

# FY 2014 SECOND QUARTER IN CUMULATIVE FINANCIAL REPORT

〔 From April 1, 2014  
To September 30, 2014 〕



FUNAI ELECTRIC CO., LTD.

Second Quarter (April-September) Consolidated Financial Summary  
for the Period Ending March 2015

(Million yen)

	Previous Year Second Quarter 〔 From April 1, 2013 to September 30, 2013 〕		Current Year Second Quarter 〔 From April 1, 2014 to September 30, 2014 〕		Rate of increase or decrease
	Amount	%	Amount	%	
Net Sales	120,570	100.0	115,808	100.0	(3.9)
Operating Income (Loss)	567	0.5	1,332	1.2	134.8
Ordinary Income (Loss)	2,163	1.8	2,785	2.4	28.8
Net Income (Loss) before Taxes and Other Adjustments	937	0.8	2,952	2.5	214.9
Net Income (Loss) after Tax	612	0.5	2,624	2.3	328.4
Net Income (Loss) per Share	17.96		76.94		

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



## Financial Report for the 6-Month Period ended September 30, 2014

November 4, 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

Tomonori Hayashi

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Scheduled date of Quarterly Report; November 4, 2014

Scheduled date of Commencement of Annual Dividend Payment; —

Quarterly Financial Results Supplementation: Yes

Quarterly Financial Results Seminar: Yes

## 1. Second Quarter Consolidated Results for the Period Ending March 2015 (April 1, 2014 – September 30, 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	%
2 <sup>nd</sup> Quarter FY2014	115,808	(3.9)	1,332	134.8	2,785	28.8	2,624	328.4
2 <sup>nd</sup> Quarter FY2013	120,570	35.4	567	—	2,163	—	612	—

(Reference) Comprehensive Income 2<sup>nd</sup> Quarter FY 2014 ended September 30, 2013 6,420 million yen (145.5%)  
2<sup>nd</sup> Quarter FY 2013 ended September 30, 2012 2,614 million yen ( —%)

	Net Income Per Share		Net Income Per Share on a Fully Diluted Basis	
	Yen		Yen	
2 <sup>nd</sup> Quarter FY2014	76.94		—	
2 <sup>nd</sup> Quarter FY2013	17.96		—	

## (2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
2 <sup>nd</sup> Quarter FY2014	191,332	123,381	63.9
Fiscal Year 2013	181,341	117,684	64.2

(Reference) Equity 2<sup>nd</sup> Quarter FY 2014 ended September 30, 2014 122,210 million yen  
Fiscal Year 2013 ended March 31, 2014 116,509 million yen

## 2. Dividends

	Dividend per Share				
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	Year-End	Annual
	yen	yen	yen	yen	yen
Fiscal Year 2013	—	0.00	—	35.00	35.00
Fiscal Year 2014	—	0.00			
Fiscal Year 2014 (Projection)			—	—	—

(Note) Revision of Annual Dividends Forecast in this 2<sup>nd</sup> Quarter: Yes

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
Full Year	Million yen % 203,000 (13.3)	Million yen % 500 —	Million yen % 1,400 —	Million yen % 900 —	Yen 26.38

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

\*Note

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

(2) Application of simplified accounting procedure and use of unique accounting procedure for preparation of financial statements covering consolidated accounting in this 1st quarter: Yes

(3) 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

(4) Number of Shares Outstanding (Ordinary Shares)

1. Number of shares outstanding (including treasury stock) as of September 30, 2014; 36,130,796 shares  
as of March 31, 2014; 36,130,796 shares
2. Number of shares of treasury stock as of September 30, 2014; 2,011,615 shares  
as of March 31, 2014; 2,011,615 shares
3. The Average number of outstanding shares on September 30, 2014; 34,119,181 shares  
on September 30, 2013; 34,119,181 shares

\* The Recording of Implementation Conditions Regarding Quarterly Review Procedures

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

Disclaimer;

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

## 1. Qualitative Information Regarding Quarterly Financial Results

### (1) Explanation of Business Performance

During the first six months of the fiscal year ending March 31, 2015, the economy of the United States, a key market for the Funai Group, continued to recover as a result of a robust housing market and stable employment situation, despite concerns about the outlook for consumer spending. Business conditions in Europe were stagnant, reflecting worsening of the situation in the Ukraine, and China's economy slowed due to factors including deterioration in the housing market. The pace of economic recovery in Japan was sluggish because of factors including a reaction to last-minute demand ahead of the consumption tax increase and the impact of bad weather.

In these circumstances, the Funai Group posted net sales for the first six months of the fiscal year of JPY 115,808 million, down 3.9% year on year. On the profit front, operating income was JPY 1,332 million, up 134.8%, ordinary income was 2,785 million, up 28.8%, and net income was 2,624 million, up 328.4%.

The Funai Group saw an improvement trend in profitability as a result of factors including an increase in screen sizes and strong shipments of LCD TVs, a key product, ahead of the peak year-end selling season, improved efficiency from selective reduction of the range of audio accessories to high-selling items, and rigorous inventory control.

Segment conditions by location were as follows:

#### i) Japan

Although revenues from BD-related products increased, sales of printers, DVD-related products, and LCD TVs declined. As a result, net sales were JPY 24,767 million, down 12.0% year on year, and segment loss (operating loss) was JPY 294 million, compared to segment income (operating income) of 832 million in the first six months of the previous year.

#### ii) Americas

Although revenues from LCD TVs rose due to factors including an increase in screen sizes, sales of DVD-related and BD-related products fell as a result of market contraction, and sales of audio accessories declined slightly due to selective product range reduction. As a result, net sales were JPY 87,265 million, down 2.1% year on year. However, segment income (operating income) was JPY 1,402 million, compared to segment income of 32 million in the first six months of the previous year.

(Notes)

Effective from the first quarter of the fiscal year under review, the Company has changed the name of a reportable segment from the previous North America to Americas. This is a change of name only and has no impact on segment information.

#### iii) Asia

Net sales were JPY 2,475 million, up 16.4% year on year, on higher revenues from ink cartridges and other products. Segment income (operating income) was JPY 531 million, up 43.5% compared to the same period of the previous year.

#### iv) Europe

Although ink cartridges contributed to revenues and sales of DVD-related products picked up, the slump in LCD sales continued. As a result, net sales were JPY 1,299 million, up 8.9% year on year, and segment loss (operating loss) was JPY 42 million, compared to segment loss of JPY 310 million in the first six months of the previous year.

Sales by product segment were as follows:

#### i) Audiovisual Equipment

In the audiovisual equipment sector, although revenues from LCD TVs were nearly unchanged from the first six months of the previous year, sales of DVD-related products declined sharply due to market contraction. As a result, net sales of audiovisual equipment were JPY 91,012 million, down 3.1% year on year.

#### ii) Information Equipment

In the information equipment sector, although revenues from ink cartridges increased, lower revenues from printers resulted in net sales of JPY 9,618 million, down 10.4% year on year.

#### iii) Other Products

Net sales of other products were JPY 15,177 million, down 4.8% year on year, on lower revenues from receiver-related electronic equipment, audio accessories, and other products.

### (2) Qualitative Information Relating to Consolidated Financial Position

Consolidated total assets increased by JPY 9,990 million compared to the end of the previous fiscal year. The change is mainly attributable to increases of JPY 9,735 million in cash and deposits and JPY 2,927 million in

merchandise and finished goods and a decrease of JPY 3,049 million in raw materials and supplies.

Total liabilities increased by JPY 4,294 million compared to the end of the previous fiscal year. The change is mainly attributable to increases of JPY 1,315 million in short-term loans payable and JPY 4,393 million in accounts payable included in "Other" under current liabilities and a decrease of JPY 1,537 million in notes and accounts payable - trade.

Net assets increased by JPY 5,696 million compared to the end of the previous fiscal year. The change is mainly attributable to increases of JPY 1,914 million in retained earnings and JPY 3,655 million in the foreign currency translation adjustment account.

### (3) Qualitative Information Relating to Consolidated Performance Forecasts:

The Company has revised the consolidated operating performance forecasts released on May 12, 2014. For details, please refer to "Funai Electric Announces Differences between Forecasts and Actual Performance for the First Six Months of the Fiscal Year Ending March 31, 2015, the Recording of Non-operating Income (Exchange Gains), and Revision of the Full-Year Consolidated Operating Performance Forecasts," released today (November 4, 2014).

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

## 2. Summary Information

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

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

### (2) Change in accounting policy

(Application of accounting standard for retirement benefits)

Effective from the first quarter of the fiscal year under review, the Company has applied the provisions set forth in the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits (ASBJ Guidance No. 26, May 17, 2012) and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012). As a result, the methods for calculating retirement benefit obligations and service costs have been revised in the following respects: the method for attributing projected benefits to periods has been changed from the straight-line basis to the benefit formula basis, and the method for determining the discount rate has been changed from a discount rate based on the average period until payment of estimated amount of retirement benefits to use a single weighted-average discount rate that reflects the periods until the expected payment of retirement benefits and the amount of projected benefits for each period.

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 changing the method for calculating retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the current first quarter.

As a result, net defined benefit assets and net defined benefit liabilities at the beginning of the current second quarter increased by JPY 934 million and JPY 200 million, respectively, retained earnings increased by JPY 483 million, and minority interests decreased by JPY 11 million. The effect of this change on consolidated operating income and loss, ordinary income and loss, and income and loss before income taxes for the current second quarter is immaterial.

### (3) Additional Information

(About anti-tax haven law)

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.

The financial effect of applying the tax system beginning in the fiscal year ended March 31, 2011, the accounting period after the fiscal year in which the tax examination concluded, has been charged to income.

### 3. Consolidated Financial Statements

#### (1) Consolidated Quarterly Balance Sheets

(Units : Million Yen)

	Fiscal year 2013 (As of March 31, 2014)	2nd Quarter FY2014 (As of September 30, 2014)
<b>ASSETS;</b>		
Current Assets		
Cash and deposits	49,167	58,903
Notes and accounts receivable - trade	37,681	37,961
Merchandise and finished goods	31,665	34,592
Work in process	1,182	1,150
Raw materials and supplies	16,427	13,378
Other	8,126	8,804
Allowance for doubtful accounts	(210)	(414)
Total current assets	144,041	154,376
Noncurrent Assets		
Property, plant and equipment	21,905	22,441
Intangible assets	6,574	6,235
Investments and other assets		
Net defined benefit asset	335	1,266
Other	8,780	7,269
Allowance for doubtful accounts	(296)	(256)
Total investments and other assets	8,819	8,278
Total noncurrent assets	37,300	36,955
TOTAL ASSETS	181,341	191,332
<b>LIABILITIES;</b>		
Current Liabilities		
Notes and accounts payable - trade	32,942	31,405
Short-term loans payable	4,526	5,842
Income taxes payable	414	441
Provision	1,312	1,274
Other	14,497	18,711
Total current liabilities	53,692	57,674
Noncurrent Liabilities		
Long-term loans payable	6,121	6,297
Provision	1,088	1,087
Net defined benefit liability	775	928
Other	1,979	1,963
Total noncurrent liabilities	9,964	10,276
TOTAL LIABILITIES	63,656	67,951

	Fiscal year 2013 (As of March 31, 2014)	2nd Quarter FY2014 (As of September 30, 2014)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,272	33,272
Retained earnings	93,196	95,110
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	133,435	135,349
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	672	780
Foreign currency translation adjustment	(17,495)	(13,839)
Remeasurements of defined benefit plans	(103)	(79)
Total accumulated other comprehensive income	(16,925)	(13,139)
Subscription rights to shares	132	135
Minority interests	1,042	1,035
Total net asset	117,684	123,381
TOTAL LIABILITIES AND NET ASSETS	181,341	191,332



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

(Units : Million Yen)

	2nd Quarter FY2013 ( from April 1, 2013 to September 30, 2013)	2nd Quarter FY2014 ( from April 1, 2014 to September 30, 2014)
Net sales	120,570	115,808
Cost of sales	100,961	94,918
Gross profit	19,608	20,889
Selling, general and administrative expenses	19,040	19,557
Operating income (loss)	567	1,332
Non-operating income		
Interest income	70	75
Dividends income	23	88
Foreign exchange gains	1,851	1,397
Other	59	309
Total non-operating income	2,004	1,870
Non-operating expenses		
Interest expenses	103	90
Equity in losses of affiliates	55	139
Payment compensation cost	147	—
Other	101	186
Total non-operating expenses	407	416
Ordinary income (loss)	2,163	2,785
Extraordinary income		
Gain on disposal of noncurrent assets	0	47
Gain on sales of shares of subsidiaries and associates	—	134
Gain on negative goodwill	8	—
Other	-	1
Total extraordinary income	8	184
Extraordinary loss		
Loss on disposal of noncurrent assets	15	17
Expenses incurred on business restructuring	* <sub>1</sub> 1,149	-
Loss on valuation of investment securities	70	-
Total extraordinary loss	1,234	17
Income (loss) before income taxes	937	2,952
Income taxes	305	323
Income (loss) before minority interests	631	2,628
Minority interests in income	19	3
Net income (loss)	612	2,624

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	2nd Quarter FY2013 ( from April 1, 2013 to September 30, 2013)	2nd Quarter FY2014 ( from April 1, 2014 to September 30, 2014)
Income (loss) before minority interest adjustment	631	2,628
Other comprehensive Income		
Valuation difference on available-for-sale securities	112	109
Foreign currency translation adjustment	1,828	3,663
Share of other comprehensive income of associates accounted for using equity method	41	(8)
Retirement benefits adjustment	-	25
Total other comprehensive Income	1,982	3,791
Comprehensive income	2,614	6,420
(Breakdown)		
Comprehensive income attributable to owners of parent	2,595	6,411
Comprehensive income attributable to minority interest:	19	8

## (3) Consolidated quarterly statements of cash flows

(Units : Million Yen)

	2nd Quarter FY2013 ( from April 1, 2013 to September 30, 2013 )	2nd Quarter FY2014 ( from April 1, 2014 to September 30, 2014 )
<b>Net cash provided by (used in) operating activities</b>		
Income before income taxes and minority interests	937	2,952
Depreciation and amortization	3,217	2,829
Increase(decrease) in allowance for doubtful accounts	(23)	85
Increase(decrease) in provision for retirement benefits	(10)	—
Increase(decrease) in liabilities for retirement benefits	—	(56)
Interest and dividends income	(93)	(164)
Interest expenses	103	90
Equity in (earnings) losses of affiliates	55	139
Loss (gain) on sales of property, plant and equipment	(0)	(42)
Loss (gain) on valuation of investment securities	70	—
Loss(gain) on sales of shares of subsidiaries and associates	—	(134)
Decrease (increase) in notes and accounts receivable-trade	(5,355)	2,238
Decrease (increase) in inventories	4,964	2,399
Increase (decrease) in notes and accounts payable-trade	(11,948)	(4,696)
Increase(decrease) in accounts payable - other	871	4,171
Other, net	220	81
Subtotal	(6,991)	9,892
Interest and dividends income received	120	161
Interest expenses paid	(179)	(90)
Income taxes paid	(1,028)	(538)
Income taxes refund	522	24
Income taxes for prior periods paid	* <sub>1</sub> (1,171)	—
Net cash provided by (used in) operating activities	(8,725)	(9,449)
<b>Net cash provided by (used in) investment activities</b>		
Repayments from time deposits	13,129	—
Purchase of property, plant and equipment	(3,012)	(2,281)
Proceeds from sales of property, plant and equipment	0	99
Purchase of intangible assets	(3,807)	(195)
Purchase of investment securities	(244)	(6)
Proceeds from sales of investment securities	—	518
Payment for acquisition of shares of newly consolidated subsidiaries	(5,534)	—
Other, net	(318)	194
Net cash provided by (used in) investment activities	213	(1,671)
<b>Net cash provided by (used in) financing activities</b>		
Net increase (decrease) in short-term loans payable	(7,562)	1,001
Repayment of long-term loans payable	1,500	—
Cash dividends paid	(1,194)	(1,194)
Other, net	(476)	(211)
Net cash provided by (used in) financing activities	(7,733)	(404)
Effect of exchange rate change on cash and cash equivalents	1,323	2,361
Net increase (decrease) in cash and cash equivalents	(14,922)	9,735
Cash and cash equivalents at beginning of period	50,238	43,612
Cash and cash equivalents at end of period	35,315	53,348

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

(Notes of remarkable changes in Shareholders Equity)  
Not Applicable

(Consolidated balance sheets)  
Second Quarter Consolidated Fiscal Period – Year to Date (As of September 30, 2014)  
Contingent liabilities

(Arbitration)

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.

Funai was presented with €171.8 million, statutory interest and arbitration costs as the amount of claim for compensatory damages from Philips on May 20, 2014. Subsequently, on October 1, 2014 the Company filed a statement with the International Court of Arbitration including indication of the amount of compensatory damages claimed against 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 second 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

- 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 : A claim for damages on the grounds of breach of the agreement by Funai
- ii) Claimed amount : €171.8 million, statutory interest and arbitration costs

#### 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 : an indication of the amount of compensatory damages claimed in such counterclaim, consisting of EUR 312.3M (equivalent to JPY 43.1B when converted at EUR 1 to JPY 138) , the amount of tax payable, contractual interest and arbitration costs.

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

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 quarterly statements of income)

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

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

(Consolidated quarterly statements of cash flows)

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

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

(Information by Segment)

[Segment Information]

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

(Units: Million Yen)

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

Note:

1. JPY -356 million adjustment amount under segment income includes items such as the JPY 20 million relating to the cancellation of inter-segment transactions, JPY -399 million of overall Group expenses that are not apportioned to each reporting segment, and the JPY 22 million adjustment relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the second quarter consolidated income statement.

II. Second Quarter Consolidated Fiscal Period – Year to Date (April 1, 2014 to September 30, 2014)  
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	N. America	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	24,767	87,265	2,475	1,299	115,808	—	115,808
(2) Inter-segment sales	69,640	434	77,795	-	147,870	(147,870)	—
Total	94,408	87,700	80,270	1,299	263,679	(147,870)	115,808
Segment Income (Loss)	(294)	1,402	531	(42)	1,596	(263)	1,332

Note:

1. JPY -263 million adjustment amount under segment income includes items such as the JPY 1 million relating to the cancellation of inter-segment transactions, JPY -367 million of overall Group expenses that are not apportioned to each reporting segment, and the JPY 102 million adjustment relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the second quarter consolidated income statement.

2. Change a Reportable Segment

(Application of Accounting Standard for Retirement Benefits)

Effective from the first quarter of the fiscal this year under review, the Company has applied the provisions set forth in the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits (ASBJ Guidance No. 26, May 17, 2012) and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012). As a result, the methods for calculating retirement benefit obligations and service costs have been revised in the following respects: the method for attributing projected benefits to periods has been changed from the straight-line basis to the benefit formula basis, and the method for determining the discount rate has been changed from a discount rate based on the average period until payment of estimated amount of retirement benefits to use a single weighted-average discount rate that reflects the periods until the expected payment of retirement benefits and the amount of projected benefits for each period. The effect of this change is immaterial.

(Change the Name of a Reportable Segment)

Effective from the first quarter of the fiscal this year under review, the Company has changed the name of a reportable segment from the previous North America to Americas. This is a change of name only and has no impact on segment information. Segment information for the current first quarter is presented using the revised segment name.

# SECOND QUARTER IN CUMULATIVE FINANCIAL RESULTS SUPPLEMENTATION

## FY 2014

( from 2014.4.1  
to 2014.9.30 )

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FUNAI ELECTRIC CO., LTD.

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

### (1) Operating Results, Financial Conditions

(Units : 100 million yen, %)

	FY 2013						FY 2014					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Net Sales	1,205	100.0	35.4	2,340	100.0	21.9	1,158	100.0	(3.9)	2,030	100.0	(13.3)
Operating Income (Loss)	5	0.5	—	(54)	(2.3)	—	13	1.2	134.8	5	0.2	—
Ordinary Income (Loss)	21	1.8	—	(22)	(1.0)	—	27	2.4	28.8	14	0.7	—
Net Income (Loss) after Tax	6	0.5	—	(67)	(2.9)	—	26	2.3	328.4	9	0.4	—
Total Assets	1,810	—	—	1,813	—	—	1,913	—	—	—	—	—
Net Assets	1,226	—	—	1,176	—	—	1,233	—	—	—	—	—

### (※) Yen-Dollars / Exchange rate

(Units : Yen / Dollars)

	FY 2013		FY 2014	
	2Q (Apr. - Sep.)	Full-Year	2Q (Apr. - Sep.)	Full-Year (Projections)
Average Rate in each Period	98.64	100.49	103.61	102.80

### (2) Profitability and Per Share Data etc.

	FY 2013		FY 2014	
	2Q (Apr. - Sep.)	Full-Year	2Q (Apr. - Sep.)	Full-Year (Projections)
Gross Profit Ratio (%)	16.3	13.9	18.0	17.5
Operating Income Ratio (%)	0.5	(2.3)	1.2	0.2
Ordinary Income Ratio (%)	1.8	(1.0)	2.4	0.7
Shareholders' Equity Ratio (%)	67.1	64.2	63.9	—
Net Assets Per Share (yen)	3,561.17	3,414.77	3,581.87	—
Net Income Per Share (yen)	17.96	(197.70)	76.94	26.38
Return on Assets (%)	0.3	(3.6)	1.4	—
Return on Shareholders' Equity (%)	0.5	(5.7)	2.2	—
Number of Total Employees	4,976	5,112	3,761	—

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

(Units : 100 million yen, %)

	FY 2013				FY 2014			
	2Q (Apr. - Sep.)		Full-Year		2Q (Apr. - Sep.)		Full-Year (Projections)	
	Amount	Change	Amount	Change	Amount	Change	Amount	Change
Capital Expenditures	92	384.2	109	105.7	22	(76.1)	37	(66.1)

	FY 2013						FY 2014					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Depreciation Expenses	26	2.2	30.0	52	2.2	30.0	23	2.0	(11.5)	48	2.4	(7.7)
R&D	43	3.6	(8.5)	84	3.6	(9.7)	39	3.4	(9.3)	79	3.9	(6.0)



## (4) CashFlow

(Units : 100 million yen)

	FY 2013		FY 2014	
	2Q (Apr. - Sep.)	Full-Year	2Q (Apr. - Sep.)	Full-Year (Projections)
Cash flows provided by operating activities	(87)	(12)	94	—
Income Before Income Taxes	9	(56)	29	—
Depreciation Expenses	32	64	28	—
Others	(128)	(20)	37	—
Cash flows used in investing activities	2	(27)	(16)	—
Free cash flows	(85)	(39)	78	—
Cash flows provided by financing activities	(77)	(46)	(4)	—
Effect of exchange rate changes on cash and cash equivalents	13	20	23	—
Net increase in cash and cash equivalents	(149)	(66)	97	—

## 2. Operating Activities (Consolidated)

## (1) Sales by Equipment

(Units : 100 million yen, %)

	FY 2013						FY 2014					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	939	77.9	26.0	1,831	78.2	17.6	910	78.6	(3.1)	1,632	80.4	(10.9)
DVD	81	6.7	(2.4)	174	7.4	(5.4)	53	4.6	(34.6)	113	5.6	(35.1)
BD	75	6.2	31.6	168	7.2	19.1	69	6.0	(8.0)	140	6.9	(16.7)
LCD TV	767	63.7	29.1	1,436	61.4	19.8	764	66.0	(0.4)	1,332	65.6	(7.2)
Others	16	1.3	45.5	53	2.2	60.6	24	2.0	50.0	47	2.3	(11.3)
Information Equipment	107	8.9	163.7	189	8.1	57.8	96	8.3	(10.4)	118	5.8	(37.5)
Others	159	13.2	52.6	320	13.7	31.6	152	13.1	(4.8)	280	13.8	(12.6)
Total	1,205	100.0	35.4	2,340	100.0	21.9	1,158	100.0	(3.9)	2,030	100.0	(13.3)

## (2) Sales by Areas in Equipment

(Units : 100 million yen, %)

	FY 2013						FY 2014					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	939	77.9	26.0	1,831	78.2	17.6	910	78.6	(3.1)	1,632	80.4	(10.9)
Americas	834	69.2	28.9	1,570	67.1	18.5	807	69.7	(3.2)	1,412	69.6	(10.1)
Europe	14	1.1	(39.1)	32	1.3	(25.6)	13	1.1	(7.1)	35	1.7	9.4
Asia and Others	5	0.4	—	12	0.5	140.0	3	0.3	(40.0)	9	0.4	25.0
Japan	86	7.2	14.7	217	9.3	17.9	87	7.5	1.2	176	8.7	(18.9)
Information Equipment	107	8.9	163.7	189	8.1	57.8	96	8.3	(10.4)	118	5.8	(37.5)
Americas	73	6.1	356.3	126	5.3	96.9	67	5.8	(8.2)	87	4.3	(31.0)
Europe	25	2.1	525.0	45	2.0	136.8	22	1.9	(12.0)	24	1.2	(46.7)
Asia and Others	7	0.6	(66.7)	16	0.7	(48.4)	6	0.5	(14.3)	7	0.3	(56.3)
Japan	2	0.1	—	2	0.1	(60.0)	1	0.1	(50.0)	0	0.0	—
Others	159	13.2	52.6	320	13.7	31.6	152	13.1	(4.8)	280	13.8	(12.6)
Total	1,205	100.0	35.4	2,340	100.0	21.9	1,158	100.0	(3.9)	2,030	100.0	(13.3)

(Note)

Effective from FY 2014, sales to Central and South America, which were previously included in the Asia and others, have been included in Americas. The segment name North America has been changed to Americas. Figures for FY 2013 have been restated accordingly.

## (3) Sales by Equipment in Areas

(Units : 100 million yen, %)

	FY 2013						FY 2014					
	2Q (Apr. - Sep.)			Full-Year			2Q (Apr. - Sep.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Americas	982	81.5	45.1	1,850	79.0	26.7	950	82.0	(3.3)	1,634	80.5	(11.7)
Audio Visual Equipment	834	69.2	28.9	1,570	67.1	18.5	807	69.7	(3.2)	1,412	69.6	(10.1)
Information Equipment	73	6.1	356.3	126	5.3	96.9	67	5.8	(8.2)	87	4.3	(31.0)
Others	75	6.2	476.9	154	6.6	116.9	76	6.5	1.3	135	6.7	(12.3)
Europe	39	3.2	44.4	77	3.3	24.2	35	3.0	(9.9)	59	2.9	(23.4)
Audio Visual Equipment	14	1.1	(39.1)	32	1.3	(25.6)	13	1.1	(7.1)	35	1.7	9.4
Information Equipment	25	2.1	525.0	45	2.0	136.8	22	1.9	(12.0)	24	1.2	(46.7)
Others	0	0.0	—	0	0.0	—	0	0.0	—	0	0.0	—
Asia and Others	14	1.2	(36.2)	32	1.4	(17.9)	12	1.1	(12.5)	19	0.9	(40.4)
Audio Visual Equipment	5	0.4	—	12	0.5	140.0	3	0.3	(40.0)	9	0.4	25.0
Information Equipment	7	0.6	(66.7)	16	0.7	(48.4)	6	0.5	(14.3)	7	0.3	(56.3)
Others	2	0.2	0.0	4	0.2	33.3	3	0.3	50.0	3	0.2	(25.0)
Japan	170	14.1	3.7	381	16.3	6.1	161	13.9	(5.6)	318	15.7	(16.5)
Audio Visual Equipment	86	7.2	14.7	217	9.3	17.9	87	7.5	1.2	176	8.7	(18.9)
Information Equipment	2	0.1	—	2	0.1	(60.0)	1	0.1	(50.0)	0	0.0	—
Others	82	6.8	(7.9)	162	6.9	(4.7)	73	6.3	(11.0)	142	7.0	(12.3)
Total	1,205	100.0	35.4	2,340	100.0	21.9	1,158	100.0	(3.9)	2,030	100.0	(13.3)

(Note)

Effective from FY 2014, sales to Central and South America, which were previously included in the Asia and others, have been included in Americas. The segment name North America has been changed to Americas. Figures for FY 2013 have been restated accordingly.

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

#### (1) Operating Results

(Units : 100 million yen, %)

	FY 2013			FY 2014		
	2Q (Jul. - Sep.)			2Q (Jul. - Sep.)		
	Amount	%	Change	Amount	%	Change
Net Sales	700	100.0	42.9	728	100.0	3.8
Operating Income (Loss)	22	3.3	—	34	4.7	50.6
Ordinary Income (Loss)	20	2.9	—	52	7.2	160.9
Net Income (Loss) after Tax	6	0.9	—	49	6.8	685.2

#### (※) Yen-Dollars / Exchange rate

(Units : Yen / Dollars)

	FY 2013		FY 2014	
	2Q (Jul. - Sep.)		2Q (Jul. - Sep.)	
Average Rate in each Period		98.06		105.34

#### (2) Sales by Equipment

(Units : 100 million yen, %)

	FY 2013			FY 2014		
	2Q (Jul. - Sep.)			2Q (Jul. - Sep.)		
	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	560	80.0	32.1	614	84.3	9.6
DVD	38	5.4	(15.6)	26	3.6	(31.6)
BD	33	4.7	73.7	47	6.5	42.4
LCD TV	481	68.7	35.9	528	72.5	9.8
Others	8	1.2	33.3	13	1.8	62.5
Information Equipment	58	8.3	286.7	39	5.4	(32.8)
Others	82	11.7	60.8	75	10.3	(8.5)
Total	700	100.0	42.9	728	100.0	4.0



(Company)

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