(Translation)

**Dear Shareholders:**

# Information to be Disclosed on the Internet upon Giving Notice of the 63rd Ordinary General Meeting of Shareholders

June 9, 2015

**Funai Electric Co., Ltd.**

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The above-listed matters are deemed to have been provided to the shareholders when posted on our Internet website (http://www.funai.jp/en/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 of Presenting the Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 22

(2) Names of major consolidated subsidiaries:

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

DX ANTENNA MARKETING INC., which is a subsidiary incorporated during the fiscal year under review, is 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 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 applied:

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 associated company to which the equity method is applied, differ from the consolidated fiscal year end, their financial statements are compiled as of their respective fiscal year ends.

(7) Fiscal year ends 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 |
| DX ANTENNA MARKETING, INC. | 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., P&F MEXICANA, S.A. DE C.V. and DX ANTENNA MARKETING, INC. 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 purposes 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 tentative financial statements as of the consolidated balance sheet date are used to prepare the consolidated financial statements.

3. Summary of significant accounting policies

(1) Valuation basis and methods of significant assets

(i) Securities:

Available-for-sale securities:

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

Stated at fair market value on the balance sheet date of the fiscal year

(Unrealized gain or loss is included directly in equity after adjusting for tax effect. 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, determined by the average method, or net selling value. Raw materials are stated principally at the lower of cost, determined by the first-in, first-out method, or net selling value.

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

(2) Depreciation method for 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 over five years; patents are amortized over the estimated economically usable period (8–10 years); and software for internal use is amortized over the internal usable period (five years).

(iii) Lease assets:

Lease assets in finance lease transactions not involving the transfer of ownership

are depreciated by the straight-line method, based on the assumption that the useful life is equal to the lease term and the residual value is equal to zero.

(3) Accounting standards of significant 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 set aside provision to cover the payment of employees' bonuses based on the projected amount for such payments.

(iii) Reserve for product warranty:

Reserve for product warranty is provided for probable 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 benefits to directors and corporate auditors.

(4) Other significant accounting policies as the basis of preparing the consolidated financial statements

(i) Accounting method of retirement benefits:

Liabilities for retirement benefits and assets for retirement benefits are provided for probable payment of employees' retirement benefits at the differences between projected benefit obligations and the fair value of plan assets at the consolidated balance sheet date.

Certain consolidated subsidiaries apply the simplified method.

To calculate retirement benefit obligations, the benefit formula basis is used to attribute the projected retirement benefits to the period through the consolidated fiscal year under review.

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

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

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

Unrecognized actuarial gains or losses, unrecognized past service cost and unrecognized transitional obligation are recorded as defined retirement benefit plans in accumulated other comprehensive income (loss) in equity after adjusting for tax effects.

(ii) Accounting method of construction revenue and costs:

Construction contracts for which the outcome can be estimated reliably:.

Construction revenue and costs are recognized by the percentage of completion method (the percentage of completion at the end of the fiscal year is estimated by the cost-to-cost method.).

Other construction contracts:

Construction revenue and costs 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

(Application of Accounting Standard for Retirement Benefits)

From the current consolidated fiscal year, the Group has changed its calculation method for retirement benefit obligations and service costs by applying the "Accounting Standard for Retirement Benefits" (the Accounting Standards Board of Japan ("ASBJ") Statement No. 26, May 17, 2012, hereinafter referred to as the "Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015, hereinafter referred to as the "Guidance") with regard to the provisions of Article 35 of the Standard and Article 67 of the Guidance. The method of attributing estimated retirement benefits to each period has been changed from the straight-line basis to the benefit formula basis. The method of determining the discount rate has been changed from using the discount rate based on the average period until the estimated benefit payment date to using a single weighted average discount rate reflecting the estimated timing and amount of retirement benefit payment.

Following the application of the Standard, in accordance with the provisions of Article 37 of the Standard concerning the transitional treatment, the financial impact resulting from the changes in the calculation of retirement benefit obligations and service costs was added to or deducted from retained earnings at the beginning of the current consolidated fiscal year.

As a result, assets and liabilities for the retirement benefits increased by ¥934 million, ¥200 million, respectively, and retained earnings increased by ¥483 million, while minority interests decreased by ¥11 million at the beginning of the current consolidated fiscal year. Consolidated operating income, ordinary income, and income before income taxes and minority interests for the current consolidated fiscal year each increased by ¥11 million.

In addition, consolidated equity per share and net income per share for the current consolidated fiscal year increased by ¥14.38 and ¥0.20, respectively.

## Notes to Consolidated Balance Sheet

1. Accumulated depreciation of assets

   Accumulated depreciation of property, plant and equipment: ¥46,359 million

2. Accumulated impairment loss on assets

   Accumulated depreciation of assets includes accumulated impairment loss on assets.

3. As a result of the application of the Act on Land Revaluation of Japan (Act No. 34, promulgated on March 31, 1998), one of the consolidated subsidiaries revaluated its land used for business. The tax effect of the revaluation difference of ¥226 million was recorded as deferred tax liabilities on revaluation of land. Also, the revaluation difference is

eliminated in consolidated financial statements, so it is not recorded 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 the 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 a 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 there to have been 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 a breach of the agreement and undue action by Philips.

On May 20, 2014, the Company was given notice of the amount of the claim for compensatory damages from Philips against the Company. Subsequently, on October 1, 2014, the Company filed a statement with the International Chamber of Commerce including indication of the amount of compensatory damages claimed against Philips.

On December 24, 2014, the Company received notice from Philips of a revised amount of compensatory damages claimed by Philips.

The results of these arbitral proceedings may have an effect on the operating results of the Group. However, it is not possible to make a reasonable estimate of the effect of the arbitration proceeding as of the end of the current consolidated fiscal year and the effect threreof, 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 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: Frans van Houten, Chief Executive Officer

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

i) Details of the petition: A claim for damages on the grounds of a breach of the agreement by the Company
ii) Claimed amount: €189.6 million (revised amount from the amount of €171.8 million filed by Philips on May 20, 2014), 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: Frans van Houten, Chief Executive Officer

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

i) Details of the counterclaim: Claim for damages on the grounds of a breach of the agreement and undue action by Philips
ii) Claimed amount: €312.3 million, the amount of tax payable, conventional interest thereon and arbitration expenses.

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

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

(1) Name of 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, Multimedia products, Home Communication products and Accessories products.

2. Reasons for acquiring the shares

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 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: ¥6,008 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 in 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 income 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 income for the fiscal year ending March 31, 2015, and for each fiscal year thereafter.

**Notes to Consolidated Statement of Income**

Impairment losses

During the fiscal year under review, the Group recorded losses on impairment in the following asset groups:

| Use | Location | Type |
|---|---|---|
| Business assets | FUNAI ELECTRIC EUROPE Sp.z o.o. (Lubuskie, Poland) | Buildings and structures, land |

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.

The Company reduced the book values of the business assets for which profitability has declined significantly to the recoverable amounts in the current consolidated fiscal year, and recorded decrease of ¥618 million as extraordinary losses. These losses include ¥596 million for buildings and structures and ¥22 million for land.

The recoverable amounts of the assets were determined at net realizable value, and were calculated based on the real estate revaluations.

**Notes to Consolidated Statement of Changes in Equity**

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

(thousands of share)

| | Number of shares as of April 1, 2014 | 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, 2015 |
|---|---|---|---|---|
| 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 | 0 | - | 2,011 |
| Total | 2,011 | 0 | - | 2,011 |

(Note) The increase of 0 thousand shares of treasury shares of common stock resulted from the acquisition of less-than-one-unit shares.

2. Dividends

(1) Amount of dividends paid:

| Resolution | Type of shares | Total amount of dividends (million yen) | 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 | 35 | March 31, 2014 | June 9, 2014 |

(2) Dividends whose record date is in the fiscal year ended March 31, 2015, but whose effective date will be in the fiscal year ending March 31, 2016, are as follows:

| Resolution | Type of shares | Total amount of dividends (million yen) | Source of dividends | Amount of dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Meeting of the Board of Directors held on May 25, 2015 | Shares of common stock | 1,194 | Retained earnings | 35 | March 31, 2015 | June 8, 2015 |

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 (shares) |
|---|---|---|
| | | As of March 31, 2015 |
| The first stock acquisition rights issued in the year ended March 31, 2009 | Shares of common stock | 270,500 |
| Total | | 270,500 |

(Note) Any stock acquisition right for which the exercise period has yet to start.

## Notes to Financial Instruments

1. Status of financial instruments

The Group obtains financing from banks and invests funds in short-term deposits, etc. 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 sales management rules and manages the trading terms and credit lines by each customer.

Investment securities are exposed to market risks. With regard to the 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. Fair values, etc. of financial instruments

Amounts recorded in the consolidated balance sheet, fair values, and the differences between them as of March 31, 2015, are as follows:

(millions of yen)

| | | Amount recorded in the consolidated balance sheet* | Fair value* | Difference |
|---|---|---|---|---|
| (1) | Cash and deposits | 66,820 | 66,820 | - |
| (2) | Notes and accounts receivable-trade | 38,183 | 38,183 | - |
| (3) | Investment securities: | | | |
| | Available-for-sale securities | 794 | 794 | - |
| (4) | Notes and accounts payable-trade | (31,625) | (31,625) | - |
| (5) | Short-term bank loans | (4,012) | (4,012) | - |
| (6) | Accounts payable-other | (11,944) | (11,944) | - |
| (7) | Long-term bank loans | (6,683) | (6,683) | - |
| (8) | Derivatives | - | - | - |

* The items recognized as liabilities are shown in the 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 approximates the book value as a result of their short settlement periods.

(3) Investment securities – Available-for-sale 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 approximates the book value as a result of their short settlement periods.

(7) Long-term bank loans:

The long-term bank loans are those with floating rates and they reflect the market interest rates timely. Thus, the book value is used as the fair value approximates the book value.

(8) Derivatives:

This item is not applicable.

2. Unlisted shares (¥2,020 million on the consolidated balance sheet) have no market price and it is impossible to estimate their future cash flows. As it is extremely difficult to determine their fair values, they are not included in "(3) Investment securities – Available-for-sale securities".

**Notes to Per Share Information**

| | |
|---|---|
| Equity per share: | ¥3,712.81 |
| Net income per share: | ¥39.70 |

**Other Notes**

Additional Information

(Tax system for dealing with tax havens)

On June 29, 2011, the Company received notices from the Osaka Regional Taxation Bureau suggesting that a 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 in accordance with Japanese Institute of Certified Public Accountants Audit and Assuarance Practice Committee Report No. 63, "Treatment of Accounting and Presentation of Taxes for the purpose of Audits".

The Company has recorded the amount that would be affected if the taxation were applied from the fiscal year ended March 31, 2011, which is the fiscal year following the fiscal year to which the assessment was applied.

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(Note) All figures in the notes to the consolidated financial statements are shown by disregarding any fractions of the relevant units. Equity per share and net income 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 of 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 market value on the balance sheet date of the fiscal year (Unrealized gain or loss is included directly in equity after adjusting for tax effect. The cost of securities sold is 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, determined by the average method, or net selling value. |
   | Raw materials: | Stated at the lower of cost, determined by the first-in, first-out method, or net selling value. |

2. Depreciation method for 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, for 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 over the estimated economically usable period (8-10 years); and software for internal use is amortized over the internal usable period (five years).

(3) Lease assets:

Lease assets in finance lease transactions not involving the transfer of ownership are depreciated by the straight-line method, based on the assumption that the useful life is equal to the lease term and the residual value is equal to zero.

3. Accounting standards of 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) Reserve for product warranty:

Reserve for product warranty is provided for probable after-sales service costs of sold products at an amount considered necessary based on the past track record.

(3) Liabilities for retirement benefits:

Liabilities for retirement benefits and prepaid pension cost are provided for probable payment of employees' retirement benefits based on retirement benefit obligations and plan assets at the balance sheet date.

To calculate retirement benefit obligations, the benefit formula basis is used to attribute the projected retirement benefits to the period through the fiscal year under review.

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

Actuarial gains or losses are amortized by the straight-line method over a period within the average remaining service period of the employees (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 benefits to directors and corporate auditors.

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

(1) Accounting method of retirement benefits:

The accounting method for unrecognized actuarial gains or losses and unrecognized past service cost related to retirement benefits differs from the accounting method for the consolidated financial statements.

(2) Accounting for consumption taxes, etc.:

By the tax-exclusive method

**Change in Accounting Policy**

(Application of Accounting Standard for Retirement Benefits)

From the current fiscal year, the Company has changed its calculation method for retirement benefit obligations and service costs by applying the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012, hereinafter referred to as the "Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015). The method of attributing estimated retirement benefits to each period has been changed from the straight-line basis to the benefit formula basis. The method of determining the discount rate has been changed from using the discount rate based on the average period until the estimated benefit payment date to using a single weighted average discount rate reflecting the estimated timing and amount of retirement benefit payment.

Following the application of the Standard, in accordance with the provisions of Article 37 of the Standard concerning the transitional treatment, the financial impact resulting from the changes in the calculation of retirement benefit obligations and service costs was added to or deducted from the retained earnings at the beginning of the current fiscal year.

As a result, prepaid pension cost and retained earnings increased by ¥934 million and ¥601 million, respectively, at the beginning of the current fiscal year. Operating loss and ordinary loss for the current fiscal year increased by ¥5 million, respectively, and income before income taxes decreased by the same amount.

In addition, equity per share increased by ¥17.54 and net income per share decreased by ¥0.10, for the current fiscal year.

**Notes to Nonconsolidated Balance Sheet:**

1. Accumulated depreciation of assets:

| | |
|---|---|
| Accumulated depreciation of property, plant and equipment: | ¥11,278 million |

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

| | |
|---|---|
| Short-term monetary receivables: | ¥35,191 million |
| Long-term monetary receivables: | ¥16,212 million |
| Short-term monetary payables: | ¥17,662 million |

3. Contingent liabilities

(Arbitration)

The Company resolved to acquire from Koninklijke PHILIPS N.V. (hereinafter, "Philips") all shares in a company that would succeed the operation of the 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 a 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 there to have been 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 a breach of the agreement and undue action by Philips.

On May 20, 2014, the Company was given notice of the amount of the claim for compensatory damages from Philips against the Company. Subsequently, on October 1, 2014, the Company filed a statement with the International Chamber of Commerce including indication of the amount of compensatory damages claimed against Philips.

On December 24, 2014, the Company received notice from Philips of a revised amount of compensatory damages claimed by Philips.

The results of these arbitral 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 proceeding as of the end of the current fiscal year and the effect threreof, if any, on the operating results, and the financial position of the Company remains unclear.

The following is an outline of the petition for arbitration filed against the Company and 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: Frans van Houten, Chief Executive Officer

(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: €189.6 million (revised amount from the amount of €171.8 million filed by Philips on May 20, 2014), 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: Frans van Houten, Chief Executive Officer

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

i) Details of the counterclaim: Claim for damages on the grounds of a breach of the agreement and undue action by Philips
ii) Claimed amount: €312.3 million, the amount of tax payable, conventional interest thereon and arbitration expenses.

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

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

(1) Name of 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, Multimedia products, Home Communication products and Accessories products.

2. Reasons for acquiring the shares

The transaction to assume the Lifestyle Entertainment Business from Philips will enable the Company 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 shares, based on the belief that the acquisition would foster sustained growth of the Company'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. ¥390 million

The Company has provided a guarantee for bank loans for the following subsidiary:

P&F USA, INC. ¥3,712 million

4. Financial covenants

With regard to bank loans, a syndicated loan agreement (balance as of the end of the fiscal year: ¥6,008 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 obligations under the agreement and immediately pay the principal of and interest on the loan:

(Clauses)

(1) The Company shall maintain the amount in 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 income 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 income for the fiscal year ending March 31, 2015 and for each fiscal year thereafter.

**Notes to Nonconsolidated Statement of Income:**

Amount of transactions with subsidiaries and associated companies

| | |
|---|---|
| Operating transaction: | |
| Sales amount: | ¥126,288 million |
| Purchases amount: | ¥134,002 million |
| Other operating expenses: | ¥1,809 million |
| Non-operating transactions: | ¥245 million |

**Notes to Nonconsolidated Statement of Changes in Equity**

Number of shares of treasury stock:

(thousands of share)

| Type of shares | Number of shares as of April 1, 2014 | 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, 2015 |
|---|---|---|---|---|
| Common stock | 2,011/shares | 0/shares | - | 2,011/shares |

(Note) The increase of 0 thousand shares of treasury shares of common stock resulted from the acquisition of less-than-one-unit shares.

**Notes on Deferred Tax Accounting**

Significant components of deferred tax assets and deferred tax liabilities

| | (millions of yen) |
|---|---|
| Deferred tax assets | |
| Liabilities for directors' and corporate auditors' retirement benefits | 346 |
| Accounts payable-other | 842 |
| Allowance for doubtful accounts | 5,278 |
| Accrued expenses (bonuses) | 171 |
| Loss on revaluation of investment securities | 193 |
| Loss on revaluation of investment in subsidiaries and associated companies | 2,631 |
| Transfer pricing taxation adjustments | 726 |
| Impairment loss on fixed assets | 99 |
| Tax loss carryforwards | 4,590 |
| Other | 303 |
| Subtotal | 15,183 |
| Valuation allowance | (13,751) |
| Total | 1,431 |
| Deferred tax liabilities | |
| Unrealized gain on available-for-sale securities | (121) |
| Prepaid pension cost | (578) |
| Reserve for advanced depreciation of fixed assets | (244) |
| Other | (31) |
| Subtotal | (976) |
| Deferred tax assets, net | 455 |

2. Revision of deferred tax assets and deferred tax liabilities as a result of the change of the rate of corporate tax, etc.

As a result of the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 2 of 2015) enacted on March 31, 2015, the corporate tax rate, etc., will be reduced from the fiscal year beginning on or after April 1, 2015. Accordingly, the effective statutory tax rate to be used for the calculation of deferred tax assets and deferred tax liabilities will be reduced from 35.6% to 33.1% for the temporary differences expected to be reversed for the fiscal year beginning on April 1, 2015, and to 32.3% for the temporary differences expected to be reversed for the fiscal year beginning on April 1, 2016 and thereafter.

The tax rate change decreased deferred tax assets (net of deferred tax liabilities) by ¥9 million and increased income taxes - deferred and unrealized gain on available-for-sale securities by ¥22 million and ¥12 million, respectively.

Further, with the change of the scheme of tax loss carryforwards, the deductible amount is limited to 65% of taxable income for the fiscal years beginning on or after April 1, 2015, and to 50% of taxable income for the fiscal years beginning on or after April 1, 2017.

Consequently, deferred tax assets decreased by ¥68 million and income taxes - deferred increased by ¥68 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, 2015 |
|---|---|---|---|---|---|---|---|
| Subsidiary | DX ANTENNA Co., Ltd. | Direct, 91.40% | Sale of products of the Company | Sale of electronic products | 1,737 | Accounts receivable - trade | 553 |
| Subsidiary | Funai Electric (HK) Ltd. | Direct, 100.00% | Production of products of the Company | Purchase of electronic products | 79,946 | Accounts payable - trade | 8,468 |
| Subsidiary | FUNAI (THAILAND) CO., LTD. | Direct, 80.87% Indirect, 19.13% | Production of products of the Company | Loan of funds | 1,827 | - | - |
| | | | | Repayment of loans | 3,177 | - | - |
| | | | | Purchase of electronic products | 36,141 | Accounts payable - trade | 3,898 |
| Subsidiary | FUNAI CORPORATION, INC. | Direct, 100.00% | Sale of products of the Company | Sale of electronic products | 95,234 | Accounts receivable - trade | 16,050 |
| Subsidiary | P&F USA, INC. | Direct, 100.00% | Sale of products of the Company | Sale of electronic products | 11,489 | Accounts receivable - trade | 9,064 |
| | | | | Repayment of loans | 4,086 | - | - |
| | | | | Guarantee for bank loans | 3,712 | - | - |
| | | | | Transfer pricing taxation adjustments | - | Accrued expenses | 2,250 |
| 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 | 15,553 | Accounts receivable - trade | 6,603 |
| | | | | Loan of funds | - | Long-term loans receivable | 1,576 |
| | | | | Provision of allowance for doubtful accounts | 612 | Allowance for doubtful accounts | 3,217 |
| Subsidiary | FUNAI ELECTRIC EUROPE Sp. z o. o. | Direct, 100.00% | Sale of products of the Company | Sale of electronic products | 1,657 | Accounts receivable - trade | 1,492 |
| | | | | Loan of funds | - | Long-term loans receivable | 2,476 |
| | | | | Provision of allowance for doubtful accounts | 642 | Allowance for doubtful accounts | 1,992 |
| Subsidiary | FUNAI EUROPE GmbH | Direct, 100.00% | Sale of products of the Company | Loan of funds | - | Long-term loans receivable | 10,435 |
| | | | | Provision of allowance for doubtful accounts | - | Allowance for doubtful accounts | 10,376 |

(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 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, 2015 |
|---|---|---|---|---|---|---|---|
| Company, etc. whose director(s) and his/her close relative(s) own a majority of the voting rights | Propia Co. Ltd. | - | Sale of products; interlocking directorate | Sale of products | 104 | Accounts receivable - trade | 12 |
| | XTrillion Inc. | - | Sale of products; lease of offices; interlocking directorate | Sale of products | 48 | Accounts receivable - trade | 0 |
| | | | | Lease of offices | 36 | - | - |
| | PreXion Co., Ltd. | - | Sale of products | Sale of products | 43 | - | - |

(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 a company of which a close relative of Representative Director of the Company, Tetsuro Funai, owns a majority of the voting rights.

2. XTrillion Inc.
(1) As with the terms of ordinary transactions, transaction terms are determined in consideration of market prices and other factors.
(2) Lease prices of offices are determined upon consultation in consideration of market price rates in the neighborhood and other factors.
(3) 100.00% of the voting rights are owned directly by Representative Director of the Company, Tetsuro Funai.

3 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 were owned directly by Representative Director of the Company, Tetsuro Funai. As of July 1, 2014, PreXion Co., Ltd. was merged by XTrillion Inc. and the transactions after the merger were transferred to XTrillion Inc.

## Note to Per Share Information

Equity per share: ¥2,417.62

Net income per share: ¥10.19

## Other Notes

Additional Information

(Tax system for dealing with tax havens)

On June 29, 2011, the Company received notices from the Osaka Regional Taxation Bureau suggesting that a 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 in accordance with Japanese Institute of Certified Public Accountants Audit and Assuarance Practice Committee Report No. 63, "Treatment of Accounting and Presentation of Taxes for the purpose of Audits".

The Company has recorded the amount that would be affected if the taxation were applied from the fiscal year ended March 31, 2011, which is the fiscal year following the fiscal year to which the assessment was applied.

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