1. The matter regarding consolidation scope

   The number of consolidated subsidiaries : 18

   The major consolidated subsidiaries are FUNAI CORPORATION, INC., FUNAI ELECTRIC (H.K.), LTD. and DX ANTENNA CO., LTD.

   Funai India Private Limited took on increased importance in the current consolidated fiscal year, so it has been included within the scope of consolidation. The newly-established Zhong Shan Funai Electron Co., FUNAI CMET Optical Electronics Co., Ltd., FEP REAL DSTATE, INC. and HIGH DEFINITION COMMERCIAL SOLUTIONS have also been included within the scope of consolidation in the fiscal year.

2. The matter regarding application of the equity method

   The number of equity method affiliate company : 18

   It is CMET FUNAI Optical Electronics Co., Ltd.

   CMET FUNAI Optical Electronics Co., Ltd. took on increased importance in the fiscal year, so it has been included within the scope of equity method.

(Change in Accounting Policy)

Switch to the method of depreciation

In accordance with revisions to the corporate tax code, beginning in the first quarter of the current fiscal term the Company and its consolidated subsidiaries in Japan will switch to the method of depreciation called for in the revised tax code for tangible fixed assets acquired on or after April 1, 2012.

The resultant impact on operating loss, ordinary loss and net loss before taxes and other adjustments is minor.

(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.

(Takeover of a company by share acquisition)
The Funai Group reached an agreement with Royal Philips Electronics (headquarters, the Netherlands; NYSE: PHG; AEX: PHIA, hereinafter, "PHILIPS") to acquire all shares (hereinafter, the "Transaction") in the company (hereinafter, the "New Company") assuming operations (hereinafter, the "Operation") of PHILIPS' Lifestyle Entertainment Business (Note) in January 29, 2013.

(Note) The Lifestyle Entertainment Business involves the development and design, sales and (partial) manufacture of the following PHILIPS-brand products.
(Audio Video Multimedia products)
Home Audio, Headphone, Speaker, In-car Audio, Video related products, Portable Audio, Portable Video Player,Home Media Player etc.
(Home Communication products) DECT Phone
(Accessories products) Batteries, Cables/Connectors, Storage 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 the Optical Video Business will transfer in 2017.

1. Reasons for acquiring the shares
In September 2008, the Funai Group 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 Funai Group entered an agreement with PHILIPS involving the sale in the United States, Canada and Mexico of products that PHILIPS designed and developed through the Operation.
We have 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 we have 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 Funai 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. We decided to acquire shares in the New Company, based on the belief that the acquisition would foster sustained growth of the Funai Group's business.

2. Name of counterparty to the share acquisition
Royal Philips Electronics

3. Name of the new company (Note)
i) Name : Not yet determined (Note)
ii) Location : Not yet determined (Note)
iii) Name and Position of Representative : Not yet determined
iv) Capital : Not yet determined (Note)
Ⅴ) Businesses : Development, design, selling, and (partial) involvement in manufacturing of products of the Operation
(Note) As the New Company is to be established in the first half of FY 2013, these decisions are not in place at present.

4. Schedule

i) Conclusion of Share Transaction Agreement	January 29, 2013
ii) Expected Date of Share Transfer	Within 2013 (Note)

(Note) The share transfer date is expected to be during 2013, after conforming 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 status of held shares before and after acquisition

i) Ratio of the number of shares held to the number of shares issued prior to transfer	0.0% (Ratio of voting rights: — %)
ii) Ratio of the number of shares acquired to the number of shares issued	100%
iii) Acquisition Price	Shares of the New Company's stock JPY 17,250 million (Note 1,2) Advisory fees, etc. (approximate amount) JPY 830 million (Note 1,3) Total (approximate amount) JPY 18,080 million
iv)Ratio of the number of shares held to the number of shares issued after transfer	100.0% (Ratio of voting rights: 100.0%)

(Note 1) These calculations assume an exchange rate of JPY 115 to the euro.
(Note 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, working capital as of the share transfer date.
(Note 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 this acquisition are all to be funded through resources on hand.

(Consolidated statement of income)

Fiscal Year 2011 (From April 1, 2011 to March 31, 2012)

*1. Impairment losses
During the fiscal year under review, the Funai Electric Group recorded losses on impairment in the following asset groups.

Use	Location	Type
Business Assets	DX Antenna Co., Ltd. (Hyogo-ku, Kobe City)	Buildings and structures
Business Assets	DX Antenna Co., Ltd. (Ono City, Hyogo Pref.)	Buildings and structures
Research Facility	DX Antenna Co., Ltd.. (Tarumi-ku, kobe City)	Buildings and structures , Lands

In principle, the Funai Group groups business assets on the basis of legal units, while idle assets are grouped by individual asset.
During the fiscal year under review, we reduced the book values of structures earmarked for demolition and land scheduled for sale to their recoverable values. These reductions, along with estimated removal costs associated with demolition, were recorded as a loss on impairment (JPY 396 million) and posted as an extraordinary loss. This loss breaks down into JPY 353 million on buildings and structures, and JPY 43 million on land.
We reduced to zero the recoverable value of those assets that are slated for demolition. For assets scheduled for sale, we reduced their recoverable value to their net sale value, based on real estate appraisal values.

*2. Supplementary tax assessment
(Corrective action implemented based on the application of the Anti-Tax Haven Law)
On June 29, 2011 we received a notice from the Osaka Regional Taxation Bureau indicating their decision to incorporate the income generated by our subsidiary in Hong Kong into the income of our company for the duration of three years, from April 1, 2007, to March 31, 2010, for taxation purposes.
Because the Funai Group objected to this corrective action, we applied for assessments by the Administrative Review Office of the Osaka Regional Taxation Bureau on August 25, 2011.
The additional tax, including corporate, residential, and business taxes, amounts to JPY 825 million (JPY 935 million including incidental taxes). This amount has been processed as expenses under the category of "income taxes for prior periods" in this fiscal year.

Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)

*1. Impairment losses
During the fiscal year under review, the Funai Electric Group recorded losses on impairment in the following asset groups.

Use	Location	Type
Idle assets	Funai Electric Co., Ltd. (Daito, Osaka)	Long-term prepaid expenses, etc.

In principle, the Funai 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, the Company revised its production model in line with decreasing global demand. As a result, the Funai Group revalued its licensing of patents based on their expected future degree of use, thereby reducing the expected amount collectible for these assets by JPY 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. Supplementary tax assessment
A consolidated subsidiary, FUNAI EUROPE GmbH, is under investigation by the German tax authorities with regard to transfer pricing taxation on transactions with FUNAI ELECTRIC EUROPE Sp.z o.o., which is also a consolidated subsidiary.
During the fiscal year, the Funai Group posted a "supplementary tax assessment" based on the anticipated additional tax amount, based on the belief that a request for correction by the German tax authorities was increasingly likely under the transfer pricing taxation scheme.

(Consolidated statement of comprehensive income)

(Million Yen)

Fiscal Year 2011 (From April 1, 2011 to March 31, 2012)		Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)	
*1. Reclassification adjustment and tax effect amount involved in other comprehensive income		*1. Reclassification adjustment and tax effect amount involved in other comprehensive income	
Valuation difference on available-for-sale securities:		Valuation difference on available-for-sale securities:	
Accrued amount on the current term	(1,388)	Accrued amount on the current term	201
Reclassification adjustment amount	445	Reclassification adjustment amount	413
Pre-adjustment of tax effect	(942)	Pre-adjustment of tax effect	614
Tax effect amount	387	Tax effect amount	(218)
Valuation difference on available-for-sale securities	(555)	Valuation difference on available-for-sale securities	396
Foreign currency translation adjustment:		Foreign currency translation adjustment:	
Accrued amount on the current term	(1,417)	Accrued amount on the current term	7,190
Share of other comprehensive income of associates accounted for using equity method:		Share of other comprehensive income of associates accounted for using equity method:	
Accrued amount on the current term	(13)	Accrued amount on the current term	32
Total other comprehensive Income	(1,986)	Total other comprehensive Income	7,619

[Segment Information]

1. Summary of Reporting Segments

The Group's reporting segments are based on those units within the Group where separate financial information is available and where the Chief Executive Officer (Representative Director, President and Executive Officer) of the Group periodically deliberates over matters such as the distribution of management resources and financial performance of such segments. The Group's main business is to manufacture and sell electrical equipment and devices. Within Japan, such functions are the responsibility of DX Antenna Co., Ltd. Overseas, the areas of the United States, Asia and Europe are managed by Funai Corporation, Inc. (North America), P&F USA, Inc. (North America), Funai Electric (H.K.) Ltd. (Asia), FUNAI ELECTRIC EUROPE Sp.z o.o (Europe), and other locally domiciled entities. Each locally domiciled entity is an independently managed unit that engages in business activities after formulating comprehensive strategies on the products to carry in the region.

Consequently, the Group is comprised of location-specific segments that are based on its manufacturing and sales structure and have established "Japan", "North America", "Asia" and "Europe" as its four reporting segments.

2. Measurement of the amount of sales, income/loss, assets and liabilities and other in each reporting segment

The accounting policies of the reporting segment are the same as "Basis of presenting consolidated financial statements". Net sales of intersegment are based on sales price to outside customers.

(Switch to the method of depreciation)

In accordance with revisions to the corporate tax code, beginning in the first quarter of the current fiscal term the Company and its consolidated subsidiaries in Japan will switch to the method of depreciation called for in the revised tax code for tangible fixed assets acquired on or after April 1, 2012.

The resultant impact on segment loss is minor.

3. Information of the amount of sales, income/loss, assets, liabilities and other in each reporting segment

Fiscal year 2011 (April 1, 2011 - March 31, 2012) (Units: Million Yen)

	Japan	N. America	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Sales to outside customers	111,870	124,126	4,717	5,432	246,147	―	246,147
(2) Inter-segment sales	112,132	0	160,757	4	272,895	(272,895)	―
Total	224,003	124,127	165,475	5,437	519,043	(272,895)	246,147
Segment Income (Loss)	4,690	(1,343)	425	(1,530)	2,241	(1,780)	461
Segment Assets	111,956	35,895	77,704	4,285	229,842	(53,234)	176,607
Other							
Depreciation and amortization	2,420	109	3,913	106	6,550	(2)	6,547
Amortization of goodwill	20	―	―	―	20	―	20
Investment amount to equity method affiliate	―	―	231	―	231	―	231
Increase in tangible fixed assets and intangible assets	3,522	23	3,170	20	6,737	(128)	6,608

Fiscal year 2012 (April 1, 2012 - March 31, 2013) (Units: Million Yen)

	Japan	N. America	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Sales to outside customers	51,678	136,165	812	3,352	192,008	―	192,008
(2) Inter-segment sales	120,863	0	133,491	0	254,355	(254,355)	―
Total	172,541	136,165	134,303	3,352	446,363	(254,355)	192,008
Segment Income (Loss)	(4,294)	1,528	(491)	(389)	(3,647)	(1,626)	(5,273)
Segment Assets	108,875	55,361	66,696	4,382	235,316	(40,792)	194,524
Other							
Depreciation and amortization	1,797	86	3,319	61	5,264	―	5,264
Amortization of goodwill	9	―	―	―	9	―	9
Investment amount to equity method affiliate	71	―	221	―	293	―	293
Increase in tangible fixed assets and intangible assets	1,317	37	4,373	5	5,733	(4)	5,729

(Note) 1. Adjustments were as follows.

Segment Income (Units: Million Yen)

	Fiscal year 2011	Fiscal year 2012
Eliminations	10	(0)
Corporate expenses *	(948)	(885)
Inventories	(841)	(739)
Total	(1,780)	(1,626)

* Corporate expenses that are categorized under adjustments are within segment income mainly comprise general & administration expenses that do not correspond to the reporting segments

Segment Assets (Units: Million Yen)

	Fiscal year 2011	Fiscal year 2012
Total assets *	27,148	37,615
Adjustments of inventories	(958)	(1,697)
Eliminations	(79,424)	(76,709)
Total	(53,234)	(40,792)

*Total assets that are categorized under adjustments within segment assets mainly comprise excess cash/deposits, long term securities for investment that do not correspond to the reporting segments.

(Note) 2. Segment income and loss are adjusted with the operating income reported in the consolidated statements of income and loss.

[Related Information]

Fiscal year 2011 (April 1, 2011- March 31, 2012)

1. Information every product and service (Units: Million Yen)

	Audiovisual Equipment	Information Equipment	Other Equipment	Total
Sales to outside customers	183,507	30,013	32,627	246,147

2. Information every area

(1) Sales (Units: Million Yen)

Japan	N. America		Asia	Europe	Other	Total
	U.S.	Other				
81,290	127,989	6,122	9,290	12,592	8,862	246,147

(Note) Geographical sales are groupings of nations and regions based on geographical location of customers.

(2) Tangible fixed assets (Units: Million Yen)

Japan	N. America	Asia		Europe	Total
		China	Thailand		
9,472	105	2,569	1,203	1,433	14,785

3. Information every main customer (Units: Million Yen)

Name of the customer	Sales	Associated segment
WAL-MART STORES, INC.	82,791	N. America

Fiscal year 2012 (April 1, 2012- March 31, 2013)

1. Information every product and service (Units: Million Yen)

	Audiovisual Equipment	Information Equipment	Other Equipment	Total
Sales to outside customers	155,686	11,965	24,356	192,008

2. Information every area

(1) Sales (Units: Million Yen)

Japan	N. America		Asia	Europe	Other	Total
	U.S.	Other				
35,865	127,327	5,982	3,541	6,200	13,090	192,008

(Note) Geographical sales are groupings of nations and regions based on geographical location of customers.

(2) Tangible fixed assets (Units: Million Yen)

Japan	N. America	Asia			Europe	Total
		China	Thailand	Other		
9,693	95	1,965	2,439	1,032	1,448	16,675

3. Information every main customer (Units: Million Yen)

Name of the customer	Sales	Associated segment
WAL-MART STORES, INC.	93,918	N. America

[Information of impairment loss in each reporting segments]

Fiscal year 2011 (April 1, 2011 - March 31, 2012) (Units: Million Yen)

	Japan	N. America	Asia	Europe	All of the companies Elimination	Total
Impairment loss	396	−	−	−	−	396

Fiscal year 2012 (April 1, 2012 - March 31, 2013) (Units: Million Yen)

	Japan	N. America	Asia	Europe	All of the companies Elimination	Total
Impairment loss	1,614	−	−	−	−	1,614

[Information of goodwill in each reporting segments]

Fiscal year 2011 (April 1, 2011 - March 31, 2012) (Units: Million Yen)

	Japan	N. America	Asia	Europe	All of the companies Elimination	Total
Amortization of current year	20	−	−	−	−	20
Balance at the end of current year	13	−	−	−	−	13

Fiscal year 2012 (April 1, 2012 - March 31, 2013) (Units: Million Yen)

	Japan	N. America	Asia	Europe	All of the companies Elimination	Total
Amortization of current year	9	−	−	−	−	9
Balance at the end of current year	4	−	−	−	−	4

[Information of amortization of negative goodwill in each reporting segments]

No Applicable

(Significant subsequent event)

Acquisition of inkjet-related technology and assets

The Funai Group executed an agreement to acquire the inkjet-related (IJ) technology and assets of Lexmark International, Inc. (Lexington, Kentucky; hereinafter, “Lexmark”) in April 2, 2013.

1. Strategic rationale for the acquisition

As a contract manufacturer, the Funai Group has supplied inkjet hardware to Lexmark since July of 1997. The Group 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 the Funai Group 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, the Funai Group believes it will be able to expand its business going forward sustainably.

2. Name of the counterparty

Lexmark International, INC.

3. The assets to be transferred

(1) The Details of Assets

i) Inkjet patents

ii) IJ R&D resources in the U.S.

iii) All of outstanding shares of IJ manufacturing affiliate of Lexmark in Philippines
(Including land, building, equipment and staff)

iv) Other IJ technologies and assets

(2) Assets to be transferred in amount

Acquisition price is JPY 9,500 million (assuming an exchange rate of JPY 95 to the U.S. Dollar), and costs for this acquisition are all to be funded through resources on hand. The details of assets and liabilities to be transferred and their amount are under review.

4. The legal form of corporate combination

Acquisition of patents, development facility and manufacturing affiliate shares

5. Schedule

i) Conclusion of Share Transaction Agreement	April 2, 2013
ii) Expected Date of Share Transfer	Within the first half of 2013

FINANCIAL RESULTS SUPPLEMENTATION

FY 2012

from 2012.4.1
to 2013.3.31

Page

FUNAI ELECTRIC CO., LTD.

1. Summary of Full Year Financial Statements (Consolidated)

(1) Operating Results, Financial Conditions

(Units : 100 million yen, %)

	FY2011			FY2012			FY2013 (Projection)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change
Net Sales	2461	100.0	(16.8)	1920	100.0	(22.0)	2020	100.0	5.2
Operating Income (Loss)	4	0.2	(40.2)	(52)	(2.7)	―	2	0.1	―
Ordinary Income (Loss)	1	0.1	(86.5)	(3)	(0.2)	―	5	0.2	―
Net Income (Loss) after Tax	(46)	(1.9)	―	(85)	(4.4)	―	1	0.0	―
Total Assets	1,766	―	―	1,945	―	―	―	―	―
Net Assets	1,238	―	―	1,213	―	―	―	―	―

(※) Yen-Dollars / Exchange rate

(Units : Yen / Dollars)

	FY2011	FY2012	FY2013 (Projection)
Average Rate in each Period	78.81	83.32	96.00

(2) Profitability and Per Share Data etc.

	FY2011	FY2012	FY2013 (Projection)
Gross Profit Ratio (%)	15.2	14.9	17.1
Operating Income Ratio (%)	0.2	(2.7)	0.1
Ordinary Income Ratio (%)	0.1	(0.2)	0.2
Shareholders' Equity Ratio (%)	69.5	61.7	―
Net Assets Per Share (yen)	3598.03	3520.11	―
Net Income Per Share (yen)	(135.69)	(250.38)	2.93
Return on Assets (%)	(2.5)	(4.6)	―
Return on Shareholders' Equity (%)	(3.7)	(7.0)	―
Number of Total Employees	3,990	4,776	―

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

(Units : 100 million yen, %)

	FY2011		FY2012		FY2013 (Projection)	
	Amount	Change	Amount	Change	Amount	Change
Capital Expenditures	40	(33.3)	53	32.5	56	5.7

	FY2011			FY2012			FY2013 (Projection)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change
Depreciation Expenses	49	2.0	2.1	40	2.1	(18.4)	61	3.0	52.5
R&D	105	4.3	(18.6)	93	4.8	(11.4)	103	5.1	10.8

(4) CashFlow

(Units : 100 million yen)

	FY2011	FY2012	FY2013 (Projection)
Cash flows provided by operating activities	164	(80)	—
Income Before Income Taxes	(5)	(25)	—
Depreciation Expenses	65	52	—
Others	104	(107)	—
Cash flows used in investing activities	(64)	128	—
Free cash flows	100	48	—
Cash flows provided by financing activities	(67)	51	—
Effect of exchange rate changes on cash and cash equivalents	2	36	—
Net increase in cash and cash equivalents	28	136	—

2. Operating Activities (Consolidated)

(1) Sales by Equipment

(Units : 100 million yen, %)

	FY2011			FY2012			FY2013 (Projection)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	1,835	74.5	(7.6)	1,557	81.1	(15.2)	1,587	78.6	1.9
DVD	219	8.9	(18.6)	184	9.6	(16.0)	123	6.1	(33.2)
BD	380	15.4	7.6	141	7.3	(62.9)	159	7.9	12.8
LCD TV	1,209	49.1	(9.1)	1,199	62.5	(0.8)	1,261	62.4	5.2
Others	27	1.1	(20.6)	33	1.7	22.2	44	2.2	33.3
Information Equipment	300	12.2	(46.8)	119	6.2	(60.1)	142	7.0	19.3
Others	326	13.3	(20.3)	244	12.7	(25.3)	291	14.4	19.3
Total	2,461	100.0	(16.8)	1,920	100.0	(22.0)	2,020	100.0	5.2

(2) Sales by Areas in Equipment

(Units : 100 million yen, %)

		FY2011			FY2012			FY2013 (Projection)		
		Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment		1,835	74.5	(7.6)	1,557	81.1	(15.2)	1,587	78.6	1.9
	North America	1,222	49.7	(5.2)	1,213	63.2	(0.7)	1,161	57.5	(4.3)
	Europe	67	2.7	(19.3)	43	2.2	(35.8)	54	2.7	25.6
	Asia and Others	43	1.7	13.2	117	6.1	172.1	197	9.7	68.4
	Japan	503	20.4	(12.7)	184	9.6	(63.4)	175	8.7	(4.9)
Information Equipment		300	12.2	(46.8)	119	6.2	(60.1)	142	7.0	19.3
	North America	103	4.2	(51.9)	53	2.8	(48.5)	69	3.4	30.2
	Europe	59	2.4	(61.7)	19	1.0	(67.8)	36	1.8	89.5
	Asia and Others	131	5.3	(26.8)	42	2.2	(67.9)	36	1.8	(14.3)
	Japan	7	0.3	(58.8)	5	0.2	(28.6)	1	0.0	(80.0)
Others		326	13.3	(20.3)	244	12.7	(25.3)	291	14.4	19.3
Total		2,461	100.0	(16.8)	1,920	100.0	(22.0)	2,020	100.0	5.2

(3) Sales by Equipment in Areas

(Units : 100 million yen, %)

		FY2011			FY2012			FY2013 (Projection)		
		Amount	%	Change	Amount	%	Change	Amount	%	Change
North America		1,341	54.5	(13.9)	1,333	69.4	(0.6)	1,368	67.7	2.6
	Audio Visual Equipment	1,222	49.6	(5.2)	1,213	63.2	(0.7)	1,161	57.5	(4.3)
	Information Equipment	103	4.2	(51.9)	53	2.8	(48.5)	69	3.4	30.2
	Others	16	0.7	(70.9)	67	3.4	318.8	138	6.8	106.0
Europe		126	5.1	(47.2)	62	3.2	(50.8)	90	4.5	45.2
	Audio Visual Equipment	67	2.7	(19.3)	43	2.2	(35.8)	54	2.7	25.6
	Information Equipment	59	2.4	(61.7)	19	1.0	(67.8)	36	1.8	89.5
	Others	0	0.0	—	0	0.0	—	0	0.0	—
Asia and Others		181	7.4	(18.1)	166	8.7	(8.3)	246	12.2	48.2
	Audio Visual Equipment	43	1.8	13.2	117	6.1	172.1	197	9.7	68.4
	Information Equipment	131	5.3	(26.8)	42	2.2	(67.9)	36	1.8	(14.3)
	Others	7	0.3	75.0	7	0.4	—	13	0.7	85.7
Japan		813	33.0	(13.7)	359	18.7	(55.9)	316	15.6	(12.0)
	Audio Visual Equipment	503	20.4	(12.7)	184	9.6	(63.4)	175	8.7	(4.9)
	Information Equipment	7	0.3	(58.8)	5	0.2	(28.6)	1	0.0	(80.0)
	Others	303	12.3	(13.2)	170	8.9	(43.9)	140	6.9	(17.6)
Total		2,461	100.0	(16.8)	1,920	100.0	(22.0)	2,020	100.0	5.2

3. Summary of 4Q (January to March) Financial Statements (Consolidated)

(1) Operating Results

(Units : 100 million yen, %)

	FY2011			FY2012		
	4Q (Jan.-Mar.)			4Q (Jan.-Mar.)		
	Amount	%	Change	Amount	%	Change
Net Sales	427	100.0	(35.2)	450	100.0	5.4
Operating Loss	(24)	(5.8)	−	(34)	(7.6)	−
Ordinary Loss	(12)	(2.9)	−	(4)	(1.1)	−
Net Loss after Tax	(10)	(2.4)	−	(62)	(13.9)	−

(※) Yen-Dollars / Exchange rate

(Units : Yen / Dollars)

	FY2011	FY2012
	4Q (Jan.-Mar.)	4Q (Jan.-Mar.)
Average Rate in each Period	79.75	92.56

(2) Sales by Equipment

(Units : 100 million yen, %)

	FY2011			FY2012		
	4Q (Jan.-Mar.)			4Q (Jan.-Mar.)		
	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	324	75.9	(31.6)	346	76.9	6.8
DVD	34	8.0	(46.9)	41	9.1	20.6
BD	66	15.4	(38.3)	34	7.6	(48.5)
LCD TV	219	51.3	(27.0)	265	58.9	21.0
Others	5	1.2	66.7	6	1.3	20.0
Information Equipment	49	11.5	(38.0)	44	9.8	(10.2)
Others	54	12.6	(49.1)	60	13.3	11.1
Total	427	100.0	(35.2)	450	100.0	5.4

FUNAI ELECTRIC CO., LTD.

（Company）
FUNAI ELECTRIC CO., LTD.
INVESTOR / RELATIONSDEPARTMENT
7-7-1 Nakagaito Daito-city, Osaka 574-0013, Japan
TEL 81-72-870-4395・FAX 81-72-870-4613