(Translation)

Dear Shareholders:

Information to be disclosed on the Internet upon Giving Notice of the 62nd Ordinary General Meeting of Shareholders

June 4, 2014

Funai Electric Co., Ltd.

CONTENT

The above-listed matters are deemed to have been provided to the shareholders when posted on our Internet website (http://www.funai.jp/jp/investors/) in accordance as provided for in laws and ordinances and Article 14 of the Articles of Incorporation of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis for Presenting the Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 21

(2) Names of major consolidated subsidiaries:

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

Funai Electric Philippines Inc. and Funai Lexington Technology Corporation, which are subsidiaries incorporated during the fiscal year ended March 31, 2014, are included in the scope of consolidation. In addition, Funai Electric Co., Ltd. (the "Company"), has acquired from Lexmark International, Inc., all shares of its manufacturing subsidiary Funai Electric Cebu, Inc., which manufactures inkjet printer-related products in the Philippines. It is also included in the scope of consolidation.

(3) Name of major nonconsolidated subsidiary:

FGS Co., Ltd.

(Reason for exclusion from consolidation)
All nonconsolidated subsidiaries are small, and aggregate total assets, net sales, net income (loss) (based on the Company's equity interest), and retained earnings (based on the Company's equity interest) of the nonconsolidated subsidiaries are not material to the consolidated financial statements.

2. Application of the equity method

(1) Number of nonconsolidated subsidiaries to which the equity method is applied: 1

(2) Name of the nonconsolidated subsidiary to which the equity method is applied:

Highsonic Industrial Ltd.

(3) Number of associated companies to which the equity method is applied: 1

(4) Name of the associated company to which the equity method is applied:

CMET FUNAI Optical Electric Co., Ltd.

(5) Name of the major nonconsolidated subsidiary and associated company to which the equity method is not applicable:

Nonconsolidated subsidiary:	FGS Co., Ltd.
Associated company:	Digitec Industrial Ltd.

(Reason for not applying the equity method)
The nonconsolidated subsidiaries and associated companies have no material impact on net income (loss) (based on the Company's equity interest) and retained earnings (based on the Company's equity interest) and they as a whole are not material to the consolidated financial statements.

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

(7) Fiscal years of consolidated subsidiaries

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

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

For DX ANTENNA Co., Ltd., and P&F MEXICANA, S.A. DE C.V. listed above, their financial statements as of their respective fiscal year ends are used to prepare the consolidated financial statements with necessary adjustments provided for consolidation purpose with regard to material transactions between their respective fiscal year ends and the consolidated fiscal year end.

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

3. Summary of significant accounting policies

(1) Valuation basis and methods for important assets

(i) Securities:

Available-for-sale securities:

Available-for-sale securities for which the fair values are readily determinable:

Stated at fair value on the balance sheet date of the fiscal year (Unrealized gain or loss is included directly in equity. Costs of securities sold are determined by the moving average method.)

Available-for-sale securities for which the fair values are not readily determinable:

Stated at cost determined by the moving average method

(ii) Inventories:

As to the Company and its Japanese consolidated subsidiaries, merchandise and finished goods and work in process are stated principally at the lower of cost or market, determined by the average method. Raw materials are stated principally at the lower of cost or market, determined by the first-in, first-out method.

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

(2) Depreciation method of major fixed assets

(i) Property, plant, and equipment (excluding lease assets):

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

The main useful lives are as follows:

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

(ii) Intangible assets (excluding lease assets):

The amortization of intangible assets is computed by the straight-line method by the Company and its consolidated subsidiaries. The amounts of goodwill are equally amortized for five years; the patents are amortized by the straight-line method based on the estimated economically usable period (8 - 10 years); and software for internal use is amortized by the straight-line method based on the internal usable years (five years).

(iii) Lease assets:

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

The Company applied the revised "Accounting Standard for Lease Transactions" (Accounting Standards Board of Japan (ASBJ) Statement No. 13) effective April 1, 2008. The Company continues to account for leases that existed at the transition date and does not transfer ownership of the leased property to the lessee as operating lease transactions.

(3) Accounting standards for important reserves

(i) Allowance for doubtful accounts:

Allowance for doubtful accounts is provided to cover probable losses on collection. It is the sum of the probable uncollectable amount estimated using the rate of actual collection losses for normal receivables and a review of the individual collectability of the specific receivables.

(ii) Provision for bonuses:

Some consolidated subsidiaries make provision for the amount of bonuses for employees deemed to accrue during the fiscal year, based on the Company's estimated payment obligation for the current consolidated accounting fiscal year.

(iii) Provision for product warranties:

The provision for product warranties is provided for possible after-sales service costs of sold products at an amount considered necessary based on the past track record.

(iv) Liabilities for directors' and corporate auditors' retirement benefits:

The Company calculates the required amount at the end of the fiscal year based on internal regulations in preparation for the payment of retirement gratuities to directors and corporate auditors.

(4) Other significant accounting policies as the basis of presenting the consolidated

financial statements

(i) Accounting policy for retirement benefits:

The liabilities for retirement benefits and the assets for retirement benefits are provided for possible payment of employees' retirement benefits at the amount to be accrued at the consolidated balance sheet date and are calculated based on projected benefit obligations and the fair value of plan assets at the consolidated balance sheet date.

Certain consolidated subsidiaries apply a simple method.

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

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

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

The unappropriated amount of unrecognized actuarial gains or losses, unrecognized prior-service cost, and transitional obligation, net of applicable taxes, are presented as defined retirement benefit plans in accumulated other comprehensive income in the equity.

(ii) Revenue recognition for construction work:

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

Revenue and cost of construction work are recognized by the percentage of completion method (the percentage of completion at the end of the fiscal year shall be estimated by cost-to-cost method.)

Other construction work:

Revenue and cost of construction work are recognized by the completed contract method

(iii) Amortization of goodwill:

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

(iv) Accounting for consumption taxes, etc.:

By the tax-exclusive method

Change in Accounting Policy

(Adoption of Accounting Standard for Retirement Benefits)

Effective from the end of the fiscal year as of March 31, 2014, the Company has adopted the “Accounting Standard for Retirement Benefits” (ASBJ Statement 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 recognize the difference between projected benefit obligations and the fair value of plan assets as a liability for retirement benefits and an asset for retirement benefits, and records the unappropriated amount of unrecognized actuarial differences, unrecognized prior-service costs, and transition obligations in the liability for retirement benefits and the asset for retirement benefits.

The 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 was added to or deducted from remeasurements of defined benefit plans in accumulated other comprehensive income at the end of the fiscal year as of March 31, 2014.

As a result of the change, at the end of the fiscal year as of March 31, 2014, an asset for retirement benefits of ¥315 million and a liability for retirement benefits of ¥642 million were recorded. Accumulated other comprehensive income decreased by ¥238 million and minority interests increased by ¥13 million.

Book value per share decreased by ¥6.99.

New Accounting Pronouncements

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

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

(1) Outline:

Accounting treatment of unrecognized actuarial differences and unrecognized prior-service costs and calculation method for retirement benefit obligations and service costs are changed and related disclosure is enhanced.

(2) Planned date of application:

The Company will apply the new calculation method for retirement benefit obligations and service costs from the beginning of the fiscal year ending March 31, 2015.

Further, as a transitional treatment is specified in the Accounting Standard for Retirement Benefits and Guidance on Accounting Standard for Retirement Benefits, they will not be applied retroactively to the consolidated financial statements of the previous fiscal years.

(3) Impact of application of the Accounting Standard for Retirement Benefits and Guidance on Accounting Standard for Retirement Benefits:

The impact on the consolidated financial statements of the change in the calculation method for retirement benefit obligations and service costs will be an increase of ¥483 million in retained earnings at the beginning of the fiscal year ending March 31, 2015.

Notes to Consolidated Balance Sheet

1. Accumulated depreciation of assets

Accumulated depreciation of property, plant, and equipment: ¥40,473 million

2. Accumulated impairment loss on assets

Accumulated depreciation of assets includes accumulated impairment loss on assets.

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

4. Contingent liability

(Arbitration)

The Company resolved to acquire from Koninklijke Philips N.V. (hereinafter, “Philips”) all shares in a company that would succeed the operation of Philips’ Lifestyle Entertainment Business and concluded a share purchase agreement on January 29, 2013. However Philips filed against the Company a petition as of October 25, 2013, for arbitration to claim compensation for damages on the grounds of breach of the agreement by the Company and the petition was served on the Company by the International Chamber of Commerce on November 8, 2013.

With regard to this matter, the Company recognizes that there was no breach of the agreement on its part. Consequently, on December 6, 2013, the Company 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.

On May 20, 2014, the Company was given notice of a compensation for damages Philips brought forward against the Company in the amount of €171.8 million, as well as statutory interest thereon and arbitration expenses.

The results of these arbitration proceedings may have an effect on the operating results of the Company and its consolidated subsidiaries (the “Group”). However, it is not possible to make a reasonable estimate of the effect of the arbitration proceedings, as of the end of the fiscal year and the effect thereof, if any, on the operating results, and the financial position of the Group remains unclear.

The following is an outline of the petition for arbitration filed against the Company and the counterclaim filed by the Company:

1. Outline of the petition for arbitration filed against the Company

(1) Institution and date of the petition for arbitration:

(i) Institution with which the petition for arbitration was filed:
International Chamber of Commerce

(ii) Date of the petition for arbitration: October 25, 2013

(2) Petitioner for arbitration:

(i) Name: Koninklijke Philips N.V.

(ii) Location: Eindhoven, The Netherlands

(iii) Title and name of representative: Chief Executive Officer, Frans van Houten

(3) Details of the petition and claimed amount for damages:

(i) Details of the petition: A claim for damages on the grounds of breach of the agreement by the Company

(ii) Claimed amount: €171.8 million, statutory interest thereon and arbitration expenses

2. Outline of the counterclaim filed by the Company

(1) Institution with which the counterclaim was filed and the date thereof:

(i) Institution with which the counterclaim was filed:
International Chamber of Commerce

(ii) Date of the counterclaim: December 6, 2013

(2) Party to the counterclaim filed:

(i) Name: Koninklijke Philips N.V.

(ii) Location: Eindhoven, The Netherlands

(iii) Title and name of representative: Chief Executive Officer, Frans van Houten

(3) Details of the counterclaim and claimed amount for damages:

(i) Details of the counterclaim:
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. The Company was instructed by the arbitration court to calculate the amount of damages incurred by the Company and bring forward a claimed amount against Philips no later than October 2014.

An overview of the above-mentioned share purchase agreement is as follows:

1. Name of the other party and the content of the business to be acquired

(1) Name of the other party: Koninklijke Philips N.V.

(2) Content of the business to be acquired: Lifestyle Entertainment Business

(Note) The Lifestyle Entertainment Business involves the development, design, sales and (partial) manufacture of the Philips-brand Audio, Video, and Multimedia products, Home Communication products, and Accessories products.

2. Reasons for acquiring the shares

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

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

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

3. Acquisition price and the percentage of shares held after the acquisition

Acquisition price: €150 million

Percentage of shares held after the acquisition: 100%

5. Financial covenants

With regard to bank loans, a syndicated loan agreement (balance as of the end of the fiscal year: ¥5,146 million) includes financial covenants; if the Company breaches any of the following clauses, it shall forfeit the benefit of time in relation to the entire obligation under the agreement and immediately pay the principal of and interest on the loan:

(Clauses)

(1) The Company shall maintain the amount of the equity section in the consolidated balance sheet as of the end of each fiscal year at no less than ¥100 billion.

(2) The Company shall, for two consecutive fiscal years, not report an operating loss on the consolidated statement of operations for the fiscal year ending March 31, 2015, and for each fiscal year thereafter.

(3) The Company shall, for two consecutive fiscal years, not report an ordinary loss on the consolidated statement of operations for the fiscal year ending March 31, 2015,

and for each fiscal year thereafter.

Notes to Consolidated Statement of Operations

1. Impairment losses

During the fiscal year ended March 31, 2014, the Group recorded losses on impairment in the following asset groups:

Use	Location	Type
Business assets	Zhong Yue Funai Electron Co. (Guangdong, China)	Machinery, equipment, and vehicles, etc.
Business assets	Zhong Shan Funai Electron Co. (Guangdong, China)	Machinery, equipment, and vehicles, etc.

In principle, the Group groups business assets on the basis of a legal entity whose cash inflows and outflows are continuously recorded. Idle assets are separated individually.

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 ended March 31, 2014, the Company reduced the book value of manufacturing facilities, etc., to their recoverable amounts and recorded the decrease in value of ¥266 million as extraordinary losses. The details of the losses are ¥149 million for machinery, equipment, and vehicles; ¥51 million for tools, furniture, and fixtures; and ¥65 million for long-term prepaid expenses.

The recoverable amounts of the assets were determined at net realizable value. The net realizable value of long-term prepaid expenses and assets other than long-term prepaid expenses is determined at zero and reasonable estimates based on market value, respectively.

2. Business structure improvement expenses

Business structure improvement expenses were mainly expenses incurred due to shrinking of the overseas LED business, including an inventory valuation loss of ¥205 million, a loss on revaluation of investment in nonconsolidated subsidiaries and associated companies of ¥651 million and impairment losses of ¥393 million.

(Impairment losses)

During the fiscal year ended March 31, 2014, the Group recorded losses on impairment in the following asset groups:

Use	Location	Type
Business assets	Zhong Yue Funai Electron Co. (Guangdong, China)	Machinery, equipment, and vehicles, etc.
Business assets	Zhong Shan 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 Group groups business assets on the basis of a legal entity whose cash inflows and outflows are continuously recorded. Idle assets are separated individually.

Mainly, as a result of the decision to downsize the overseas LED business, during the fiscal year ended March 31, 2014, 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 of ¥393 million as business structure improvement expenses under extraordinary loss. The details of the losses are ¥238 million for machinery, equipment, and vehicles; ¥99 million for tools, furniture, and fixtures; and ¥55 million for long-term prepaid expenses.

The recoverable amounts of the assets were determined at net realizable value. The net realizable value of long-term prepaid expenses and assets other than long-term prepaid expenses is determined at zero and reasonable estimates based on market value, respectively.

3. Advisory fees

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 Entertainment Business of Philips. However, the Company recorded these compensation and fees as expenses since Philips terminated the share purchase agreement and filed a petition for arbitration with the International Chamber of Commerce, and the Company filed a counterclaim in this regard.

Notes to Consolidated Statement of Changes in Equity

1. Type and total number of shares issued, and type and number of shares of treasury stock

(thousands of shares)

	Number of shares as of April 1, 2013	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2014
Shares issued				
Shares of common stock	36,130	-	-	36,130
Total	36,130	-	-	36,130
Shares of treasury stock				
Shares of common stock	2,011	-	-	2,011
Total	2,011	-	-	2,011

2. Dividends

(1) Amount of dividends paid:

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

(2) Dividends whose record date is in the fiscal year ended March 31, 2014, but whose effective date will be in the fiscal year ending March 31, 2015, are as follows:

Resolution	Type of shares	Total amount of dividends (millions of yen)	Source of dividends	Amount of dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 26, 2014	Shares of common stock	1,194	Retained earnings	35	March 31, 2014	June 9, 2014

3. Stock acquisition rights

Description of stock acquisition rights	Type of shares to be issued or transferred upon exercise of stock acquisition rights	Number of shares for stock acquisition rights (share)
		As of March 31, 2014
The first stock acquisition rights issued in the year ended March 31, 2006	Shares of common stock	346,400
The first stock acquisition rights issued in the year ended March 31, 2009	Shares of common stock	310,800
Total		657,200

Notes to Financial Instruments

1. Status of financial instruments

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

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

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

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

Bank loans are principally for the Group's operations. The Group has a policy of not using derivatives. However, as floating-rate loans are exposed to interest rate risk, the Group may utilize derivatives (interest rate swap agreements) as hedging instruments according to individual loan contracts. To trade in derivatives, such derivatives are executed and managed in accordance with the internal rules. To mitigate credit risk, the Group enters into transactions solely with financial institutions with high ratings.

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

The amounts recorded in the consolidated balance sheet, fair value, and the difference between them as of March 31, 2014, are as follows:

(millions of yen)

		Amount recorded in the consolidated balance sheet*	Fair value*	Difference
(1)	Cash and deposits	49,167	49,167	-
(2)	Notes and accounts receivable - trade	37,681	37,681	-
(3)	Investment securities:			
	Available-for-sale securities	1,872	1,872	-
(4)	Notes and accounts payable - trade	(32,942)	(32,942)	-
(5)	Short-term bank loans	(4,526)	(4,526)	-
(6)	Accounts payable - other	(11,571)	(11,571)	-
(7)	Long-term bank loans	(6,121)	(6,121)	-
(8)	Derivatives	-	-	-

* The items recognized as liabilities are shown in parentheses.

(Notes)1. Calculation method of the fair values of financial instruments, securities and derivatives:

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

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

(3) Investment securities:

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

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

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

(7) Long-term bank loans:

The long-term bank loans are based on floating rates. To reflect market interest rates over a short period of time, the book value is used as the fair value is nearly equal to the book value.

(8) Derivatives:

This item is not applicable.

2. Unlisted shares (¥2,491 million on the balance sheet) have no market price and it is impossible to estimate their future cash flow. As determining the market value is considered to be extremely difficult, they are not included in "(3) Investment in securities – Available-for-sale securities."

Notes to Per Share Information

Book value per share	¥3,414.77
Net loss per share	¥197.70

Other Notes

Additional Information

(Business Combinations)

Business Combination through Acquisition

1. Outline of the business combination

(1) A counterparty and business acquired:

Name of the counterparty:	Lexmark International, Inc. (hereinafter, "Lexmark")
Business acquired:	Inkjet-related technologies and assets, including patents

(2) Main reason for the business combination:

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

The acquisition of the patents for printer-related products, including ink cartridges that have long been marketed by Lexmark globally (specifically, in North America), as well as product-developing functions and technologies and manufacturing functions and technologies, enables the Company to start and grow its own inkjet business, including manufacture and sale of more profitable ink cartridges, rather than as a contract manufacturer of printer products, by utilizing the strong inkjet business platform that Lexmark has spent years establishing. As a result, the Company believes the Group will be able to sustainably expand its business going forward.

(3) Date of the business combination:

April 30, 2013

(4) Legal form of the business combination:

Acquisition of patents and development facilities, and acquisition of shares in a manufacturing subsidiary

(5) Name of the manufacturing subsidiary after business combination:

Funai Electric Cebu, Inc.

(6) Ratio of voting rights acquired: 100%

2. Period of operating results of the acquired business included in the consolidated financial statements

From May 1, 2013 to March 31, 2014

3. Amount and breakdown of the acquisition cost

(millions of yen)

Consideration for the acquisition:	Cash	10,036
Expenses directly associated with the acquisition	Advisory fees, etc.	242
Acquisition cost		10,278

4. Amount of gain on bargain purchase generated and the reason for recognition

(1) Amount of gain on bargain purchase generated: ¥8 million

(2) Reason for recognition:

As the net amount of acquired assets and assumed liabilities exceeded the acquisition cost, the difference was recorded as a gain on bargain purchase.

5. Amount and breakdown of the assets acquired and the liabilities assumed at the acquisition date

	(millions of yen)
Current assets	544
Fixed assets	10,397
Total assets	10,942
Current liabilities	402
Long-term liabilities	252
Total liabilities	655

(Tax system for dealing with tax havens)

1. On June 28, 2005, and June 16, 2008, the Company received notices from the Osaka Regional Taxation Bureau regarding the implementation of corrective action. These notices indicated a decision regarding our subsidiary in Hong Kong, suggesting that it did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens. The notification further indicated that the Osaka Regional Taxation Bureau decided to incorporate the income generated by our subsidiary in Hong Kong into the income of the Company for the duration of the three years from April 1, 2001 to March 31, 2004 and from April 1, 2004 to March 31, 2007 for taxation purposes. Because the Company objected to this corrective action, the Company applied for assessment by the Osaka National Tax Tribunal on July 25, 2006, and again on August 6, 2008. Thereafter, the Company received written verdicts on this case on July 3, 2008, and again on July 23, 2009, indicating that our assertions had been dismissed. The Company filed an appeal with the Osaka District Court to have the action cancelled on November 16, 2006, and again on November 14, 2008, and hearings by consolidation of those actions had been held since November 26, 2008. The court dismissed the claims of the Company on June 24, 2011. Thereafter, as the Company was unable to accept the Osaka District Court's judgment, the Company filed notices of appeal at the Osaka High Court on July 7, 2011. With respect to this action, on July 20, 2012, the court dismissed the claims of the Company. The Company, unable to accept the judgment, filed an appeal and application for the acceptance of the appeal with the Supreme Court on August 1, 2012. On December 12, 2013, the Company received from the Supreme Court notices of its decision to dismiss the appeal dated December 11, 2013.

   The additional tax amounted to ¥16,651 million (¥19,184 million, including incidental taxes) and ¥15,038 million (¥16,838 million, including incidental taxes), including corporate income taxes, inhabitant taxes, and enterprise taxes. The Company processed these amounts in the respective fiscal years ended March 31, 2007 and 2009, as "Income taxes - prior years," since the accounting procedures relating to additional tax amounts have been clarified through the amendment of the "Treatment of Accounting and Presentation of Taxes for the Purpose of Audits" (JICPA Audit and Assurance Practice Committee Report No. 63).

2. On June 29, 2011, the Company received notices from the Osaka Regional Taxation

Bureau suggesting that our subsidiary in Hong Kong did not satisfy the conditions for exclusion from application of the Tax system for dealing with tax havens and indicating its decision to incorporate the income generated by the subsidiary into the income of the Company for the duration of three years from April 1, 2007 to March 31, 2010, for taxation purposes. Because the Company objected to this corrective action, the Company applied for assessments by the Osaka National Tax Tribunal on August 25, 2011. On July 18, 2012, the Company received written verdicts on this case indicating that our assertions had been dismissed. The Company, unable to accept the verdicts, filed an appeal to have the action cancelled with the Tokyo District Court on January 17, 2013.

The additional tax, including corporate income taxes, inhabitant taxes, and enterprise taxes, amounted to ¥825 million (¥935 million, including incidental taxes). This amount has been processed as expenses under the category of "Income taxes - prior years" in the fiscal year ended March 31, 2012.

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

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

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies:

1. Valuation basis and methods for assets

   (1) Securities:

   Investment in subsidiaries and associated companies:

   Stated at cost determined by the moving-average method.

   Available-for-sale securities:

   Available-for-sale securities for which the fair values are readily determinable:

   Stated at fair value on the balance sheet date of the fiscal year (Unrealized gain or loss is included directly in equity. Selling costs are determined by the moving-average method.)

   Available-for-sale securities for which the fair values are not readily determinable:

   Stated at cost determined by the moving-average method.

   (2) Inventories:

Finished goods:	Stated at the lower of cost or market, determined by the average method.
Raw materials:	Stated at the lower of cost or market, determined by the first-in, first-out method.

2. Depreciation method of fixed assets:

   (1) Property, plant, and equipment (excluding lease assets):

   The depreciation of property, plant, and equipment is computed by the declining-balance method.

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

   (2) Intangible assets (excluding lease assets):

   The amortization of intangible assets is computed by the straight-line method.

The amounts of goodwill are equally amortized for five years; the patents are amortized by the straight-line method based on the estimated economically usable period (8-10 years); and software for internal use is amortized by the straight-line method based on the internal usable years (five years).

(3) Lease assets:

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

3. Accounting standards for reserves:

(1) Allowance for doubtful accounts:

Allowance for doubtful accounts is provided to cover probable losses on collection. It is the sum of the probable uncollectable amount estimated using the rate of actual collection losses for normal receivables and a review of the individual collectability of the specific receivables.

(2) Provision for product warranties:

The provision for product warranties is provided for possible after-sales service costs of sold products at an amount considered necessary based on the past track record.

(3) Liabilities for retirement benefits:

The liabilities for retirement benefits are provided for possible payment of employees' post-retirement benefits at the amount to be accrued at the balance sheet date and are calculated based on projected benefit obligations and the fair value of plan assets at the balance sheet date.

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

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

(4) Liabilities for directors' and corporate auditors' retirement benefits:

The Company calculates the required amount at the end of the fiscal year based on internal regulations in preparation for the payment of retirement gratuities to directors and corporate auditors.

4. Other significant accounting policies as the basis of presenting the nonconsolidated financial statements

(1) Accounting policy for retirement benefits:

The method of accounting for the unappropriated amount of unrecognized actuarial gains or losses and unrecognized prior service cost related to retirement benefits differs from the method of accounting for the same in the consolidated financial statements.

(2) Accounting for consumption taxes, etc.:

By the tax-exclusive method

Notes to Nonconsolidated Balance Sheet:

1. Accumulated depreciation of assets:

Accumulated depreciation of property, plant, and equipment:	¥11,073 million

2. Monetary receivables/payables from/to subsidiaries and associated companies:

Short-term monetary receivables:	¥42,473 million
Long-term monetary receivables:	¥17,046 million
Short-term monetary payables:	¥25,406 million

3. Contingent liabilities

(Arbitration)

The Company resolved to acquire from Philips all shares in a company that would succeed the operation of Philips' Lifestyle Entertainment Business and concluded a share purchase agreement on January 29, 2013. However, Philips filed against the Company a petition as of October 25, 2013, for arbitration to claim compensation for damages on the grounds of breach of the agreement by the Company and the petition was served on the Company by the International Chamber of Commerce on November 8, 2013.

With regard to this matter, the Company recognizes that there was no breach of the agreement on its part. Consequently, on December 6, 2013, the Company 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.

On May 20, 2014, the Company was given notice of a compensation for damages Philips brought forward against the Company in the amount of €171.8 million, as well as statutory interest thereon and arbitration expense.

The results of these arbitration proceedings may have an effect on the operating results of the Company. However, it is not possible to make a reasonable estimate of the effect of the arbitration proceedings as of the end of the fiscal year and the effect thereof, if any, on the operating results and financial position of the Company remains unclear.

The following is an outline of the petition for arbitration filed against the Company and the counterclaim filed by the Company:

1. Outline of the petition for arbitration filed against the Company

(1) Institution and date of the petition for arbitration:

(i) Institution with which the petition for arbitration was filed:
International Chamber of Commerce

(ii) Date of the petition for arbitration: October 25, 2013

(2) Petitioner for arbitration:

(i) Name: Koninklijke Philips N.V.

(ii) Location: Eindhoven, The Netherlands

(iii) Title and name of representative: Chief Executive Officer, Frans van Houten

(3) Details of the petition and claimed amount for damages:

(i) Details of the petition: A claim for damages on the grounds of breach of the agreement by the Company

(ii) Claimed amount: €171.8 million, statutory interest thereon and arbitration expenses

2. Outline of the counterclaim filed by the Company

(1) Institution with which the counterclaim was filed and the date thereof:

(i) Institution with which the counterclaim was filed:
International Chamber of Commerce

(ii) Date of the counterclaim: December 6, 2013

(2) Party to the counterclaim filed:

(i) Name: Koninklijke Philips N.V.

(ii) Location: Eindhoven, The Netherlands

(iii) Title and name of representative: Chief Executive Officer Frans van Houten

(3) Details of the counterclaim and claimed amount for damages:

(i) Details of the counterclaim:
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. The Company was instructed by the arbitration court to calculate the amount of damages incurred by the Company and bring forward a claimed amount against Philips no later than October 2014.

An overview of the above-mentioned share purchase agreement is as follows:

1. Name of the other party and the content of the business to be acquired

(1) Name of the other party: Koninklijke Philips N.V.

(2) Content of the business to be acquired: Lifestyle Entertainment Business

(Note) The Lifestyle Entertainment Business involves the development, design, sales, and (partial) manufacture of the Philips-brand Audio, Video, and Multimedia products; Home Communication products; and Accessories products.

2. Reasons for acquiring the shares

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

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

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

3. Acquisition price and the percentage of shares held after the acquisition

Acquisition price: €150 million

Percentage of shares held after the acquisition: 100%

(Liabilities on guarantee)

The Company has provided a guarantee for accounts payable to suppliers for the following subsidiary:

FUNAI ELECTRIC EUROPE Sp. z o.o. ¥120 million

4. Financial covenants

A ¥5,146 million bank loan is based on a syndicated loan agreement, which includes financial covenants; if the Company breaches any of the following clauses, it shall forfeit the benefit of time in relation to the entire obligation under the agreement and immediately pay the principal of and interest on the loan:

(Clauses)

(1) The Company shall maintain the amount of the equity section in the consolidated balance sheet as of the end of each fiscal year at no less than ¥100 billion.

(2) The Company shall, for two consecutive fiscal years, not report an operating loss in the consolidated statement of operations for the fiscal year ending March 31, 2015, and for each fiscal year thereafter.

(3) The Company shall, for two consecutive fiscal years, not report an ordinary loss in the consolidated statement of operations for the fiscal year ending March 31, 2015 and for each fiscal year thereafter.

Notes to Nonconsolidated Statement of Operations:

1. Amount of transactions with subsidiaries and associated companies

Trading transaction:

Sales:	¥138,661 million
Purchase:	¥154,508 million
Other operating expenses:	¥1,824 million
Transactions other than trading:	¥182 million

2. Business structure improvement expenses

Business structure improvement expenses stem mainly from costs incurred due to the shrinking of the overseas LED business, principally including an inventory valuation loss of ¥79 million and an loss on revaluation of investment in subsidiaries and associated companies of ¥997 million.

3. Advisory fees

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 Entertainment Business of Philips. However, the Company is treating these fees as expenses, as Philips has terminated the share purchase agreement and filed a petition for arbitration with the International Chamber of Commerce, and the Company has filed a counterclaim in this regard.

Notes to Nonconsolidated Statement of Changes in Equity

Matters concerning the number of shares of treasury stock:

(thousands of shares)

Type of shares	Number of shares as of April 1, 2013	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2014
Common stock	2,011	-	-	2,011

Notes on Accounting for Deferred Tax

Principal components of deferred tax assets and deferred tax liabilities:

	(millions of yen)
Deferred tax assets	
Liabilities for directors' and corporate auditors' retirement benefits	381
Accounts payable - other	839
Allowance for doubtful accounts	5,299
Accrued expenses (bonuses)	269
Loss on revaluation of investment securities	395
Loss on revaluation of investment in subsidiaries and associated companies	2,950
Transfer pricing taxation adjustments	352
Impairment loss on fixed assets	196
Tax loss carryforwards	5,699
Other	451
Subtotal	16,835
Valuation allowance	(15,169)
Total	1,665
Deferred tax liabilities	
Unrealized gain on available-for-sale securities	(321)
Asset for retirement benefits	(326)
Reserve for advance depreciation of fixed assets	(277)
Other	(45)
Subtotal	(971)
Deferred tax assets, net	694

2. Revision of deferred tax assets and deferred tax liabilities as a result of the revision of the rate of corporate income taxes.

The "Act for Partial Amendment of the Income Tax Act, etc." (2014 Act No. 10) was promulgated on March 31, 2014, and the special corporate income tax for reconstruction has ceased to be imposed from the fiscal year beginning on or after April 1, 2014. Accordingly, the statutory effective tax rate to be used for the calculation of deferred tax assets and deferred tax liabilities will be reduced from the previous 38.0% to 35.6% with regard to the temporary differences expected to be eliminated for the fiscal year beginning on April 1, 2014.

The tax rate revision has decreased the amount of deferred tax assets (after the deduction of the amount of deferred tax liabilities) by ¥96 million and increased income taxes - deferred by ¥96 million.

Notes on Transactions with Related Parties

1. Subsidiaries, etc.

(millions of yen)

Type	Name	Voting rights held by the Company (or held by others)	Relationship	Transaction	Amount	Account	Balance as of March 31, 2014
Subsidiary	DX ANTENNA Co., Ltd.	Direct, 91.40%	Sale of products of the Company	Sale of electronic products	2,529	Accounts receivable - trade	339
Subsidiary	Funai Electric (HK) Ltd.	Direct, 100.00%	Production of products of the Company	Purchase of electronic products	81,358	Accounts payable - trade	12,187
Subsidiary	FUNAI (THAILAND) CO., LTD.	Direct, 80.87% Indirect, 19.13%	Production of products of the Company	Loan of funds	1,322	Short-term loans receivable	1,337
				Purchase of electronic products	46,799	Accounts payable - trade	4,603
Subsidiary	Zhong Shan Funai Electron Co.	Indirect, 100.00%	Production of products of the Company	Purchase of electronic products	15,022	Accounts payable - trade	1,194
Subsidiary	FUNAI CORPORATION, INC.	Direct, 100.00%	Sale of products of the Company; interlocking directorate	Sale of electronic products	93,789	Accounts receivable - trade	14,242
				Transfer pricing taxation adjustments	-	Accrued expenses	3,735
Subsidiary	P&F USA, INC.	Direct, 100.00%	Sale of products of the Company	Sale of electronic products	18,156	Accounts receivable - trade	10,404
				Loan of funds	4,086	Short-term loans receivable	4,116
Subsidiary	P&F MEXICANA, S.A. DE C.V.	Direct, 100.00% Indirect, 0.00%	Sale of products of the Company	Sale of electronic products	21,046	Accounts receivable - trade	9,427
				Loan of funds	199	Long-term loans receivable	1,781
Subsidiary	FUNAI ELECTRIC EUROPE Sp. z o.o.	Direct, 100.00%	Sale of products of the Company	Sale of electronic products	2,205	Accounts receivable - trade	1,375
				Loan of funds	-	Long-term loans receivable	2,691
Subsidiary	FUNAI EUROPE GmbH	Direct, 100.00%	Sale of products of the Company	Loan of funds	-	Long-term loans receivable	10,440

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

2. Directors, corporate auditors and individual and principal shareholders, etc.

(millions of yen)

Type	Name	Voting rights held by the Company (or held by others)	Relationship	Transaction	Amount	Account	Balance as of March 31, 2014
Company, etc., whose director(s) and his/her close relative(s) own a majority of the voting rights	Propia Co. Ltd.	-	Sales of products; interlocking directorate	Sales of products	132	Accounts receivable - trade	18
	Niigata Seimitsu Co., Ltd.	-	Sublease of production equipment, etc.	Sublease of production equipment, etc.	12	Other current assets	4
	XTrillion Inc.	-	Lease of offices; interlocking directorate	Lease of offices	29	-	-
	PreXion Co., Ltd.	-	Sales of products	Sales of products	202	Accounts receivable - trade	25

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

1. Propia Co., Ltd.
(1) As with the terms of ordinary transactions, transaction terms are determined in consideration of market prices and other factors.
(2) 100.00% of the voting rights are owned directly by the company in which a close relative of director of the Company, Tetsuro Funai, owns a majority of the voting rights.

2. Niigata Seimitsu Co., Ltd.
(1) Lease prices of production equipment, etc., are determined in consideration of current market prices.
(2) 100.00% of the voting rights are owned directly by the company in which a close relative of Director of the Company, Tetsuro Funai, owns a majority of the voting rights.

3. XTrillion Inc.
(1) Lease prices of offices are determined upon consultation in consideration of market rates in the neighborhood and other factors.
(2) 61.01% of the voting rights are owned directly by director of the Company Tetsuro Funai.

4. PreXion Co., Ltd.
(1) As with the terms of ordinary transactions, transaction terms are determined in consideration of market prices and other factors.
(2) 61.01% of the voting rights are owned directly by director of the Company Tetsuro Funai.

Notes to Per Share Information

Book-value per share:	¥2,433.69
Net loss per share:	¥153.37

Other Notes

Additional Information

(Business Combinations)

Business Combination through Acquisition

1. Outline of the business combination

(1) A counterparty and business acquired:

Name of the counterparty:	Lexmark International, Inc. (hereinafter, “Lexmark”)
Business acquired:	Inkjet-related technologies and assets, including patents

(2) Main reason for the business combination:

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

The acquisition of the patents for printer-related products, including ink cartridges that have long been marketed by Lexmark globally (specifically, in North America), as well as product developing functions and technologies and manufacturing functions and technologies, enables the Company to start and grow its own inkjet business, including manufacture and sale of more profitable ink cartridges, rather than as a contract manufacturer of printer products, by utilizing the strong inkjet business platform that Lexmark has spent years establishing. As a result, the Company believes the Group will be able to sustainably expand its business going forward.

(3) Date of the business combination:

April 30, 2013

(4) Legal form of the business combination:

Acquisition of patents and development facilities, and acquisition of shares in a manufacturing subsidiary

(5) Name of the manufacturing subsidiary after business combination:

Funai Electric Cebu, Inc.

(6) Ratio of voting rights acquired: 100%

2. Period of operating results of the acquired business included in the nonconsolidated financial statements

From May 1, 2013, to March 31, 2014

3. Amount and breakdown of the acquisition cost

(millions of yen)

Consideration for the acquisition:	Cash	10,036
Expenses directly associated with the acquisition:	Advisory fees, etc.	242
Acquisition cost:		10,278

4. Amount of gain on bargain purchase generated and the reason for recognition

(1) Amount of gain on bargain purchase generated: ¥160 million

(2) Reason for recognition:

Because the net amount of acquired assets and assumed liabilities exceeded the acquisition cost, the difference was recorded as a gain on bargain purchase.

5. Amount and breakdown of the assets acquired and the liabilities assumed at the acquisition date

	(millions of yen)
Current assets	-
Fixed assets	10,439
Total assets	10,439
Current liabilities	-
Long-term liabilities	-
Total liabilities	-

(Tax system for dealing with tax havens)

1. On June 28, 2005, and June 16, 2008, the Company received notices from the Osaka Regional Taxation Bureau regarding the implementation of corrective action. These notices indicated a decision regarding our subsidiary in Hong Kong, suggesting that it did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens. The notification further indicated that the Osaka Regional Taxation Bureau decided to incorporate the income generated by our subsidiary in Hong Kong into the income of the Company for the duration of the three years from April 1, 2001, to March 31, 2004, and from April 1, 2004, to March 31, 2007 for taxation purposes. Because the Company objected to this corrective action, the

Company applied for assessment by the Osaka National Tax Tribunal on July 25, 2006, and again on August 6, 2008. Thereafter, the Company received written verdicts on this case on July 3, 2008, and again on July 23, 2009, indicating that our assertions had been dismissed. The Company filed an appeal with the Osaka District Court to have the action canceled on November 16, 2006, and again on November 14, 2008, and hearings by consolidation of those actions had been held since November 26, 2008. The court dismissed the claims of the Company on June 24, 2011. Thereafter, as the Company was unable to accept the Osaka District Court's judgment, the Company filed notices of appeal at the Osaka High Court on July 7, 2011. With respect to this action, on July 20, 2012, the court dismissed the claims of the Company. The Company, unable to accept the judgment, filed an appeal and application for the acceptance of the appeal with the Supreme Court on August 1, 2012. On December 12, 2013, the Company received from the Supreme Court notices of its decision to dismiss the appeal dated December 11, 2013.

The additional tax amounted to ¥16,651 million (¥19,184 million, including incidental taxes) and ¥15,038 million (¥16,838 million, including incidental taxes), including corporate income taxes, inhabitant taxes, and enterprise taxes. The Company processed these amounts in the respective fiscal years ended March 31, 2007 and 2009 as "Income taxes - prior years," since the accounting procedures relating to additional tax amounts have been clarified through the amendment of the "Treatment of Accounting and Presentation of Taxes for the Purpose of Audits" (JICPA Audit and Assurance Practice Committee Report No. 63).

2. On June 29, 2011, the Company received notices from the Osaka Regional Taxation Bureau suggesting that our subsidiary in Hong Kong did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens and indicating its decision to incorporate the income generated by the subsidiary into the income of the Company for the duration of three years from April 1, 2007, to March 31, 2010, for taxation purposes. Because the Company objected to this corrective action, the Company applied for assessments by the Osaka National Tax Tribunal on August 25, 2011. On July 18, 2012, the Company received written verdicts on this case indicating that our assertions had been dismissed. The Company, unable to accept the verdicts, filed an appeal to have the action canceled with the Tokyo District Court on January 17, 2013.

   The additional tax, including corporate income taxes, inhabitant taxes, and enterprise taxes, amounted to ¥825 million (¥935 million, including incidental taxes). This amount has been processed as expenses under the category of "Income taxes - prior years" in the fiscal year ended March 31, 2012.

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

assessment was applied, as an expense from the fiscal year ended March 31, 2012.

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