FY 2013 FINANCIAL REPORT

From April 1, 2013
To March 31, 2014

FUNAI ELECTRIC CO., LTD.

May 12, 2014
Funai Electric Co., Ltd.

Financial Summary for the Period Ending March 2014

1. Summary of Operating Results (Consolidated)

(Million yen)

	Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)		Fiscal Year 2013 (From April 1, 2013 to March 31, 2014)		Rate of increase or decrease
	Amount	%	Amount	%	
Net Sales	192,008	% 100.0	234,042	% 100.0	% 21.9
Operating Loss	(5,273)	(2.7)	(5,465)	(2.3)	—
Ordinary Loss	(355)	(0.2)	(2,253)	(1.0)	—
Net Loss after Tax	(8,542)	(4.4)	(6,745)	(2.9)	—
Net Loss per Share	(250.38)		(197.70)		

Notes: Includes 21 consolidated subsidiaries, 1 equity method non-consolidated subsidiary, 1 equity method affiliate company.

2. Summary of Operating Results (Non-Consolidated)

(Million yen)

	Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)		Fiscal Year 2013 (From April 1, 2013 to March 31, 2014)		Rate of increase or decrease
	Amount	%	Amount	%	
Net Sales	157,549	% 100.0	177,848	% 100.0	12.9
Operating Loss	(5,604)	(3.6)	(2,823)	(1.6)	—
Ordinary Income (Loss)	19,235	12.2	(991)	(0.6)	—
Net Income (Loss) after Tax	13,113	8.3	(5,232)	(2.9)	—
Net Income (Loss) per Share	384.35		(153.37)		

Financial Report for the 12-Month Period ended March 31, 2014

May 12, 2014

Listed company name: Funai Electric Co., Ltd. Securities Code: 6839 Tokyo Stock Exchange, First Section
(URL http://www.funai.jp/)
Representative: President and CEO Yoshikazu Uemura
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Scheduled date of Annual General Shareholders Meeting; June 20, 2014
Scheduled date of Securities Report to be filed to the Kinki Finance Bureau; June 20, 2014
Scheduled date of Commencement of Annual Dividend Payment; June 9, 2014
Financial Results Supplementation: Yes
Financial Results Seminar: Yes

1. Summary of Consolidated Results for the Fiscal Year ended March 2014 (April 1, 2013 – March 31, 2014)

(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 2013	234,042	21.9	(5,465)	—	(2,253)	—	(6,745)	—
Fiscal Year 2012	192,008	(22.0)	(5,273)	—	(355)	—	(8,542)	—

(Note) Comprehensive Income Fiscal Year ended March 31, 2014 (2,122) million yen (－%)
Fiscal Year ended March 31, 2013 (909) million yen (－%)

	Net Income Per Share	Net Income Per Share on a Fully Diluted Basis	Return on Shareholders' Equity	Ordinary Income to Total Assets	Operating Income Ratio
	Yen	Yen	%	%	%
Fiscal Year 2013	(197.70)	—	(5.7)	(1.2)	(2.3)
Fiscal Year 2012	(250.38)	—	(7.0)	(0.2)	(2.7)

(Reference) Equity in earning of affiliates Fiscal Year ended March 31, 2014 (125) million yen
Fiscal Year ended March 31, 2013 (69) million yen

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets Per Share
	Million yen	Million yen	%	Yen
Fiscal Year 2013	181,341	117,684	64.2	3,414.77
Fiscal Year 2012	194,524	121,398	61.7	3,520.11

(Reference) Shareholders' Equity Fiscal Year ended March 31, 2014 116,509 million yen
Fiscal Year ended March 31, 2013 120,103 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 2013	(1,251)	(2,730)	(4,676)	43,612
Fiscal Year 2012	(8,022)	12,863	5,128	50,238

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 2012	—	0.00	—	35.00	35.00	1,194	—	1.0
Fiscal Year 2013	—	0.00	—	35.00	35.00	1,194	—	1.0
Fiscal Year 2014 (Projection)	—	—	—	—	—		—	

(Note) 1. The dividend for FY 2013 is JPY 35.
2. The dividend for FY 2014 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 2015 (April 1, 2014 - March 31, 2015)

(% 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.30.2014	93,700	(22.3)	500	(11.9)	400	(81.5)	200	(67.4)	5.86
Full Year	200,000	(14.5)	500	—	400	—	10	—	0.29

*Note

(1) Changes in Consolidated Subsidiaries (Changes in Scope of Consolidation): Yes
New Subsidiary : Funai Electric Cebu, Inc.

(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: No
4. Restatement: No

(3) Number of Shares Outstanding (Ordinary Shares)
1. Number of shares outstanding (including treasury stock) as of March 31, 2014; 36,130,796 shares
as of March 31, 2013; 36,130,796 shares
2. Number of shares of treasury stock as of March 31, 2014; 2,011,615 shares
as of March 31, 2013; 2,011,615 shares
3. The Average number of outstanding shares on March 31, 2014; 34,119,181 shares
on March 31, 2013; 34,119,186 shares

(Reference)
Summary of Non-consolidated Results for the Fiscal Year ended March 2014 (April 1, 2013– March 31, 2014)

(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 2013	177,848	12.9	(2,823)	―	(991)	―	(5,232)	―
Fiscal Year 2012	157,549	(19.6)	(5,604)	―	19,235	89.2	13,113	400.2

	Net Income Per Share	Net Income Per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year 2013	(153.37)	―
Fiscal Year 2012	384.35	―

(2) Financial Position (Non-consolidated)

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets Per Share
	Million yen	Million yen	%	Yen
Fiscal Year 2013	123,361	83,167	67.3	2,433.69
Fiscal Year 2012	119,151	89,385	74.9	2,616.22

(Reference) Shareholders' Equity
Fiscal Year ended March 31, 2014 83,035 million yen
Fiscal Year ended March 31, 2013 89,263 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, 2014, the economy of the United States, which is the Funai Group's mainstay market, despite improvements job situation slower than expected, almost overall continued to grow mode. The housing market observations a continuous recovery, and 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. But economic performance in China is seen some slowdown. In Japan, capital investment and housing investment picked up as a result of improvement in business and consumer sentiment following the introduction of monetary easing measures by the Bank of Japan, and gradual economic recovery continued, fueled in part by last-minute demand before the consumption tax increase.

Within the consumer electronics industry, demand for smartphones and tablet devices has kept grown sharply. On the other hand, mobile phone, PC, digital camera, LCD TVs and DVD/BD-related products have declined in demand.

As a result of the above factors, the Funai Group posted net sales of JPY 234,042 million, a 21.9% increase compared with the same period last year.

On the profit front, we had declined profit margin by losses in North America and Mexico in PHILIPS-brand LCD TVs, audio accessories products and other items. As a result, operating loss was JPY 5,465 million (the operating loss for the same period last year was JPY 5,273 million); we posted a foreign exchange gain of JPY 3,477 million, but ordinary loss was JPY 2,253 million (the ordinary loss for the same period last year was JPY 355 million); and a net loss of JPY 6,745 million (the net loss for the same period last year was JPY 8,542 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 BD-related products increased.

As a result, net sales were JPY 56,493 million, an increase of 9.3% year on year. Our segment loss (operating loss) was JPY 1,328 million (the operating loss for this segment for the same period last year was JPY 4,294 million).

ii) North America

Revenues for LCD TVs increased year on year due to strong sales of large size products at a major mass retailer in addition to strong sales in holiday selling season. Additionally, the Philips branded audio accessories products that started selling on September 2012 contributed to the sales, and DVD-related equipment also increased as the result of healthy sales of BD players.

As a result, net sales amounting to JPY 169,698 million, an increase of 24.6% year on year. In the other hand, our segment loss (operating loss) was JPY 3,786 million (the operating income for this segment for the same period last year was JPY 1,528 million) due to decrease in profitability of the PHILIPS branded LCD TVs, audio and accessories products.

iii) Asia

The ink cartridges contributed to the sales. As a result, net sales came to JPY 4,563 million, an increase of 462.0% year on year. Our segment income (operating income) was JPY 408 million (the operating loss for this segment for the same period last year was JPY 491 million).

iv) Europe

The ink cartridges contributed to the sales, but LCD TVs and DVD-related products declined due to sluggish market conditions. As a result, net sales down 2.0% year on year, to JPY 3,286 million, and an segment loss (operating loss) of JPY 425 million (operating loss for the same period last year was JPY 389 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 holiday selling season. Sales of BD-related products also increased year on year.

As a result, net sales of this equipment were JPY 183,108 million, an increase of 17.6% 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 18,876 million, an increase of 57.8% year on year.

iii) Other Products

Net sales were JPY 32,058 million, an increase of 31.6% year on year due to contribution of the audio accessories products in North America.

2. Outlook for the next consolidated fiscal year

For the fiscal year ending March 31, 2015, 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 200,000 million	(14.5% decrease year-on-year)
Operating income	500 million	(—)
Ordinary income	400 million	(—)
Net income	10 million	(—)

For its earnings estimates, the Funai Group has assumed an exchange rate of JPY 100 = 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 decreased by JPY 13,182 million as compared to the end of the previous consolidated fiscal year. This was mainly due to an increase of JPY 4,488 million and JPY 2,575 million in notes and accounts receivable-trade, patent right, and a decrease of JPY 18,645 million in cash and deposits.

Total liabilities decreased by JPY 9,468 million as compared to the end of the previous consolidated fiscal year. This was mainly due to an increase of JPY 6,121 million in long-term loans payable, and a decrease of JPY 6,236 million and JPY 8,455 million in notes and accounts payable-trade, short-term loans payable.

Net assets decrease by JPY 3,714 million as compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease of 7,939 million in the retained earnings and an increase of JPY 4,227 million in foreign currency translation adjustment account.

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 1,251 million. Net cash used in investing activities was JPY 2,730 million. Net cash used in financing activities was JPY 4,676 million. The balance of cash and cash equivalents at end of the consolidated fiscal year under review was JPY 43,612 million.

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

	FY ended March 2010	FY ended March 2011	FY ended March 2012	FY ended March 2013	FY ended March 2014
Shareholders’ equity ratio	69.6	67.1	69.5	61.7	64.2
Shareholders’ equity ratio on a market capitalization basis	65.8	43.6	35.8	20.2	19.2
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 2011, March 2013 and March 2014 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). If the Company pays an interim dividend, it makes a public announcement in advance.

Based on this policy, for the fiscal year ended March 31, 2014, 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, audio accessory-related products, 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. 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, fail to reach agreement on an acquisition 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 68.9% 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 98.7% of our products were produced overseas, with 60.4% produced in China (consignment manufacturing and in-house production). 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 Thailand, ink cartridges are produced in Philippines.

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 83.7% 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, since currency fluctuation risks cannot be completely eliminated and foreign currency-denominated assets and liabilities are converted to yen using the exchange rates on the settlement date, significant currency fluctuations may affect the Group’s financial situation and operating results.

(Other Risks)

i) Statutory Regulations

The Funai Group is subject to various laws and regulations in the countries in which it operates pertaining to areas including commercial transactions, import and export, antitrust, intellectual property rights, product liability, environmental protection, consumer protection, financial transactions, and 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) Deferred tax assets

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 21, 2014).

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

Within the consumer electronics industry, demand for smartphones and tablet devices has kept grown sharply. On the other hand, mobile phone, PC, digital camera, LCD TVs and DVD/BD-related products have declined in demand.

The challenge the Funai Group faces in this industry environment is to undertake sales expansion and profitability recovery. To achieve this, the Group will proceed with optimal allocation of enterprise resources and further cultivation of the FPS, a core competence of the Group, while placing greater importance on management speed, realizing quality and price levels superior to competitors, and devoting itself to creating products that will sell. In addition, the Group will expand into new businesses in the highly promising environment, energy, networks, devices and modules, healthcare, and automotive sectors.

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, revenues for LCD TVs increased year on year due to strong sales of large size products at a major mass retailer in addition to strong sales in holiday selling season. In addition, revenues increased year on year as a result of higher orders for printers from OEM customers, entry into the ink cartridge business, and the full-year contribution from Philips-brand audio accessories, which began shipping in September 2012. On the profit front, however, sales subsidiaries P&F USA Inc. and P&F MEXICANA, S.A. DE C.V. faced difficult circumstances. They posted operating losses as profitability deteriorated due to losses attributable to factors including disposal of inventory of Philips-brand LCD TVs and audio accessories in the United States, Canada, and Mexico that occurred from the third quarter onward and were concentrated in the fourth quarter.

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.

In addition, the Group recognizes that product development in new business areas is a pressing issue. However, the LED lamp business didn't deliver the expected results during the fiscal year under review, and withdrawal from overseas markets became unavoidable. In addition, succession of the business for Koninklijke Philips N.V. lifestyle entertainment products, such as Philips-brand audio accessories, is under adjudication at the International Court of Arbitration. This is a difficult situation, and the anticipated commercialization on a global scale will become a very difficult task.

In April 2013, we reached an agreement with Lexmark International, Inc., to acquire its inkjet-related technology and assets. The acquisition enables us to production and distribution of own inkjet printer products (including lucrative ink cartridges). Furthermore, in the fiscal year ending March 31, 2015, we plan to manufacture and sell commercial and industrial ink cartridges. We will also proceed with preparations for a smooth start-up of the business for self-developed printers.

(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, Thailand and India in addition to expansion in Mexico.

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. Additionally we are addressing the improvement for provide products that meet market needs precisely in a timely manner.

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 have established a production subsidiary Funai Electric Philippines Inc. and building the plant.

In the area of development, we continue to move forward with development in the Asia region, mainly in China, to increase the Group's overall efficiency. We are also focusing on new business fields. One result of this effort was the selection in the fiscal year under review of the electric walking assistance cart, which is currently under development, for the Ministry of Economy, Trade and Industry's Project to Promote the Development and Introduction of Robotic Devices for Nursing Care.

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 2012 (As of March 31, 2013)	Fiscal year 2013 (As of March 31, 2014)
ASSETS;		
Current Assets		
Cash and deposits	67,813	49,167
Notes and accounts receivable-trade	33,193	37,681
Merchandise and finished goods	34,547	31,665
Work in process	2,095	1,182
Raw materials and supplies	18,997	16,427
Deferred tax assets	2,886	2,504
Other	5,445	5,622
Allowance for doubtful accounts	(178)	(210)
Total current assets	164,802	144,041
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	12,332	18,278
Accumulated depreciation	(6,783)	(9,251)
Buildings and structures, net	5,548	9,026
Machinery,equipment and vehicles	9,219	12,825
Accumulated depreciation	(7,582)	(9,132)
Machinery,equipment and vehicles, net	1,637	3,693
Tools, furniture and fixtures	21,558	23,301
Accumulated depreciation	(19,571)	(21,247)
Tools, furniture and fixtures, net	1,986	2,053
Lands	6,169	6,178
Lease assets	697	490
Accumulated depreciation	(464)	(363)
Lease assets, net	233	127
Other	1,099	825
Total property, plant and equipment	16,675	21,905
Intangible assets		
Patent right	2,078	4,654
Other	1,028	1,920
Total intangible fixed assets	3,107	6,574
Investment and other assets		
Investment securities	4,973	4,364
Long-term prepaid expenses	1,473	1,976
Deferred tax assets	436	400
Net defined benefit asset	—	335
Other	3,247	2,039
Allowance for doubtful accounts	(192)	(296)
Total investments and other assets	9,938	8,819
Total noncurrent assets	29,721	37,300
TOTAL ASSETS	194,524	181,341

(Million Yen)

	Fiscal year 2012 (As of March 31, 2013)	Fiscal year 2013 (As of March 31, 2014)
LIABILITIES;		
Current Liabilities		
Notes and accounts payable-trade	39,178	32,942
Short-term loans payable	12,981	4,526
Accounts payable-other	11,124	11,571
lease obligations	163	88
Income taxes payable	1,690	414
Deferred tax liabilities	1	―
Provision for bonuses	241	258
Provision for product warranties	927	1,033
Other	3,143	2,857
Total current liabilities	69,452	53,692
Noncurrent liabilities		
Long-term loans payable	―	6,121
lease obligations	147	64
Deferred tax liabilities	1,168	1,153
Deferred tax liabilities for land revaluation	226	226
Provision for retirement benefits	927	―
Provision for directors' retirement benefits	1,081	1,088
Net defined benefit liability	―	775
Other	121	535
Total noncurrent liabilities	3,672	9,964
TOTAL LIABILITIES	73,125	63,656
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,272	33,272
Retained earnings	101,135	93,196
Treasury stock	(24,341)	(24,341)
Total shareholders' equity	141,374	133,435
Accumulated other comprehensive income		
Valuation difference on avaiable-for-sale securities	451	672
Foreign currency translation adjustment	(21,722)	(17,495)
Remeasurements of defined benefit plans	―	(103)
Total accumulated other comprehensive income	(21,271)	(16,925)
Subscription right to shares	122	132
Minority interests	1,173	1,042
Total net assets	121,398	117,684
TOTAL LIABILITIES AND NET ASSETS	194,524	181,341

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

(Consolidated Statements of Income)

(Million Yen)

	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)	Fiscal year 2013 (from April 1, 2013 to March 31, 2014)
Net sales	192,008	234,042
Cost of sales	163,340	201,456
Gross profit	28,667	32,586
Selling, general and administrative expenses	33,940	38,052
Operating income (loss)	(5,273)	(5,465)
Non-operating income		
Interest income	280	134
Dividends income	39	134
Foreign exchange gains	4,691	3,477
Other	326	622
Total non-operating income	5,338	4,369
Non-operating expenses		
Interest expenses	111	193
Equity in losses of affiliates	69	125
Provision of allowance for doubtful accounts	—	119
Compensation expenses	—	529
Penalty	70	—
Other	168	189
Total non-operating expenses	420	1,156
Ordinary income (loss)	(355)	(2,253)
Extraordinary income		
Gain on sales of noncurrent assets	423	0
Gain on bargain purchase	—	8
Other	2	1
Total extraordinary income	425	10
Extraordinary loss		
Loss on disposal of noncurrent assets	89	170
Loss on valuation of investment securities	413	513
Impairment loss	※1 1,614	※1 266
Integration expenses of consignment production base	343	—
Business structure improvement expenses	—	※2 1,281
Advisory fees	—	※3 1,165
Other	120	—
Total extraordinary loss	2,581	3,397
Income (loss) before income taxes	(2,511)	(5,640)
Income taxes	725	518
Income taxes for prior periods	※4 966	—
Income tax adjustments	4,325	549
Total income taxes	6,017	1,068
Income (loss) before minority interests	(8,528)	(6,708)
Minority interests in income	13	37
Net income (loss)	(8,542)	(6,745)

(Consolidated Statement of Comprehensive Income)

(Million Yen)

	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)	Fiscal year 2013 (from April 1, 2013 to March 31, 2014)
Loss before minority interests	(8,528)	(6,708)
Other comprehensive income		
Valuation difference on avaiable-for-sale securities	396	223
Foreign currency translation adjestment	7,190	4,169
Remeasurements of defined benefit plans, net of tax	—	135
Share of other comprehensive income of associates accounted for using equity method	32	57
Total other comprehensive income	※1 7,619	※1 4,586
Comprehensive income	(909)	(2,122)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the pa	(952)	(2,161)
Comprehensive income attributable to minority interest	43	39

(3) Consolidated Statements of Changes in Shareholders' Equity

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

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the end of previous period	31,307	33,272	111,384	(24,341)	151,623
Changes of items during the period					
Dividends from surplus			(1,705)		(1,705)
Net income (loss)			(8,542)		(8,542)
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during the period	―	―	(10,248)	(0)	(10,248)
Balance at the end of current period	31,307	33,272	101,135	(24,341)	141,374

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the end of previous period	56	(28,917)	―	(28,861)	106	974	123,843
Changes of items during the period							
Dividends from surplus							(1,705)
Net income (loss)							(8,542)
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	394	7,195		7,589	15	198	7,803
Total changes of items during the period	394	7,195	―	7,589	15	198	(2,445)
Balance at the end of current period	451	(21,722)	―	(21,271)	122	1,173	121,398

Fiscal year 2013 (April 1, 2013 - March 31, 2014) (Units: Million Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the end of previous period	31,307	33,272	101,135	(24,341)	141,374
Changes of items during the period					
Dividends from surplus			(1,194)		(1,194)
Net income (loss)			(6,745)		(6,745)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	(7,939)	—	(7,939)
Balance at the end of current period	31,307	33,272	93,196	(24,341)	133,435

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the end of previous period	451	(21,722)	—	(21,271)	122	1,173	121,398
Changes of items during the period							
Dividends from surplus							(1,194)
Net income (loss)							(6,745)
Net changes of items other than shareholders' equity	221	4,227	(103)	4,345	10	(130)	4,225
Total changes of items during the period	221	4,227	(103)	4,345	10	(130)	(3,714)
Balance at the end of current period	672	(17,495)	(103)	(16,925)	132	1,042	117,684

(4) Consolidated quartely statements of cash flows

(Million Yen)

	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)	Fiscal year 2013 (from April 1, 2013 to March 31, 2014)
Cash flows from operating activities		
Loss before income taxes and minority interests	(2,511)	(5,640)
Depreciation	5,264	6,479
Impairment loss	1,614	266
Increase (decrease) in allowance for doubtful accounts	(66)	115
Increase (decrease) in provision for retirement benefits	(111)	–
Increase (decrease) in net defined benefit liability	–	(16)
Interest and dividend income	(320)	(268)
Interest expenses	111	193
Share of (profit) loss of entities accounted for using equity method	69	125
Loss (gain) on sales of property, plant and equipment	(421)	45
Loss (gain) on sales of investment securities	92	(0)
Loss (gain) on valuation of investment securities	413	513
Business structure improvement expenses	—	1,044
Decrease (increase) in notes and accounts receivable - trade	4,388	(261)
Decrease (increase) in inventories	(15,193)	11,037
Increase (decrease) in notes and accounts payable - trade	1,328	(12,057)
Other, net	(2,601)	(1,258)
Subtotal	(7,944)	319
Interest and dividend income received	363	299
Interest expenses paid	(115)	(195)
Income taxes paid	(1,010)	(1,221)
Income taxes refund	684	747
Payments for income taxes for prior periods	—	(1,200)
Net cash provided by (used in) operating activities	(8,022)	(1,251)
Cash flows from investing activities		
Payments into time deposits	(59,777)	(5,500)
Proceeds from withdrawal of time deposits	80,150	18,377
Purchase of property, plant and equipment	(5,384)	(5,174)
Proceeds from sales of property, plant and equipment	497	68
Purchase of intangible assets	(415)	(4,320)
Purchase of investment securities	(702)	(362)
Proceeds from sales of investment securities	356	220
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(5,832)
Payments of loans receivable	(1,073)	(55)
Collection of loans receivable	85	7
Other, net	(872)	(157)
Net cash provided by (used in) investment activities	12,863	(2,730)

(Million Yen)

	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)	Fiscal year 2013 (from April 1, 2013 to March 31, 2014)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	6,900	(9,391)
Proceeds from long-term loans payable	—	6,607
Repayments of long-term loans payable	—	(525)
Purchase of treasury shares	(0)	—
Cash dividends paid	(1,705)	(1,194)
Other, net	(65)	(173)
Net cash provided by (used in) financing activities	5,128	(4,676)
Effect of exchange rate change on cash and cash equivalents	3,667	2,032
Net increase (decrease) in cash and cash equivalents	13,637	(6,625)
Cash and cash equivalents at beginning of period	36,567	50,238
Increase in cash and cash equivalents from newly consolidated subsidiary	33	—
Cash and cash equivalents at end of period	50,238	43,612

(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 : 21

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

The newly-established Funai Electric Philippines Inc. and Funai Lexington Technology Corporation have also been included within the scope of consolidation in the fiscal year. 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.

(Change in Accounting Policy)

Application of Accounting Standard for Retirement Benefits

Effective from the end of the fiscal year under review, the Company has applied Accounting Standard for Retirement Benefits (ASBJ Guidance No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012), except for the provisions set forth in the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits. Accordingly, the Company has changed its accounting policy to one that recognizes the difference between retirement benefit obligations and plan assets as net defined benefit liability and recorded unrecognized actuarial differences, unrecognized prior service costs, and transition obligations under net defined benefit liability.

Application of the Accounting Standard for Retirement Benefits and Guidance on Accounting Standard for Retirement Benefits conforms to the transitional treatment set forth in Paragraph 37 of the Accounting Standard for Retirement Benefits, and the effect of the change has been added to or deducted from remeasurements of defined benefit plans under accumulated other comprehensive income at the end of the fiscal year under review.

As a result of the change, at the end of the fiscal year under review, net defined benefit asset of JPY 315 million and net defined benefit liability of JPY 642 million were recorded, and accumulated other comprehensive income decreased by JPY 224 million. Net assets per share decreased by JPY 6.58.

New accounting standards not yet applied

・Accounting Standard for Retirement Benefits (ASBJ Guidance No. 26, May 17, 2012)

・Implementation Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(1) Outline

Matters such as the accounting treatment of unrecognized actuarial differences and unrecognized prior service costs, the calculation method for retirement benefit obligations and service costs, and enhanced disclosure have been revised.

(2) Planned date of application

The Company will apply the revised calculation method for retirement benefit obligations and service costs from the beginning of the fiscal year ending March 31, 2015. Further, as the transitional treatment for the accounting standard has been specified, they will not be applied retroactively to the consolidated financial statements of past fiscal years.

(3) Impact of application of the accounting standard

The impact on the consolidated financial statements of the revision to the calculation method for retirement benefit obligations and service costs is currently being assessed.

(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.

(Consolidated balance sheets)
Fiscal Year 2013 (As of March 31, 2014)
Contingent liabilities
Funai Electric Co., Ltd. (hereinafter, "Funai") resolved to acquire from Koninklijke PHILIPS N.V. (hereinafter, "PHILIPS") all shares in a company that will hold the operation of the PHILIPS' Lifestyle Entertainment Business and concluded a share purchase agreement on January 29, 2013. But PHILIPS filed against Funai a petition as of October 25, 2013 for arbitration to claim compensation for damages on the grounds of breach of the agreement by Funai and the petition has been served on November 8, 2013 by the International Chamber of Commerce.

With regard to this matter, Funai recognizes there to have been no breach of contract on its behalf. Consequently, on December 6, 2013, Funai filed with the International Chamber of Commerce a counterclaim for claiming compensation for damages on the grounds of breach of the agreement and undue action by PHILIPS.

The results of these arbitral proceedings may affect the Funai Group's operating performance, but given the difficulty of making a rational estimate of this impact during this third quarter consolidated fiscal period, such impact has not been reflected in the Funai Group's operating performance or financial condition.
Following is the outline of arbitration filed against Funai and counterclaim filed by Funai.

1. Outline of arbitration filed against Funai
(1) Institution and date of arbitration
   i) Institution where petition for arbitration is filed: International Chamber of Commerce
   ii) Date of petition for arbitration: October 25, 2013

(2) Petitioner of arbitration
   iii) Name : Koninklijke PHILIPS N.V.
   iv) Location : Eindhoven, The Netherlands
   v) Title & name of representative : Chief Executive Officer Frans van Houten

(3) Details of petition and claimed amount for damages
   i) Details of petition : A claim for damages on the grounds of breach of the agreement by Funai
   ii) Claimed amount : A specific claimed amount has not been stipulated

2. Outline of counterclaim filed by Funai
(1) Institution with which counterclaim filed and date of filing
   i) Institution with which counterclaim filed : International Chamber of Commerce

ii) Date of counterclaim: December 6, 2013

(2) Other party to counterclaim filing
i) Name : Koninklijke PHILIPS N.V.
ii) Location : Eindhoven, The Netherlands
iii) Title & name of representative : Chief Executive Officer Frans van Houten

(3) Details of petition and claimed amount for damages
i) Details of petition : Claim for damages on the grounds of breach of the agreement and undue action by PHILIPS
ii) Claimed amount : A specific claimed amount has not been stipulated

An overview of the above-mentioned share purchase agreement is as follows.
1. Name of other company and content of acquired businesses
(1) Name of other company : Koninklijke PHILIPS N.V.
(2) Content of acquired businesses : Lifestyle Entertainment Business
(Note) The Lifestyle Entertainment Business involves the development and design, sales and (partial) manufacture of the PHILIPS-brand Audio Video Multimedia products, Home Communication products and Accessories products.

2. Reasons for Acquiring the Shares
In September 2008, Funai 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 Funai 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.

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

The Transaction to assume the operation will enable the 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. Funai 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.

3. Acquisition price and percentage of shares held after acquisition
Acquisition price : €150 million
Percentage of shares held after acquisition : 100%

(Consolidated statement of income)
*1. Impairment loss
Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)
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.

Fiscal Year 2013 (From April 1, 2013 to March 31, 2014)
During the fiscal year under review, the Funai Electric Group recorded losses on impairment in the following asset groups.

Use	Location	Type
Business Assets	Zhong Shan Funai Electron Co. (Guangdong, China)	Machinery, equipment and vehicles, etc.
Business Assets	Zhong Yue Funai Electron Co. (Guangdong, China)	Machinery, equipment and vehicles, 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.
Since the prospects for future profitability are expected to worsen due to factors including a decrease in orders for information equipment, during the fiscal year under review, the Company reduced the book value of manufacturing facilities, etc. to their recoverable amount and recorded the decrease in value (JPY 266 million) under extraordinary losses. Details of the loss are JPY 149 million for machinery, equipment and vehicles, JPY 51 million for tools, furniture and fixtures, and JPY 65 million for long-term prepaid expenses.
The recoverable amount of the assets has been determined using net realizable value, taking the net realizable value of long-term prepaid expenses as zero and calculating the net realizable value of assets other than long-term prepaid expenses using reasonable estimates taking into account the market value.

*2. Business structure improvement expenses
Fiscal Year 2013 (From April 1, 2013 to March 31, 2014)
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 205 million, an impairment loss on investment in subsidiaries and associated companies of JPY 651 million and impairment losses of JPY 393 million.

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

Use	Location	Type
Business Assets	Zhong Shan Funai Electron Co. (Guangdong, China)	Machinery, equipment and vehicles, etc.
Business Assets	Zhong Yue Funai Electron Co. (Guangdong, China)	Machinery, equipment and vehicles, etc.
Business Assets	Funai Optical Electronics Co., Ltd. (Guangdong, China)	Machinery, equipment and vehicles, 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.
Mainly as a result of the decision to downsize the overseas LED business, during the fiscal year under review, the Company reduced the book value of manufacturing facilities, etc. with no prospects of future use to their recoverable amount, and recorded the decrease in value (JPY 393 million) in business structure improvement expenses under extraordinary loss. Details of the loss are JPY 238 million for machinery, equipment and vehicles, JPY 99 million for tools, furniture and fixtures, and JPY 55 million for long-term prepaid expenses.
The recoverable amount of the assets has been determined using net realizable value, taking the net realizable value of long-term prepaid expenses as zero and calculating the net realizable value of assets other than long-term prepaid expenses using reasonable estimates taking into account the market value.

*3. Advisory fees
Fiscal Year 2013 (From April 1, 2013 to March 31, 2014)
Advisory fees were paid as specified compensation and fees to third-party advisors to determine an acquisition price for the intended acquisition of all shares in a company handling the Lifestyle business of Koninklijke Philips N.V. (hereinafter, “PHILIPS”). However, we are treating these fees as expenses, as PHILIPS has terminated the share purchase agreement and submitted a request for arbitration with the International Chamber of Commerce, and we have filed a counterclaim in this regard.

* 4. Income taxes for prior periods
Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)
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)
* 1. Reclassification adjustment and tax effect amount involved in other comprehensive income

(Million Yen)

	Fiscal year 2012 (from April 1, 2012 to March 31, 2013)	Fiscal year 2013 (from April 1, 2013 to March 31, 2014)
Valuation difference on available-for-sale securities:		
Accrued amount on the current term	201	262
Reclassification adjustment amount	413	87
Pre-adjustment of tax effect	614	349
Tax effect amount	(218)	(125)
Valuation difference on available-for-sale securities	396	223
Foreign currency translation adjustment:		
Accrued amount on the current term	7,190	4,163
Reclassification adjustment amount	—	—
Pre-adjustment of tax effect	7,190	4,163
Tax effect amount	—	5
Valuation difference on available-for-sale securities	7,190	4,169
Remeasurements of defined benefit plans:		
Accrued amount on the current term	—	142
Reclassification adjustment amount	—	—
Pre-adjustment of tax effect	—	142
Tax effect amount	—	(7)
Foreign currency translation adjustment	—	135
Share of other comprehensive income of entities accounted for using equity method:		
Accrued amount on the current term	32	57
Total other comprehensive income	7,619	4,586

[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.

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

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

Fiscal year 2013 (April 1, 2013 - March 31, 2014) (Units: Million Yen)

	Japan	N. America	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Sales to outside customers	56,493	169,698	4,563	3,286	234,042	—	234,042
(2) Inter-segment sales	135,566	0	148,674	0	284,241	(284,241)	—
Total	192,059	169,698	153,237	3,287	518,284	(284,241)	234,042
Segment Income (Loss)	(1,328)	(3,786)	408	(425)	(5,130)	(335)	(5,465)
Segment Assets	129,869	61,921	70,795	3,392	265,978	(84,637)	181,341
Other							
Depreciation and amortization	2,032	47	4,317	83	6,480	(0)	6,479
Amortization of goodwill	3	—	—	—	3	—	3
Investment amount to equity method affiliate	30	—	195	—	225	—	225
Increase in tangible fixed assets and intangible assets	5,466	254	4,178	15	9,914	(54)	9,860

(Note) 1. Adjustments were as follows.

Segment Income (Units: Million Yen)

	Fiscal year 2012	Fiscal year 2013
Eliminations	(0)	1,071
Corporate expenses *	(885)	(839)
Inventories	(739)	(567)
Total	(1,626)	(335)

* 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 2012	Fiscal year 2013
Total assets *	37,615	21,077
Adjustments of inventories	(1,697)	(2,265)
Eliminations	(76,709)	(103,765)
Adjustment of net defined benefit asset	—	315
Total	(40,792)	(84,637)

*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.

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

[Related Information]

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) Property, plant and equipment (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

Fiscal year 2013 (April 1, 2013- March 31, 2014)

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

	Audiovisual Equipment	Information Equipment	Other Equipment	Total
Sales to outside customers	183,108	18,876	32,058	234,042

2. Information every area

(1) Sales (Units: Million Yen)

Japan	N. America		Asia	Europe	Other	Total
	U.S.	Other				
38,109	155,207	6,034	2,635	7,735	24,320	234,042

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

(2) Property, plant and equipment (Units: Million Yen)

Japan	N. America	Asia			Europe	Total
		Philippines	Thailand	Other		
9,787	115	6,668	2,663	1,076	1,593	21,905

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

Name of the customer	Sales	Associated segment
WAL-MART STORES, INC.	121,529	N. America

[Information of impairment loss in each reporting segments]

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

Fiscal year 2013 (April 1, 2013 - March 31, 2014) (Units: Million Yen)

	Japan	N. America	Asia	Europe	All of the companies Elimination	Total
Impairment loss	—	—	659	—	—	659

[Information of amortization of goodwill and unamortized balance in each reporting segments]

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

Fiscal year 2013 (April 1, 2013 - March 31, 2014) (Units: Million Yen)

	Japan	N. America	Asia	Europe	All of the companies Elimination	Total
Amortization of current year	3	—	—	—	—	3
Balance at the end of current year	0	—	—	—	—	0

(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 March 31, 2014

3. Acquisition Cost and Content of Acquired Business

		(million yen)
Consideration for acquisition	Cash	10,036
Expenses directly associated with acquisition	Advisory fees, etc	242
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	10,397
Total asset	10,942
Current liability	402
Noncurrent liability	252
Total liability	655

FINANCIAL RESULTS SUPPLEMENTATION

FY 2013

from 2013.4.1
to 2014.3.31

FUNAI

FUNAI ELECTRIC CO., LTD.

1．Summary of Full Year Financial Statements (Consolidated)

(1) Operating Results, Financial Conditions

（Units : 100 million yen, %）

	FY2012			FY2013			FY2014 (Projection)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change
Net Sales	1920	100.0	(22.0)	2,340	100.0	21.9	2,000	100.0	(14.5)
Operating Income (Loss)	(52)	(2.7)	―	(54)	(2.3)	―	5	0.3	―
Ordinary Income (Loss)	(3)	(0.2)	―	(22)	(1.0)	―	4	0.2	―
Net Income (Loss) after Tax	(85)	(4.4)	―	(67)	(2.9)	―	0	0.0	―
Total Assets	1,945	―	―	1,813	―	―	―	―	―
Net Assets	1,213	―	―	1,176	―	―	―	―	―

（※）Yen-Dollars / Exchange rate

（Units : Yen / Dollars）

	FY2012	FY2013	FY2014 (Projection)
Average Rate in each Period	83.32	100.49	100.00

(2) Profitability and Per Share Data etc.

	FY2012	FY2013	FY2014 (Projection)
Gross Profit Ratio （%）	14.9	13.9	16.0
Operating Income Ratio （%）	(2.7)	(2.3)	0.3
Ordinary Income Ratio （%）	(0.2)	(1.0)	0.2
Shareholders' Equity Ratio （%）	61.7	64.2	―
Net Assets Per Share （yen）	3520.11	3,414.77	―
Net Income Per Share （yen）	(250.38)	(197.70)	0.29
Return on Assets （%）	(4.6)	(3.6)	―
Return on Shareholders' Equity （%）	(7.0)	(5.7)	―
Number of Total Employees	4,776	5,112	―

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

（Units : 100 million yen, %）

	FY2012		FY2013		FY2014 (Projection)	
	Amount	Change	Amount	Change	Amount	Change
Capital Expenditures	53	32.5	109	105.7	49	(55.0)

	FY2012			FY2013			FY2014 (Projection)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change
Depreciation Expenses	40	2.1	(18.4)	52	2.2	30.0	58	2.9	11.5
R&D	93	4.8	(11.4)	84	3.6	(9.7)	84	4.2	―

(4) CashFlow

（Units : 100 million yen）

	FY2012	FY2013	FY2014 (Projection)
Cash flows from operating activities	(80)	(12)	―
Income Before Income Taxes	(25)	(56)	―
Depreciation Expenses	52	64	―
Others	(107)	(20)	―
Cash flows from investing activities	128	(27)	―
Free cash flows	48	(39)	―
Cash flows from financing activities	51	(46)	―
Effect of exchange rate changes on cash and cash equivalents	36	20	―
Net increase (decrease) in cash and cash equivalents	136	(66)	―

2. Operating Activities (Consolidated)

(1) Sales by Equipment

（Units : 100 million yen, %）

	FY2012			FY2013			FY2014 (Projection)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	1,557	81.1	(15.2)	1,831	78.2	17.6	1,574	78.7	(14.0)
DVD	184	9.6	(16.0)	174	7.4	(5.4)	108	5.4	(37.9)
BD	141	7.3	(62.9)	168	7.2	19.1	136	6.8	(19.0)
LCD TV	1,199	62.5	(0.8)	1,436	61.4	19.8	1,278	63.9	(11.0)
Others	33	1.7	22.2	53	2.2	60.6	52	2.6	(1.9)
Information Equipment	119	6.2	(60.1)	189	8.1	57.8	127	6.4	(32.8)
Others	244	12.7	(25.3)	320	13.7	31.6	299	14.9	(6.6)
Total	1,920	100.0	(22.0)	2,340	100.0	21.9	2,000	100.0	(14.5)

(2) Sales by Areas in Equipment

(Units : 100 million yen, %)

	FY2012			FY2013			FY2014 (Projection)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	1,557	81.1	(15.2)	1,831	78.2	17.6	1,574	78.7	(14.0)
North America	1,213	63.2	(0.7)	1,364	58.3	12.4	1,178	58.9	(13.6)
Europe	43	2.2	(35.8)	32	1.4	(25.6)	38	1.9	18.8
Asia and Others	117	6.1	172.1	218	9.3	86.3	176	8.8	(19.3)
Japan	184	9.6	(63.4)	217	9.2	17.9	182	9.1	(16.1)
Information Equipment	119	6.2	(60.1)	189	8.1	57.8	127	6.4	(32.8)
North America	53	2.8	(48.5)	112	4.8	111.3	89	4.5	(20.5)
Europe	19	1.0	(67.8)	45	1.9	136.8	30	1.5	(33.3)
Asia and Others	42	2.2	(67.9)	30	1.3	(28.6)	8	0.4	(73.3)
Japan	5	0.2	(28.6)	2	0.1	(60.0)	0	0.0	—
Others	244	12.7	(25.3)	320	13.7	31.6	299	14.9	(6.6)
Total	1,920	100.0	(22.0)	2,340	100.0	21.9	2,000	100.0	(14.5)

(3) Sales by Equipment in Areas

(Units : 100 million yen, %)

	FY2012			FY2013			FY2014 (Projection)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change
North America	1,333	69.4	(0.6)	1,612	68.9	21.0	1,370	68.5	(15.0)
Audio Visual Equipment	1,213	63.2	(0.7)	1,364	58.3	12.4	1,178	58.9	(13.6)
Information Equipment	53	2.8	(48.5)	112	4.8	111.3	89	4.5	(20.5)
Others	67	3.4	318.8	136	5.8	103.0	103	5.1	(24.3)
Europe	62	3.2	(50.8)	77	3.3	24.8	68	3.4	(11.7)
Audio Visual Equipment	43	2.2	(35.8)	32	1.4	(25.6)	38	1.9	18.8
Information Equipment	19	1.0	(67.8)	45	1.9	136.8	30	1.5	(33.3)
Others	0	0.0	—	0	0.0	—	0	0.0	—
Asia and Others	166	8.7	(8.3)	270	11.5	62.7	217	10.8	(19.6)
Audio Visual Equipment	117	6.1	172.1	218	9.3	86.3	176	8.8	(19.3)
Information Equipment	42	2.2	(67.9)	30	1.3	(28.6)	8	0.4	(73.3)
Others	7	0.4	—	22	0.9	214.3	33	1.6	50.0
Japan	359	18.7	(55.9)	381	16.3	6.3	345	17.3	(9.4)
Audio Visual Equipment	184	9.6	(63.4)	217	9.2	17.9	182	9.1	(16.1)
Information Equipment	5	0.2	(28.6)	2	0.1	(60.0)	0	0.0	—
Others	170	8.9	(43.9)	162	7.0	(4.7)	163	8.2	0.6
Total	1,920	100.0	(22.0)	2,340	100.0	21.9	2,000	100.0	(14.5)

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

(1) Operating Results

（Units : 100 million yen, %）

	FY2012			FY2013		
	4Q (Jan.-Mar.)			4Q (Jan.-Mar.)		
	Amount	%	Change	Amount	%	Change
Net Sales	450	100.0	5.4	485	100.0	7.9
Operating Loss	(34)	(7.6)	—	(59)	(12.2)	—
Ordinary Loss	(4)	(1.1)	—	(70)	(14.5)	—
Net Loss after Tax	(62)	(13.9)	—	(84)	(17.5)	—

（※）Yen-Dollars / Exchange rate

（Units : Yen / Dollars）

	FY2012	FY2013
	4Q (Jan.-Mar.)	4Q (Jan.-Mar.)
Average Rate in each Period	92.56	102.57

(2) Sales by Equipment

（Units : 100 million yen, %）

	FY2012			FY2013		
	4Q (Jan.-Mar.)			4Q (Jan.-Mar.)		
	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	346	76.9	6.8	374	77.1	8.1
DVD	41	9.1	20.6	37	7.6	(9.8)
BD	34	7.6	(48.5)	49	10.1	44.1
LCD TV	265	58.9	21.0	272	56.1	2.6
Others	6	1.3	20.0	16	3.3	166.7
Information Equipment	44	9.8	(10.2)	41	8.5	(6.8)
Others	60	13.3	11.1	70	14.4	16.7
Total	450	100.0	5.4	485	100.0	7.9

（Company）
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