FUNAI

FUNAI ELECTRIC CO., LTD.

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FUNAI

Annual Report

2017

FUNAI ELECTRIC CO., LTD.

Dream with Conviction and Act on Information

Since its establishment, Funai Electric has built considerable trust among its customers in the Consumer Electronics sector by promoting Funai's strengths in supplying consumer electronics products that focus on function and have superior cost-performance.

Funai's unique production system, the "Funai Production System (FPS)," its system for globally optimizing production and sales, and its streamlined corporate organization and responsive management are vital management resources that Funai has been cultivated throughout its history. We believe that these resources are the greatest assets we wield as we seek to emerge a winner in an increasingly competitive business environment.

The Funai Electric Group will unite as one team to achieve even greater improvement in quality, cost, and delivery, and aspires to always provide the world with products that meet the needs of the times.

Contents

Corporate Logo

Our Corporate Logo, which shows a stylized "F" breaking out of its circular boundaries, expresses our focus on breaking away from stereotypes, while at the same time symbolizing our vigorous growth. The shape of the "F" resembles a human hand, connoting production and manufacturing. This shape is meant to convey our high productivity and outstanding quality, with sharp angles to express simplicity.

Restoration of a Strong Funai's Strength, which is grounded in the AV business

My name is Hideaki Funakoshi, the president and CEO of the Funai Electric since May 15, 2017. I understand my role to be rolling out a new strategy aimed at sustained growth, quickly restoring slumping operating results, and building a stable business base by improving earnings, mainly in the AV business. I will align my heart with those of our stakeholders and restore Funai's strength as a company that creates unique value in global markets.

Hideaki Funakoshi
Representative Director
President & CEO

Profile

Hideaki Funakoshi DOB: September 30, 1965, in Osaka

January 1993	Joined Funai Electric Co., Ltd.
April 2006	Manager, DVD Project Div.
February 2008	Executive General Manager in charge of DVD Business Div.
June 2010	Company Director Officer and General Manager in charge of DVD Business Div.
July 2011	Officer and Deputy General Manager in charge of AV Headquarters
May 2012	Officer and Deputy General Manager in charge of AV System Business Div. and General Manager of Digital Media Business Div.
April 2013	Officer and General Manager in charge of AV System Business Div. and General Manager of Display Business Div.
November 2014	Officer and General Manager in charge of AV System Business Div.
April 2016	Officer and General Manager in charge of AV System Business Div. and General Manager of Display Business Div.
June 2016	Company Director General Manager in charge of AV System Business Div. and General Manager of Display Business Div. President and CEO (present position)

Fiscal 2017 marks a fresh start

Funai is one of the most price competitive companies in the world. We supply simple, high quality digital consumer electronic products worldwide. However, the digital consumer electronics market has seen accelerating competition among global manufacturers on functional and technological development in tandem with the rapid evolution of IT technology. The entrance of Chinese and Korean manufacturers has also exacerbated price competition in North America. These factors have had a major impact on the profitability of the company's businesses.

Consolidated operating results for fiscal year ended March 31, 2017 (fiscal 2016) saw a 21.3% year on year decrease in net sales to 133,838 million yen. The number of LCD televisions sold declined substantially, impacted by a delay in plans for expansion of a new mass retail stores in the North American market and a slump in sales in the Mexican market. There was an operating loss of 6,775 million yen (compared to an operating loss of 10,539 million yen last fiscal year) on the profit front as well. This resulted from inventory reduction accompanying a steep rise in LCD panel prices and an increase in development costs in the Office Solutions business, in addition to the decline in net sales. A foreign exchange loss in Mexico from depreciation of the peso contributed to an ordinary loss of 7,726 million yen (compared to an ordinary loss of 13,653 million yen last fiscal year). This culminated in a net loss attributable to owners of the parent of 6,745 million yen (compared to a net loss of 33,839 million yen last fiscal year), a sobering result.

As president and CEO, I am in charge of management restructuring and am keenly aware that we must rebuild our operating results as quickly as possible, with no room for delay. I take this assigned mission seriously.

Returning to our origins and reflecting on the strengths of Funai Electric

When I was appointed, I looked back on the origins of Funai and took a fresh look at our company's strengths in the market.

During the era of CRT televisions, Funai was a highly profitable company with a record of manufacturing and selling more than 10 million televisions a year. Since that time, we have identified market needs two to three years in advance and developed innovative technology, inventing original products such as TV/VCR combinations and VHS/DVD recorder combinations. We have demonstrated superior supply capabilities and price competitiveness via our proprietary production system, the Funai Production System (FPS), and our system for manufacturing and selling products in the optimal locations. For many years, Funai Electric has maintained market share that is among the highest in the business in the North American LCD television market, where price competition is stiff, and it holds a strong position in the global digital consumer electronics market.

I believe that utilizing these superior management resources to rebuild a business base capable of fully manifesting the future strengths of Funai is the shortest path to restoring operating results.

Building a formidable business base grounded in the AV business

When I was appointed, I announced the FY2017-FY2019 New Policy and Strategy, aimed at improving profitability, mainly in the AV business (Display business and Digital Media business) in which advanced development and production capabilities are distilled into the optimal form for the market. The objective of this policy is a swift "return to the black," and restoring Funai's strength by improving advanced development capabilities and productivity, grounded in the expansion of the AV business.

Funai Electric wants to be the front runner that stays a half step ahead of the competition on the proverbial track by achieving an optimal balance between the ability to develop technologies rapidly and cost-competitive production systems. We will therefore rebuild a business base that is capable of introducing digital consumer electronic products of superior quality and cost-performance to global markets in a timely manner. We will accomplish this by sensitive anticipation of market needs; rapid development of products that customers desire by fully employing the latest technology, designs, and components; and working continuously to improve productivity through FPS. I am confident that this will enable Funai to fully draw out the growth potential in the company that remains untapped.

Working together with stakeholders to restore Funai's strength

The fundamental principle of Funai Electric is "Dreams with Convictions, and Information with Behavior," and we are keeping the spirit of originality and ingenuity in manifesting true value alive, especially when we encounter a severe environment. We have handed down the corporate culture from veterans to young employees since our founding and work to clarify mutual responsibilities through organizational reform and pursue management with a focus on speed. Our goal is to align the hearts of all of our officers and employees with the hearts of our stakeholders in restoring Funai's strength.

We ask everyone to support us in this endeavor.

Supplying simple, high-quality products to the world

Funai Electric supplies simple, high-quality products under a broad range of brands in four business segments—Display, Digital Media, Office Solution, and Other—and has established a solid position in the global consumer electronics market.

Since our company was established, Funai Electric has demonstrated the ability to develop and supply products of superior quality and cost-performance, and has built a reputation of solid reliability in the global digital consumer electronics market.

Today we are engaged in a broad range of businesses in four business segments: the Display business, which carries LCD televisions, the Digital Media business, which carries DVD and BD (Blu-ray disc) related products, the Office Solutions business, which carries printer-related equipment, and the Other business, which carries dental CT scanners and other high value-added products.

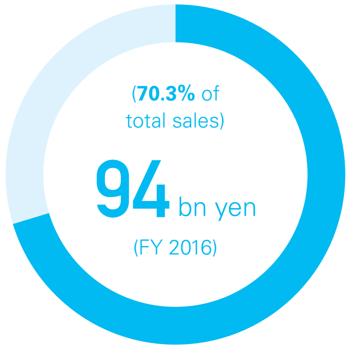
In our main Display business, we supply four brands of LCD televisions in a variety of sizes from small to large. In our Digital Media business, we supply DVD and BD (Blu-ray disc) related products to Japan and North America, respectively. We are recognized for our price competitiveness and capacity to supply these audiovisual products, and are particularly proud of our top-ranked share of the North American market in LCD televisions.

Funai Electric utilizes the printer products we developed ourselves in our Office Solution business and the strong partnerships with our OEM (consignment manufacturing) customers in our Other business to sell high value-added products.

We are entering a severe period of shakeout in the global digital consumer electronics industry as competition on function, design, and price stiffens with the rise of Chinese, Taiwanese, and Korean manufacturers.

However, it is precisely in this sort of severe environment that we are seizing the opportunity to manifest the true value of Funai Electric, with our advanced in-house development capacity and our formidable production system. We will work to increase our brand value and expand our market share by developing and manufacturing products that match the needs of the age rapidly and supplying products of superior quality and cost-performance to the global market.

Display Business — LCD Televisions



Globally recognized high-definition imaging
Triumphant return to the Japanese market

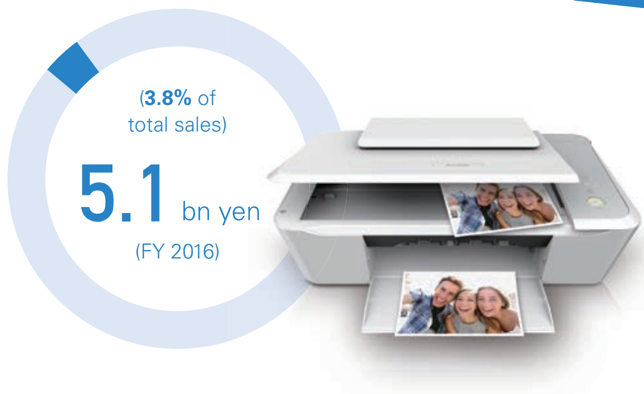
Funai Electric is the only Japanese manufacturer to maintain a top-ranked share of the North American market where we sell three brands (Philips, SANYO, and Magnavox). We also entered a long-term exclusive sales agreement with Yamada Denki Co., Ltd. in the Japanese market and began selling high-quality 2K and 4K LCD televisions in June 2017, all of which have a recording function. We are also working on developing a television with an organic electroluminescent (EL) display and are aiming to launch it for sale in Japan in 2018.

Digital Media Business — DVD/BD-related Products

Enticing AV users
High-definition simultaneous recording function

Funai Electric introduced a 4K Blu-ray player to the North American market in 2016 and has debuted two models in 2017. In Japan, we began exclusive sales a high-performance Blu-ray recorder at Yamada Denki in June 2017, and are also working to expand sales in combination with LCD televisions.

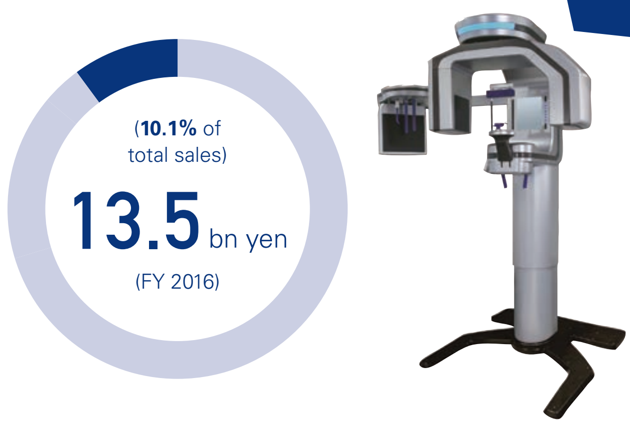
Office Solutions Business — Printers



Capitalizing on the diverse range of business needs to achieve expansion of the printer business

Funai Electric is utilizing the expertise it has cultivated in OEM for inkjet printer products since 1997 to expand the business substantially. We began manufacturing and selling Kodak-brand inkjet printers developed in-house under a license agreement in 2015. Commercial inkjet cartridges we developed in-house using thermal inkjet technology contributed to operating results in fiscal year 2016.

Other Businesses — OEM manufacturing, etc.



Meeting a wide range of OEM needs with optimal technology and optimal manufacturing

Funai Electric is manufacturing dental CT scanning devices on consignment for the U.S. market. We are also manufacturing precision machinery on consignment in the healthcare sector, which meets a wide range of needs with superior technology.

Brands carried	Brands sold globally	Brands sold in North America	Brand sold in Central/South America
	FUNAI, Kodak	FUNAI, SANYO, Kodak, Philips, Magnavox	Philips

Sales

Capturing the Needs of Markets around the World

Funai Electric deploys a sales strategy based on the unique characteristics of each market in many locations around the world. In the North American market, which is the largest market in the world, Funai has strengthened its relationship with leading mass retailers to develop an accurate assessment of market needs, and maintains top share in the market. We also began exclusive sales of the FUNAI brand through Yamada Denki, the largest mass retailer of consumer electronics in Japan, from 2017.

Utilizing our close ties with sales channels to accurately ascertain the latest trends and market needs, and providing products that offer high quality and superior market performance—that is the sales strategy of Funai Electric. This also holds true for LCD televisions, our main product. We were successful in quickly catching the growth in demand for large 4K models in the North American market and rapidly developing products and introducing them to the market. This, in turn, led to the introduction of FUNAI-brand 4K models to the Japanese market.

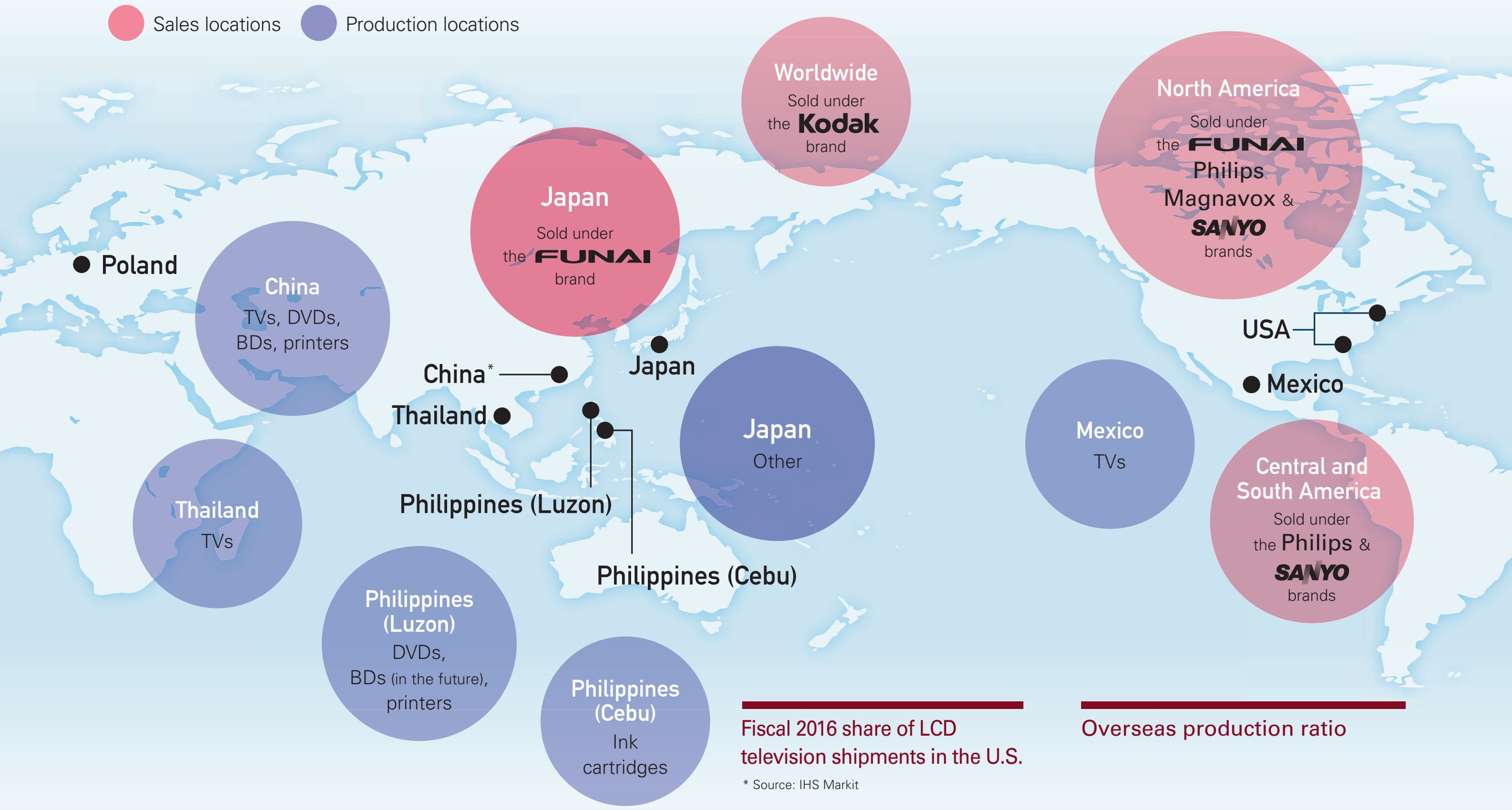
Funai Electric meets the needs of world with a sales strategy focused on speed and its advanced development capabilities. We are currently engaged in product development aimed at debuting an organic electroluminescent television in the Japanese market during 2018.

We were also quick to introduce a Blu-ray disc (BD) player capable of playing Ultra HD discs (that meet the next-generation 4K BD standard) to our BD product line in the North American market in 2016, and began selling a second generation model in 2017.

Our goal is to increase our market share in BD products before the expansion of the 4K market gets fully underway.

Global sales locations
Global production locations

Sales locations   Production locations



Fiscal 2016 share of LCD television shipments in the U.S.

* Source: IHS Markit

4th

Overseas production ratio

98.0%

(Fiscal 2016, actual)

*Subcontractor plant

Design

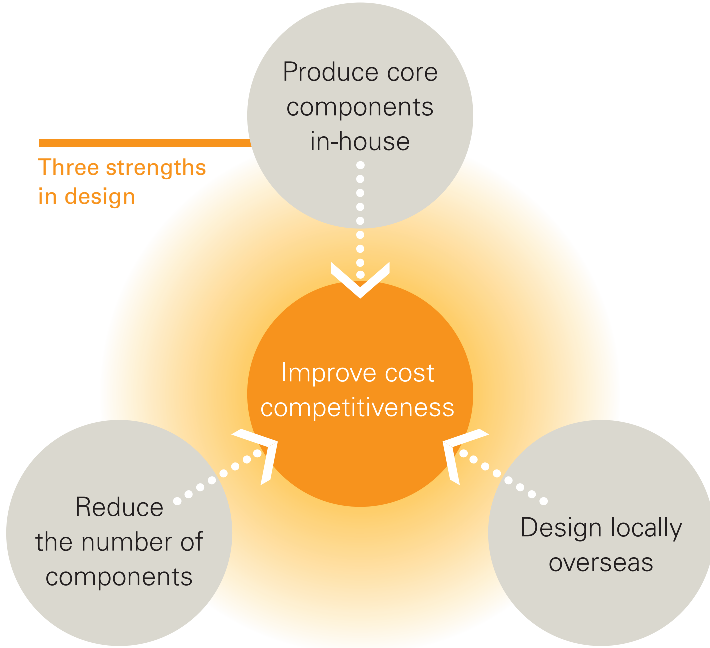
World-Class Price Competitiveness

Produce core components in-house, reduce the number of components, and design locally overseas. Pursuit of cost-performance from the design stage onward has given Funai Electric world-class price competitiveness.

Funai Electric's peerless price competitiveness was achieved through our unique design concept of producing core components in-house, reducing the number of components, and local design overseas.

We brought the production of core components in-house and reduced the number of parts. Design work is performed at development sites in Malaysia, China, and other locations, and strengthening communication among these locations has shortened development time, reduced labor hours, and improved efficiency in local parts procurement. A design flow that takes productivity into consideration and focuses on the relentless pursuit of optimal cost-performance for the entire company helps Funai Electric products to emerge winners amid stiff price competition.

Three strengths in design



Production

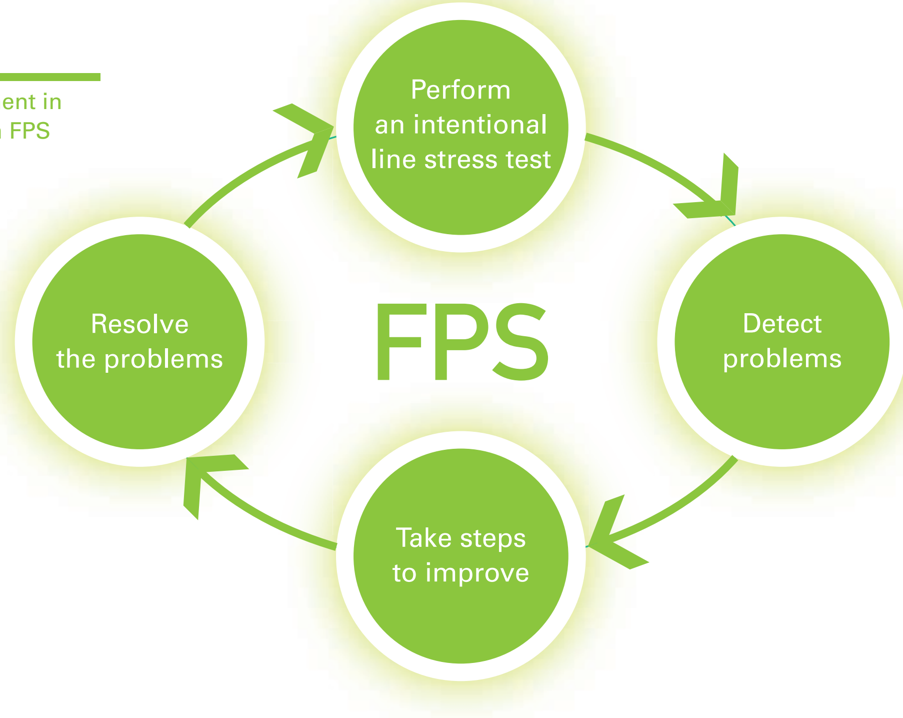
Taking on the Challenge of Ceaseless Improvements in Productivity

Funai Electric continuously pursues improvements in productivity through its unique Funai Production System (FPS). FPS enables Funai to provide high quality products with superior cost performance.

FPS, Funai's unique production system, detects problems in the production process through intentional stress testing of the production line (reducing the number of line workers, speeding up the belt conveyor), and taking steps to improve productivity that encourage voluntary efforts to improve.

Repeatedly working through this cycle detects problems with the current production system and fosters a mindset among team members to take the initiative on improvement. This enables continual improvements in productivity. Funai sees FPS as the driver for achieving sustainable growth, and will restore Funai Electric to strength by pursuing this even more ardently.

Continual improvement in productivity through FPS



2016-2017

Topic 1

Exclusive sale of Funai-brand 4K LCD televisions at Yamada Denki, Japan's largest mass retailer | June 2017

Funai Electric has begun selling LCD televisions, mainly large 4K models, and BD (Blu-ray disc) recorders in the Japanese market under an exclusive sales agreement. Having achieved world-class performance in the AV market, mainly in North America, Funai achieved a triumphant return of the Funai brand to the Japanese market based on a basic agreement concerning the exclusive sale concluded with Yamada Denki in October 2016.

There is a total of 11 models in the 5-series line-up. The 6000-series is the flagship model in the line-up and incorporates Clear Pix Engine 4K HDR, a high-definition engine that was developed in-house and creates clear images with 4K resolution. All models offer full video recording functions, and the dynamic sound, elegant design, and extreme user friendliness leave nothing unsaid in conveying Funai's views on the LCD television business.

We have succeeded in designing products from the customer's perspective by working with Yamada Denki, which is intimately familiar with customers' needs, and have utilized our capabilities in advanced development and manufacturing to provide all of the features that users in Japan want in a television. Displaying our products in the stores of the well-known Yamada Denki should launch a rapid rise of the Funai brand.

We share the concept of creating a high quality made-in-Japan brand from the customers' perspective with Yamada Denki. This formidable collaboration between the two companies will create new value in the AV market in Japan. Funai Electric still boasts the highest annual LCD television sales* among Japanese manufacturers in the North American LCD television market, the largest market in the world, and Yamada Denki boasts the top share of television sales in Japanese mass consumer electronics stores.

* Compared to Japanese manufacturers in terms of the share of North American LCD televisions shipment volume in 2015 (IHS Markit survey)




YAMADA × FUNAI


Topic 2

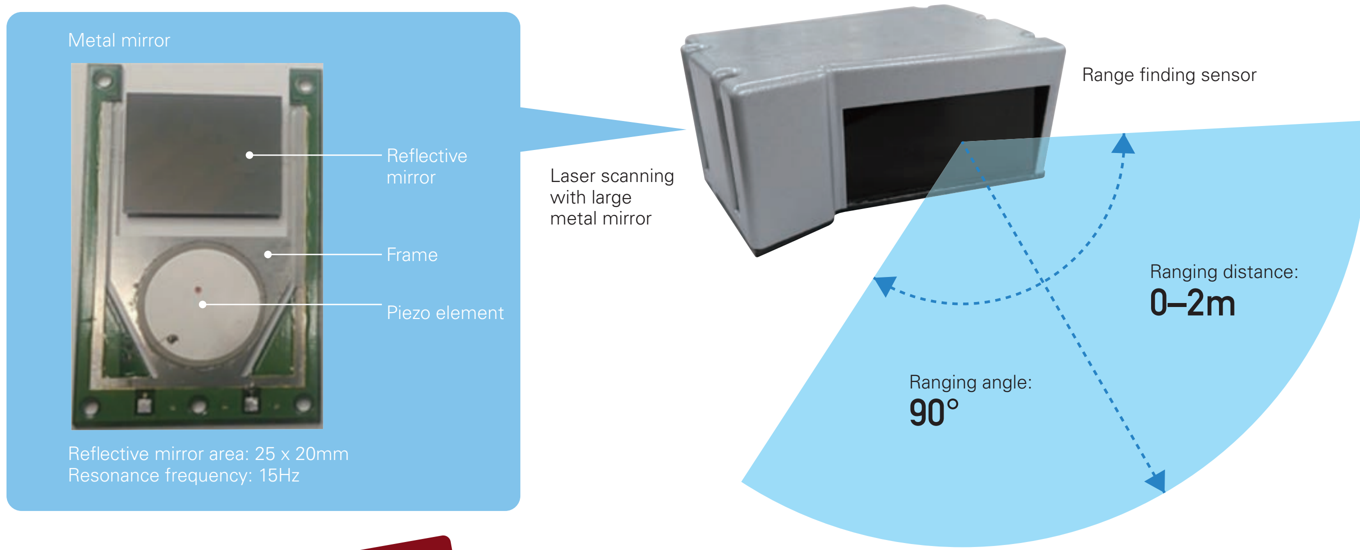
Development of practical application of metal optical scanning element | December 2016

Funai developed a practical application of a metal optical scanning element based on the resonant piezoelectric scanner owned by the National Institute of Advanced Industrial Science and Technology (AIST) and produced a prototype.

Utilizing the properties of the metal base, we worked to create a prototype of a distance measuring sensor with an optical scanner having larger mirror size than considered possible at the time* of the press release issued by AIST. Having overcome the technical issues in practical application, we succeeded in creating a wide-angle scanner with superior durability and shock-resistance.

* AIST press release on February 9, 2010: Development of a Novel Optical Scanning Device, a Core Component of a Projection Display -High scanning speeds of more than 25 kHz as well as large scanning angles such as 100° or greater were achieved –

Photo of interior



Topic 3

Walmart "Supplier of the Year" Awards received in three categories at the same time! | February 2017

"Supplier of the Year" is a prestigious annual award bestowed upon a supplier that has made a great contribution to customer satisfaction and to Walmart's operating results during that year by supplying attractive, high-quality products. Funai received awards in the Entertainment category and the Consumer Electronics category in recognition of the successful contribution our LCD televisions made to increasing FY 2016 sales in Walmart's TV division. Our LCD televisions also performed strongly in the year-end sales campaign, earning the "Supplier of the Quarter" award for the fourth quarter. Funai received awards in three categories at the same time. Funai has received awards five times in total since 2002, a rare track record among AV manufacturers around the world.

Improving Profitability Grounded in the AV Business

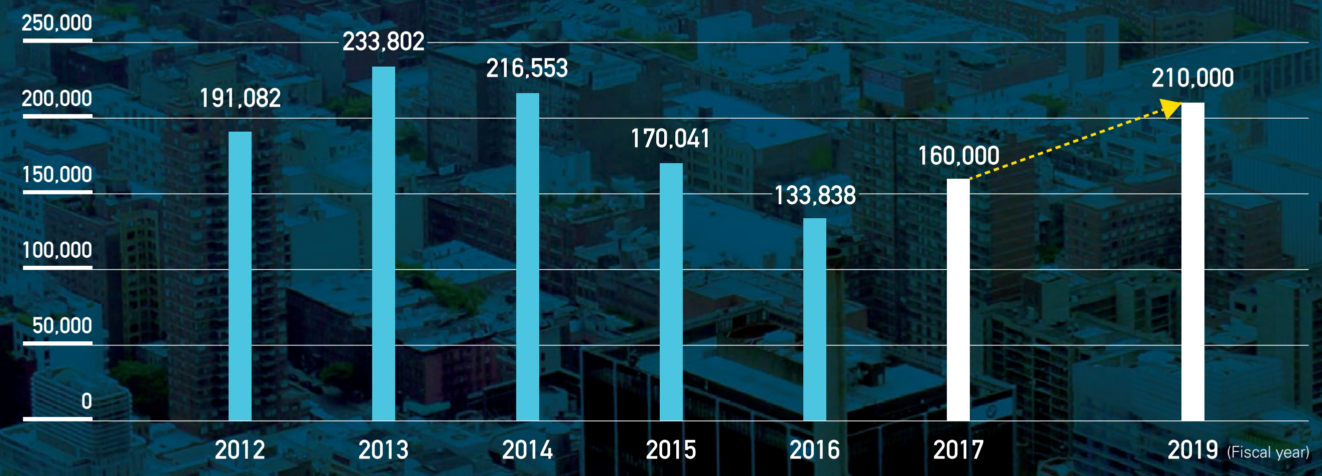
Funai Electric is pursuing a new medium-term management plan to concentrate management resources on the core AV business (Display Business and Digital Media Business) and improve profitability based on its FY2017-FY2019 New Policy and Strategy.

Fiscal 2017 Plan
Net sales
160 bn yen
Operating income
600 mn yen

Fiscal 2019 Goals
Net sales
210 bn yen
Operating income
6,000 mn yen

Trend in Net Sales

Funai's goals under the plan are to achieve net sales of 160 billion yen and operating income of 600 million yen in fiscal 2017. A return to profitability of 200 million yen in net income is also projected. The goal is to strengthen earning power and increase the profitability of the AV business to achieve net sales of 210 billion yen, operating income of 6 billion yen, and an operating margin of 3.0% in fiscal 2019.



Improving Earnings, Primarily in the AV Business

Display Business
- North American market: Increase sales among existing customers and acquire new customers by expanding the large 4K LCD television line-up.
- Japanese market: Enter the Japanese market and expand share through an exclusive sales agreement with Yamada Denki Co., Ltd.

Digital Media Business
- North American market: Expand sales of 4K Blu-ray disc players.
- Japanese market: Enter the Japanese market and expand share through an exclusive sales agreement with Yamada Denki Co., Ltd.

Office Solutions Business
- Eliminate unprofitable products and concentrate on high value-added products.
- Re-examine investment in the microfluidics business (involving the controlled release of very small amounts of fluid).

Grounded in the AV business, Funai will reach new heights as a global company

Funai Electric is pursuing a new medium-term management plan, which began in fiscal 2017 (fiscal year ending March 31, 2018). The plan aims to improve profitability quickly to achieve the main objective of restoring Funai to the black, and is targeted at rolling out a new strategy aimed at sustained growth by expanding the AV business. It expresses the vision of President Hideaki Funakoshi, who formulated the FY2017-FY2019 New Policy and Strategy, of restoring Funai's strength.

Improve business efficiency focusing on AV business

1 Return to the black

2 Expand the AV business

3 Improve productivity: Restore Funai's strength

Q1 Please explain the background leading to formulation of the FY2017–FY2019 New Policy and Strategy.

A1 The goal is to build a strong earnings base for our business, with a primary focus on the AV business.

First, in regard to the previously announced fiscal 2016 results, the decline in sales resulted from a year on year decline in the number of LCD televisions sold in the North American market, which is our main market. The main factor behind the decline in profits was a greater than anticipated increase in costs and expenses incurred in the development of the next-generation inkjet printers and microfluidics (a technology that controls the flow of very small amounts of fluid).

The 2016-2018 medium-term business plan Funai has pursued up to now is built on three pillars: 1) expand net sales, 2) earn profits in the LCD television business, and 3) improve profitability of the information equipment business. This plan targeted maintenance of stable earnings while maintaining a balance among our various businesses. However, the highest priority issues we face in improving operating results rapidly is concentrating the allocation of management resources on the AV business (Display business and Digital Media business), which is our core business, and working to strengthen the earning power of the business and achieve consistent management.

We will endeavor to improve profits in stages and regain the trust of the market through the three pillars of the FY2017-FY2019 New Policy and Strategy by returning Funai to the black, which is the main issue facing management; expanding the AV business, as a means of strengthening the earnings base; and restoring Funai's strength, as the vision we strive to achieve. We will also work to expand penetration of the FUNAI brand, particularly in the Japanese market.

Q2 Please explain the immediate steps that will be taken to restore Funai to the black.

A2 We aim to achieve rapid improvement in profitability by curbing investment in unprofitable products and streamlining organizational functions.

To return Funai to the black and achieve our highest priority goal of improving profitability, we have been reducing the production and sale of unprofitable products, reducing R&D costs, and streamlining overseas sales subsidiaries since the beginning of fiscal 2017.

Funai has engaged in development of new printer models and R&D on application of our printing head technology to products in our office solution business thus far, however we could not deny the pressure that ongoing long-term investment through product commercialization is putting on profits. In the future, we will carefully scrutinize each investment project for the balance between the speed of commercialization and the degree of contribution it will make to profits, and will reconsider the areas of investment. We will therefore temporarily curb investment in the office solution business, but will resume investment in growth businesses that will provide a second earnings base after we bring the AV business back firmly into the black.

We will aim to improve the profitability and efficiency of overseas sales subsidiaries in fiscal 2017. The functions of the U.S. sales subsidiaries, P&F USA, Inc. and Funai Corporation, Inc. will be merged, and we will strive to link sales plans and production plans in a timely manner through more appropriate management of PSI (production, sales, and inventory) to reduce costs and streamline organizational functions.

Q3 Please describe the specific measures directed at expanding the AV business.

A3 We are committed to the goal of securing volume TV sales in the North American and Japanese markets.

We will expand our line-up of large 4K televisions as the core products for expanding the AV business. We will also work to develop an organic electroluminescent (EL) television as our next-generation flagship model while concentrating investment of internal management resources on large LCD televisions. We will work to achieve a rebound in operating results by moving the advanced development we have engaged in thus far to the mass production stage and creating products that offer a competitiveness expected of Funai Electric, and achieving growth in sales volume in the North American and Japanese markets.

■ North American Market

In the core North American market, the key to growing sales lies in acquiring more SKUs (stock keeping units) in the major mass retail stores. Our success in being awarded "Supplier of the Year" awards in three categories from the major U.S. nationwide retailer Walmart enabled Funai to secure SKUs for five Sanyo-brand models, and seven Philips-brand models in fiscal 2017. Our goal is to acquire SKUs in new mass retailers based on this track record, and secure a 15% share of the North American market by fiscal 2019.

■ Japanese Market

Funai began exclusive sales of large 2K and 4K Funai-brand LCD televisions and 4K BD recorders at Yamada Denki stores from June 2017. Yamada Denki is Japan's largest mass retailer and has over 800 stores nationwide. In televisions, we have a line-up of 11 models in five series, and will add two models in the latter half of fiscal 2017. We plan to introduce 17 models in fiscal 2018, including an organic EL television. We will continue work on developing attractive Funai-brand products that offer a consistent price range, with the goal of achieving volume sales of one million televisions a year in the Japanese television market by fiscal 2020.

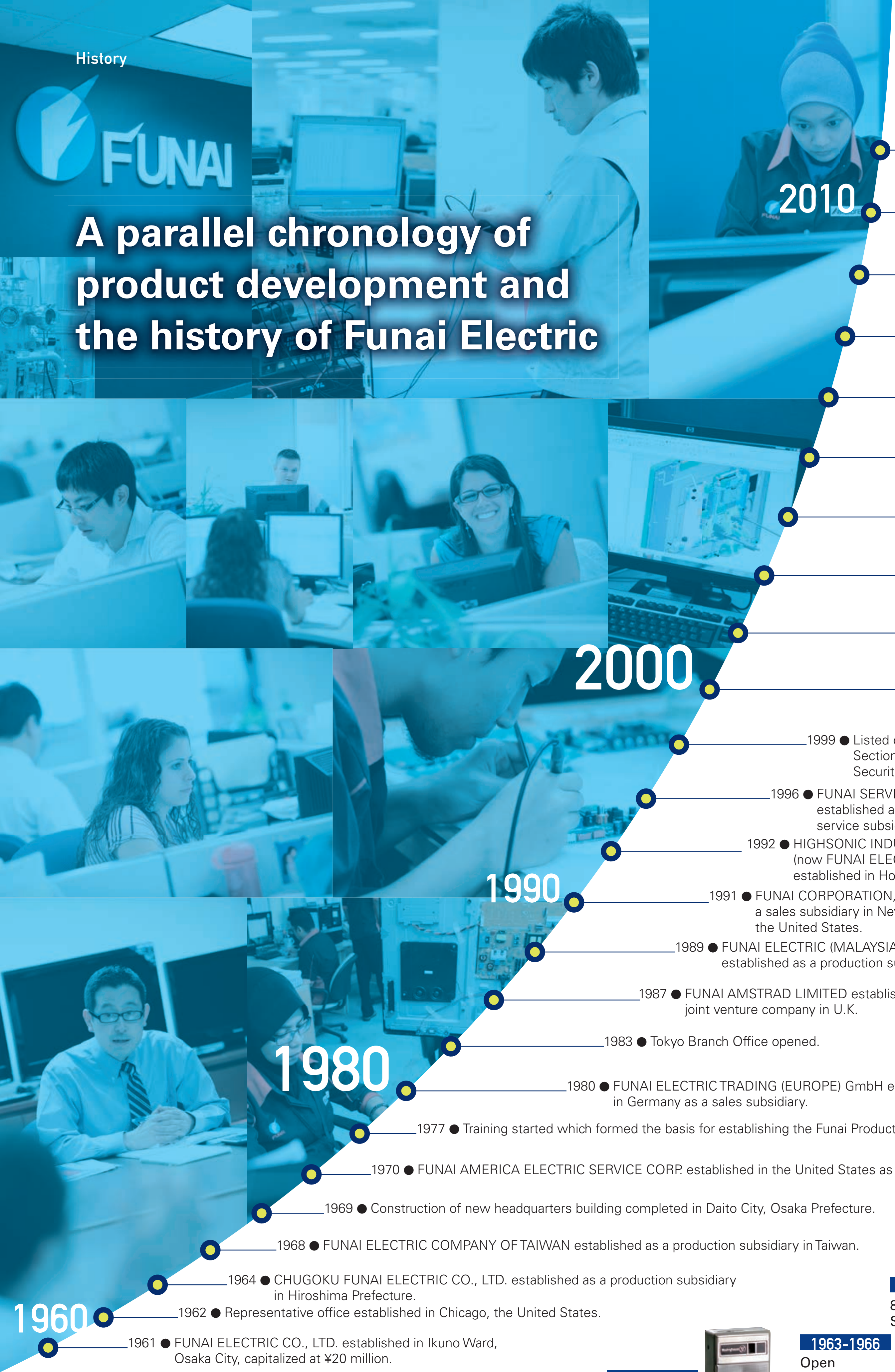
Q4 Please explain your vision for restoring Funai's strength.

A4 We will improve our capabilities in advanced development and production, offer products that add even greater value, and improve global price competitiveness.

We will build an AV business base that will fuse the original strengths of Funai Electric with the speed of today's digital era and enable us to create higher quality products that are more price competitive.

Advanced development capabilities and improvement in productivity are the powerful engines that will restore Funai's strength. We will form cross-organizational teams to work on projects with a development team and a product planning team in each business division, and use the latest technology, designs, and components to develop advanced technologies that anticipate product needs and technological trends two to three years in the future. This will enable us to provide more convenient functions and new value-added through the use of digital technology more quickly. We will tenaciously pursue the superiority that Funai possesses in cost-performance by also demonstrating creativity in production in many ways, such as bringing the production of core components in-house, reduction in the number of components, designs that take productivity into consideration, promotion of FPS, and by increasing the percentage of components procured locally at each site.

We will create new value in global AV markets through mutual cooperation among design, production, sales, R&D, and business activities focused on speed with the goal of helping Funai to reach new heights as a global company.



A parallel chronology of product development and the history of Funai Electric

2010

2017 ● Exclusive sale of FUNAI-brand televisions and Blu-ray disc recorders at Yamada Denki.
● Hideaki Funakoshi becomes President & CEO.

2016 ● FUNAI MANUFACTURING, S.A. DE C.V. established as a manufacturing subsidiary in Mexico

2015 ● A holding company, Funai North America, Inc. established in Delaware, the United States.

2013 ● FUNAI ELECTRIC CEBU, INC. (formerly, Lexmark International (Philippines), Inc.) acquired from Lexmark.
● Funai Electric Philippines Inc. established in Luzon, the Philippines as a production subsidiary.

2009 ● P&F MEXICANA, S.A. DE C.V. established in Mexico as a sales subsidiary for Philips-brand products.

2008 ● P&F USA, Inc. established in Georgia, the United States as a sales subsidiary for Philips-brand products.

2006 ● FUNAI SERVICE CORPORATION established as a service subsidiary in Ohio, the United States.
● FUNAI ELECTRIC (POLSKA) Sp. z o.o. (now a sales subsidiary, FUNAI ELECTRIC EUROPE Sp. z o.o.) established as a production subsidiary in Poland.

2004 ● FUNAI ELECTRIC ADVANCED APPLIED TECHNOLOGY RESEARCH INSTITUTE INC. established.

2003 ● FUNAI (THAILAND) CO., LTD. established as a production subsidiary in Nakhon Ratchasima Province, Thailand.
● Huang Jiang Plant (Dongguan City, Guangdong Province) started operation as a consignment production plant in China.

2000

2000 ● Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange.

1999 ● Listed on the Second Section of the Osaka Securities Exchange.

1996 ● FUNAI SERVICE CO., LTD. established as a domestic service subsidiary.

1992 ● HIGHSONIC INDUSTRIAL LTD. (now FUNAI ELECTRIC (H.K.), LTD.) established in Hong Kong.

1990

1991 ● FUNAI CORPORATION, INC. established as a sales subsidiary in New Jersey, the United States.

1989 ● FUNAI ELECTRIC (MALAYSIA) SDN. BHD. established as a production subsidiary in Malaysia.

1987 ● FUNAI AMSTRAD LIMITED established as a production joint venture company in U.K.

1983 ● Tokyo Branch Office opened.

1980

1980 ● FUNAI ELECTRIC TRADING (EUROPE) GmbH established in Germany as a sales subsidiary.

1977 ● Training started which formed the basis for establishing the Funai Production System (FPS).

1970 ● FUNAI AMERICA ELECTRIC SERVICE CORP. established in the United States as a sales subsidiary.

1969 ● Construction of new headquarters building completed in Daito City, Osaka Prefecture.

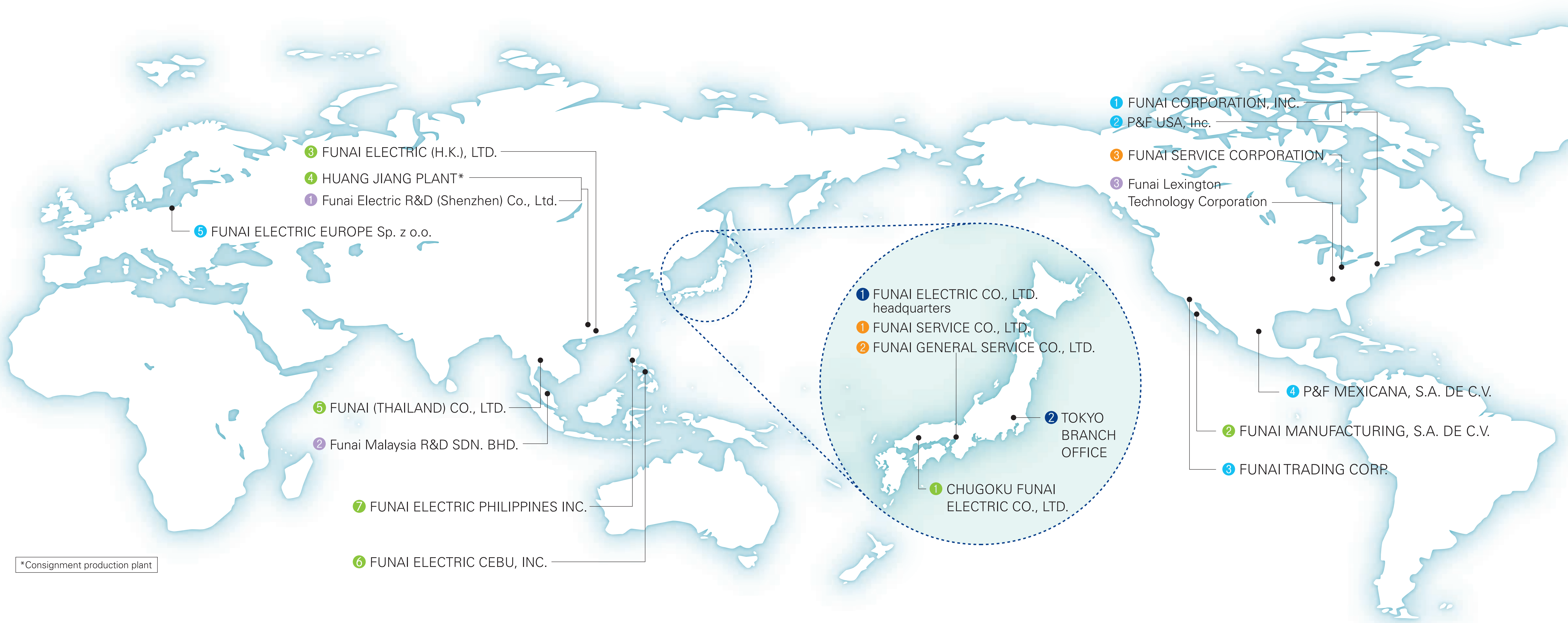
1968 ● FUNAI ELECTRIC COMPANY OF TAIWAN established as a production subsidiary in Taiwan.

1964 ● CHUGOKU FUNAI ELECTRIC CO., LTD. established as a production subsidiary in Hiroshima Prefecture.

1960

1962 ● Representative office established in Chicago, the United States.

1961 ● FUNAI ELECTRIC CO., LTD. established in Ikuno Ward, Osaka City, capitalized at ¥20 million.



*Consignment production plant

Name	FUNAI ELECTRIC CO., LTD.	
Established	August 1961	
Head office	7-7-1 Nakagaito, Daito, Osaka 574-0013	
	TEL +81-72-870-4303 FAX +81-72-871-1112	
	URL http://www2.funai.co.jp/en/index.html	
Capital	¥31,307 million (as of March 31, 2017)	
Net sales	¥133,838 million (Fiscal year ended March 31, 2017)	
Employees	No. of employees: 2,826 (consolidated basis, as of Mar. 31, 2017)	
Business category	Electrical equipment	
Principal businesses	Display Business	LCD TVs
	Digital Media Business	DVD players/recorders
		Blu-ray Disc players/ recorders
	Office Solutions Business	Printers
		Ink cartridges
	Other Businesses	Other devices

Executives		
Members of the Board	Hideaki Funakoshi	Representative Director and President and CEO
	Takeshi Ito	Director and Officer
	Hiroyuki Makiura	Director and Officer
	Mitsuo Yonemoto	Outside Director
Outside Director (Audit and Supervisory Committee Members)	Fumiaki Kidera	Director
	Masahide Morimoto	Outside Director
	Masakazu Funaishi	Outside Director
Officers	Motoyoshi Adachi	Officer
	Yoshio Kinoshita	Officer
	Katsuo Tokuhara	Officer

Offices and subsidiaries

Offices
❶ FUNAI ELECTRIC CO., LTD. headquarters
❷ TOKYO BRANCH OFFICE

Sales subsidiaries
❶ FUNAI CORPORATION, INC.
❷ P&F USA, Inc.
❸ FUNAI TRADING CORP.
❹ P&F MEXICANA, S.A. DE C.V.
❺ FUNAI ELECTRIC EUROPE Sp. z o.o.

Production subsidiaries
❶ CHUGOKU FUNAI ELECTRIC CO., LTD.
❷ FUNAI MANUFACTURING, S.A. DE C.V.
❸ FUNAI ELECTRIC (H.K.), LTD.
❹ HUANG JIANG PLANT*
❺ FUNAI (THAILAND) CO., LTD.
❻ FUNAI ELECTRIC CEBU, INC.
❼ FUNAI ELECTRIC PHILIPPINES INC.

Development subsidiaries
❶ Funai Electric R&D (Shenzhen) Co., Ltd.
❷ Funai Malaysia R&D SDN. BHD.
❸ Funai Lexington Technology Corporation

Other subsidiaries
❶ FUNAI SERVICE CO., LTD.
❷ FUNAI GENERAL SERVICE CO., LTD.
❸ FUNAI SERVICE CORPORATION

Corporate Governance

1) Basic Philosophy on Corporate Governance

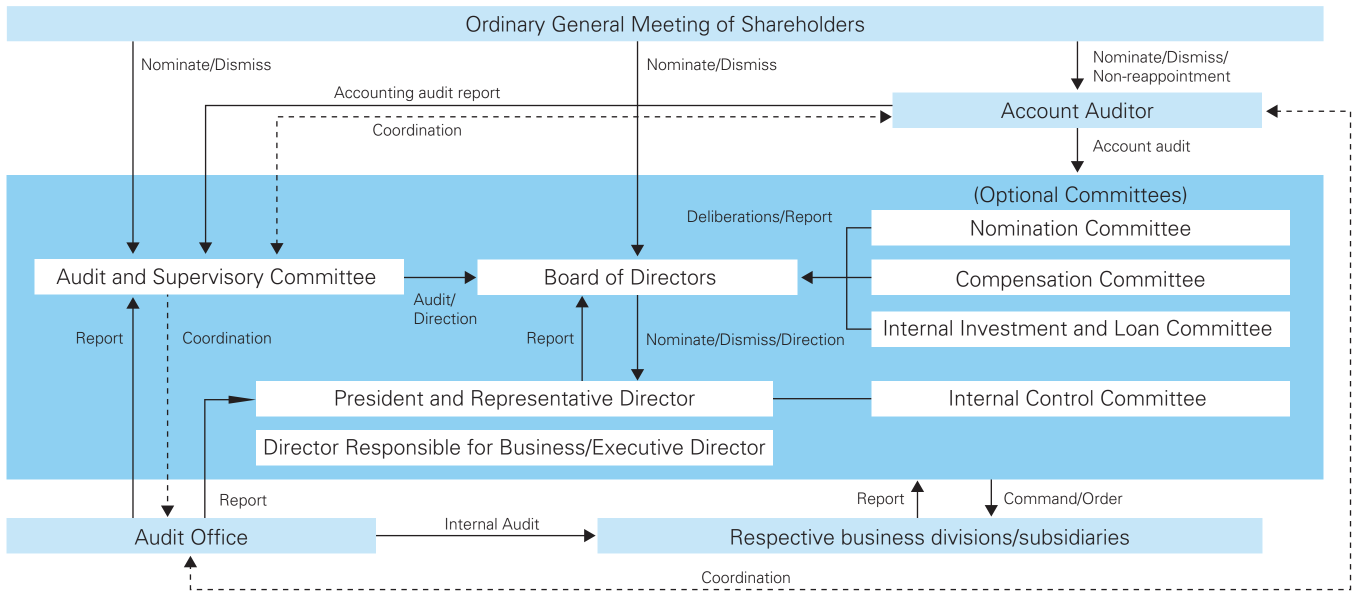
The Funai Electric Group's basic philosophy on corporate governance is to continuously increase corporate value by increasing the transparency of management to shareholders, consumers, vendors, local communities, employees, and other internal and external stakeholders and by responding to changes in the business environment by ensuring management soundness and efficiency and striving for prompt decision-making.

On the basis of this philosophy, the Group has introduced an executive officer system to ensure expeditious decision-making and establish a system for prompt business execution. The Group is also strengthening CSR activities. We have formulated the Funai Group Code of Conduct, which regulates the conduct of all officers and employees of the Funai Group, and the Funai Group Procurement Policy, which is based upon the Code of Conduct, and established the CSR Committee as an organization to promote corporate social responsibility.

2) Description of the Management Organization in the Fiscal Year under Review

Pursuant to a resolution at the ordinary general meeting of shareholders held on June 25, 2015 to amend the Articles of Incorporation to provide for a transition to an audit and supervisory committee governance structure, the Group transitioned from a board of corporate auditors governance structure to an audit and supervisory committee governance structure effective June 25, 2015. The purpose of the transition is to further strengthen the supervisory function of the Board of Directors and enhance corporate governance by granting to directors who are Audit and Supervisory Committee members voting rights on the Board of Directors. The Group has also introduced an executive officer system to establish a system for prompt business execution. We have also ensured objectivity and transparency in important decision-making processes by establishing the Nomination Committee, Compensation Committee, and Internal Investment and Loan Committee as discretionary advisory bodies to the Board of Directors other than the Audit and Supervisory Committee.

Corporate Governance Organization



a. Board of Directors

The Funai Electric Group Board of Directors consists of eight members: five directors who are not Audit and Supervisory Committee members (including one outside director) and three directors who are Audit and Supervisory Committee members (two of whom are outside directors). At the same time as the Group strives for prompt decision-making by inside directors knowledgeable about the Group's business matters, participation in Board of Directors decision-making by outside directors with no special interest in the Group ensures management soundness and transparency. Meetings of the Board of Directors are held, in principle, at least once every three months, and extraordinary meetings are held as necessary.

Advisory Bodies

• Nomination Committee

The Nomination Committee consists of directors who are not Audit and Supervisory Committee members appointed by the Board of Directors. As an advisory body to the Board of Directors, it ensures the transparency and objectiveness of the candidate selection process by recommending candidates for director to the Board of Directors.

• Compensation Committee

The Compensation Committee consists of directors who are not Audit and Supervisory Committee members appointed by the Board of Directors. It ensures the transparency and objectiveness of the compensation decision process by deciding compensation and other payments for directors who are not Audit and Supervisory Committee members and executive officers under authority delegated by the Board of Directors. Compensation and other payments for corporate auditors are determined by consultation among the corporate auditors.

• Internal Investment and Loan Committee

The Internal Investment and Loan Committee consists of directors and executive officers appointed by the president. It ensures the transparency and objectiveness of the decision-making process regarding major investment and loan projects by discussing the details of individual projects from a group-wide perspective.

b. Audit and Supervisory Committee

The Audit and Supervisory Committee consists of three directors, including two, who are outside directors. No special interest exists between these outside directors and the Funai Electric Group. In principle, the Audit and Supervisory Committee meets once a month.

c. Independent Auditors

The Company has appointed Deloitte Touche Tohmatsu LLC as independent auditors.

3) Inappropriate accounting

During the fiscal year under review, it was discovered that there was inappropriate accounting in prior results at the Group's subsidiaries. As a result, the Group submitted amended securities reports for the past five years and subsequently amended its financial reports.

Under these circumstances, the Group investigated and analyzed the causes of such inappropriate accounting and thereby considered, formulated and implemented improvement measures in order to prevent the recurrence of similar cases.

The Group has taken the situation seriously and is determined to raise the awareness of its officers and employees and further strengthen the Group's governance with the aim of ensuring that such incidents will never be repeated in the future.

The Group has taken the following improvement measures to prevent the recurrence of similar cases.

a. Strengthen management system for overseas subsidiaries
  - Strengthen organization of the Group's management division
  - Reinforce monitoring of sales subsidiaries
  - Change reporting lines for expatriates in charge of accounting
  - Newly establish financial reporting meetings and enhance monthly reporting operations
  - Review relevant regulations and ensure thorough compliance
  - Conduct progress reporting of improvement measures at the Board of Directors' meeting
  - Implement periodical audits by Audit and Supervisory Committee Members

b. Strengthen operational capabilities of overseas subsidiaries
  - Review human resources system and organizations
  - Review management systems
  - Clarify authorities by reviewing the regulations on administrative authorities
  - Promote collaboration between accounting departments among sales subsidiaries
  - Thoroughly implement risk management of new businesses

c. Restructure internal audit system
  - Strengthen internal audit system
  - Enhance audit contents

d. Implement educational activities for officers and employees
  - Set out a commitment by the President to prevent the recurrence of similar cases
  - Conduct training for officers
  - Provide compliance lectures for divisional managers

Business Performance in the Fiscal Year ended March 31, 2017

In the United States, which is the Group's mainstay market, the economy has been expanding at a moderate pace as seen in the recovery of corporate investing activities despite a temporary decrease in consumer spending. Meanwhile, in Europe, a gradual economic spending continues to improve. In China, the economic slowdown appears to have come to a pause in some areas as fixed assets investment and exports seemed to have bottomed out.

In Japan, moderate recovery of exports and industrial production has continued and there have been signs of improvement in consumer spending, reflecting solid employment and income conditions.

Net Sales

The Group reported net sales of ¥133,838 million, a 21.3% decrease from the previous fiscal year.

Operating Loss

There was an operating loss of ¥6,775 million (operating loss for the previous fiscal year of ¥10,539 million), due to a drop in sales as well as liquid crystal panel prices remaining high until the fiscal year-end, inventory adjustment of old models of LCD-TVs in the first half of the year, and a decline in gross profit margin due to intensified price competition in Mexico.

Net Loss Attributable to Owners of the Parent

Net loss attributable to owners of the parent ended at ¥6,745 million (a net loss attributable to owners of the parent of ¥33,839 million in the previous fiscal year).

Net Sales by Geographical Area

Japan

Although BD-recorders and ink cartridges sales increased, LCD-TVs and DVD recorders decreased. As a result, net sales were ¥31,200 million (down 8.6% year on year) and segment loss (operating loss) resulted in ¥8,219 million (the previous fiscal year: segment loss of ¥7,663 million).

Americas

Although BD-players and ink cartridges sales increased, LCD-TVs decreased due to failure of sales expansion in new mass merchandisers in the U.S. market to progress as expected as well as tougher price competition in the Mexican market. As a result, net sales ended at ¥101,751 million (down 23.0% year on year) and segment loss (operating loss) amounted to ¥131 million (a segment loss of ¥2,964 million in the previous fiscal year).

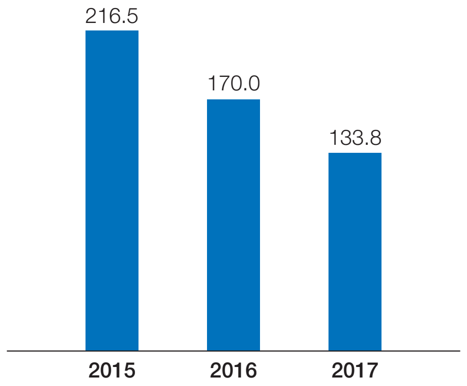
Asia

Net sales were ¥274 million, 88.7% year on year due to decrease on ink cartridges. Segment loss (operating loss) amounted to ¥630million (segment loss of ¥15 million in the previous fiscal year).

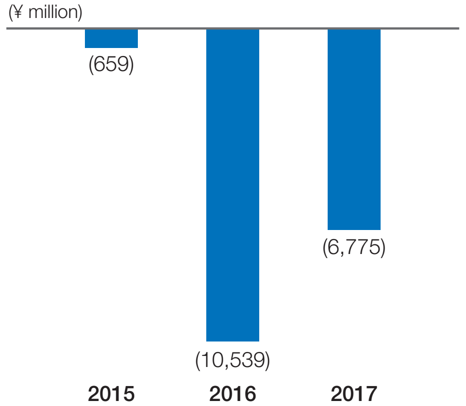
Europe

Total sales decreased, due to the end of LCD-TV sales. As a result, net sales dropped to ¥612 million, down 51.4% year on year, while segment profit (operating profit) ended at ¥45 million (a segment loss of ¥300 million in the previous fiscal year).

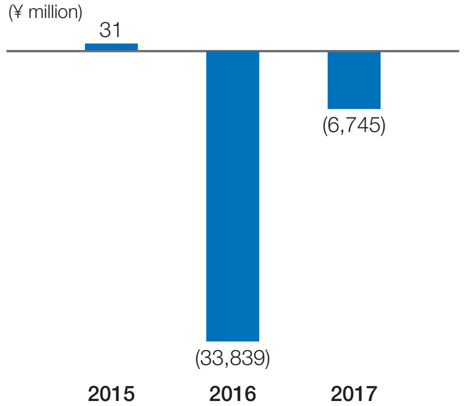
Net Sales
(¥ billion)



Operating Income (Loss)
(¥ million)



Net Income (Loss) Attributable to Owners of the Parent
(¥ million)



Net Sales by Product Group

Audiovisual Equipment

Although BD-players sales increased, LCD-TVs decreased due to failure of sales expansion in new mass merchandisers in the U.S. market to progress as expected as well as tougher price competition in the Mexican market. As a result, net sales of this sector were ¥115,262 million, a decrease of 22.0% from the previous fiscal year.

Information Equipment

Sales of the new in-house developed ink-jet cartridges contributed to an increase in overall sales. As a result, net sales of this sector were ¥5,075 million, an increase of 1.5% from the previous fiscal year.

Others

Net sales of other were ¥13,500 million, a decrease of 22.0% from the previous fiscal year, due to the end of sales of audio accessories, whose contract terminated during the previous fiscal year.

Financial Position

Current Assets

Total current assets as of March 31, 2017 decreased by ¥37,710 million from the end of the previous fiscal year to ¥85,503 million.

The change is mainly attributable to the decreases of ¥8,145 million cash and cash equivalents and ¥9,328 million time deposit due to the payment of the compensation for damage by the arbitration in the dispute between the Company and Koninklijke Philips N.V., which the Group recorded in other payables in ¥18,502 million in the previous fiscal year.

Property, Plant, and Equipment

Net property, plant, and equipment as of March 31, 2017 decreased by ¥5,239 million from the end of the previous fiscal year to ¥12,963 million.

The decrease is due to primarily the sale of buildings and structures and land.

Current Liabilities

Total current liabilities as of March 31, 2017 decreased by ¥30,248 million from the end of the previous fiscal year to ¥29,575 million.

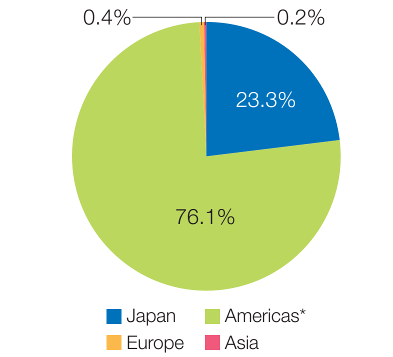
The change is mainly attributable to an increase of ¥2,998 million in trade payables, a decrease of ¥,5,118 million in short-term bank borrowings, and a decrease of ¥26,868 million in other payables. The main reason for the decrease in other payables was the payment of compensation for damage under other payables at the end of the previous fiscal year with respect to the arbitration in the dispute between the Company and Koninklijke Philips N.V.

Long-Term Liabilities

Long-term liabilities as of March 31, 2017 decreased by ¥7,474 million from the end of the previous fiscal year to ¥2,453 million.

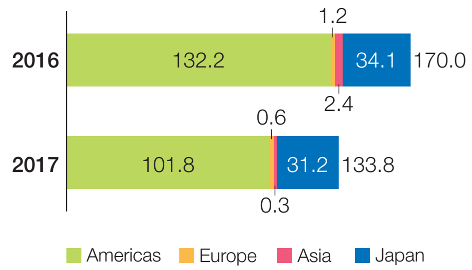
The change is mainly attributable to a decrease of ¥6,009 million in long-term bank borrowings.

Sales Composition by Region
(Year ended March 31, 2017)

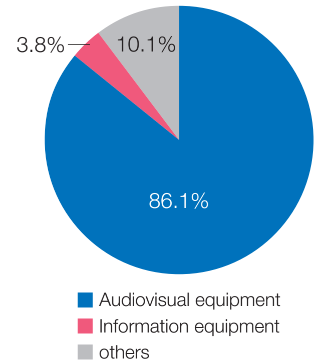


*Including sales of Central and South America

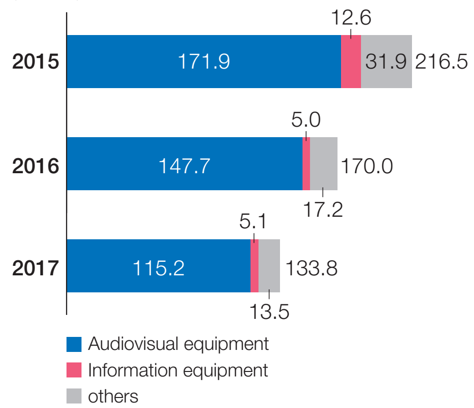
Sales by Region
(¥ billion)



Sales Composition by Products
(Year ended March 31, 2017)



Sales by Products
(¥ billion)



Total Equity

Total equity as of March 31, 2017 decreased by ¥7,782 million from the end of the previous fiscal year to ¥76,656 million.

The change is mainly attributable to an increase of ¥998 million in foreign currency translation adjustments, a decrease of ¥7,768 million in retained earnings and a decrease of ¥965 million in noncontrolling interest.

Cash Flows

Cash and cash equivalents on a consolidated basis as of March 31, 2017 decreased by ¥8,145 million from the end of the previous fiscal year to ¥38,971 million. The change is mainly attributable to a decrease in other payables, and a decrease in short and long - term bank borrowings.

Cash flows during the fiscal year under review and factors affecting cash flows are as follows.

Cash Flows from Operating Activities

Net cash used in operating activities was ¥13,329 million in the fiscal year under review. (Net cash used in operating activities was ¥7,549 million in the previous fiscal year.) The primary reason of this is mainly attributable to loss before income taxes and a decrease of other payables, while a decrease of trade receivables and inventories and an increase of trade payables.

Cash Flows from Investing Activities

Net cash provided by investing activities was ¥13,266 million in the fiscal year under review. (Net cash provided by investing activities was ¥11,805 million in the previous fiscal year.) The primary reason of this is mainly attributable to a decrease in time deposits, sales in property, plant and equipment and sales of investments in a subsidiary with changes in consolidation scope.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥11,150 million in the fiscal year under review. (Net cash provided by financing activities was ¥69 million in the previous fiscal year.) The primary reason of this is mainly attributable to the repayment of both short and long term - bank borrowings.

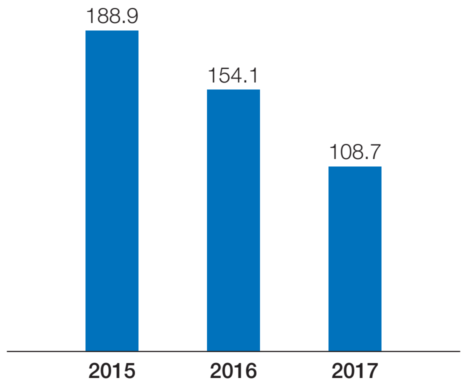
Business and Other Risks

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

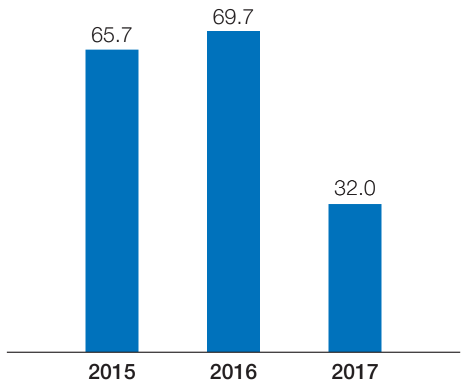
(1) The Funai Group's Management Policy

The Group has adopted a policy of providing high-quality, low-cost products to consumers based upon optimized production and sales systems on a global scale. We manufacture and sell our principal products, such as audiovisual equipment (LCD TVs, DVD-related products, etc.) and information equipment (printers, etc.), in addition to other products (antennas and related devices, audio accessory-related products, etc.). Price competition in these product areas is intense. Additionally, the life cycle of digital products is short and the competition to develop new technologies and functions is also growing more intense. Accordingly, these factors may affect the Group's financial condition and business results.

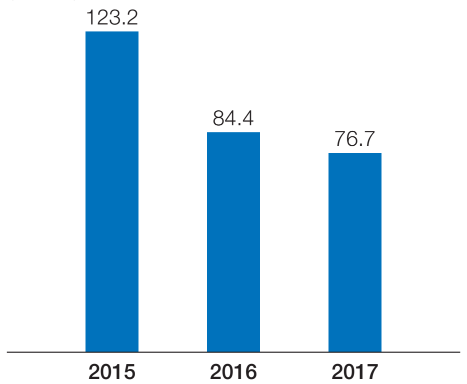
Total Assets
(¥ billion)



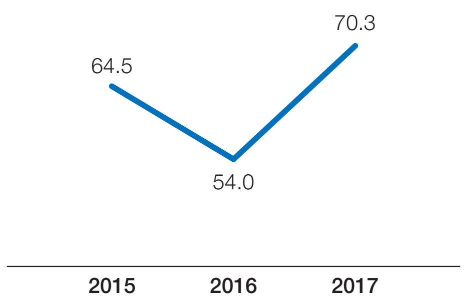
Total Liabilities
(¥ billion)



Total Equity
(¥ billion)



Shareholders' Equity Ratio
(%)



i) Product cost and market prices

The Group's primary target is customers of mass merchandisers such as Walmart, and therefore we must deliver low prices. Consequently, the Group is working to reduce costs through measures such as establishing production systems in optimal locations, pursuing further application of the Funai Production System (FPS), the unique productivity improvement system developed by the Company, and utilizing internal production of parts and centralized purchasing. However, the consumer electronics business is intensely competitive and when parts and raw materials prices rise, cost pressures may affect the Group's financial condition and business results.

ii) New technologies

In the consumer electronics business, market needs are becoming more diverse; the Group needs to improve the quality, volume, and speed of its new product development.

To address these issues, the Group will improve its technical capabilities, focusing mainly on new business fields, through partnerships with other companies and universities, and personnel development. The Company also may consider mergers and acquisitions depending on the situation. However, a diversification of market needs or technological innovation beyond our expectations may affect the Group's financial condition and business results.

iii) Defects relating to products and services

The Group's departments responsible for quality management and technologies play the primary role in the effort to maintain and improve quality. In addition, the Group has established service companies in Japan and overseas. However, if there are troubles with repair or replacement of our products, the impact of the warranty costs and/or the decrease of social credibility may have negative impacts for the Group's financial condition and business results.

iv) Intellectual property rights

So-called "patent trolls" have been very active in recent years. They have no products of their own, but attempt to generate income from patent royalties by filing lawsuits using intellectual property rights acquired from third parties. This is a worrisome trend for all companies in manufacturing and sales industries. As a result of these activities, we may need to make high compensatory payments that may affect the Group's financial condition and business results.

v) Corporate acquisitions and Business alliances

The Group may pursue corporate acquisitions and business alliances to improve its profit and efficiently boost sales. However for various reasons, in the event that the synergies fall short of initial expectations, we fail to reach agreement on an acquisition, or affiliate relationships cannot be maintained, this may affect the Group's financial position, business results and growth forecasts.

(2) Impact of overseas market trends

i) Dependence on the Americas (the United States, Mexico and other) market

A high proportion of the Group's net sales comes from overseas markets. In particular, the Americas market accounted for 76.9% of net sales in this fiscal year, and Walmart group alone accounted for 58.7% of these net sales.

If economies in the Americas suddenly enter recession, this may affect the Group's financial condition and business results.

ii) Dependence on Chinese production

The Group is working to improve the cost competitiveness of its products by concentrating production in cost-advantaged regions and purchasing parts in bulk. In this fiscal year, 98.0% of our products were produced overseas, with 58.8% produced in China (consignment manufacturing and in-house production). The Group has undertaken production site decentralization to reduce the ratio of Chinese production. Nevertheless, as we continue to engage in production in China, rising labor cost, changes in the government system, the outbreak of conflict, natural disasters and other unforeseen circumstances may affect the Group's financial condition and business results.

iii) Foreign currency risk

The Group determines production sites for its principal products upon consideration of optimal production location and sales systems. DVD-related products and LCD TVs are produced in China; LCD TVs are produced in Thailand, and Ink cartridges, Ink-jet printers and DVD-related products are produced in the Philippines.

The Group purchases products from overseas production subsidiaries and sells them to overseas sales subsidiaries or sells directly to OEM supply partners mainly in North America. Domestic sales are also conducted through direct sales and sales subsidiaries.

Although the majority of the Group's sales are conducted in U.S. dollars, some transactions are conducted in Mexican pesos and yen. In addition, the majority of the Group's purchasing transactions are conducted in U.S. dollars. Although sales and purchase transactions conducted in U.S. dollars are not affected by currency fluctuations, expenses denominated in U.S. dollars relating to sales transactions conducted in Mexican pesos or yen are affected by currency fluctuations.

Since foreign currency-denominated assets and liabilities are converted to yen using the exchange rates on the settlement date, significant currency fluctuations may affect the Groups financial condition and business results.

(3) Other risks

i) Legal regulations

In each country, the Group is subject to a variety of local legal regulations, concerning commercial transactions, importing and exporting, intellectual property rights, product liability, environmental protection, consumer protection, financial transactions, and corporate taxation. Changes to these legal regulations, or the ways in which they are interpreted by the authorities, could affect the Group's financial position and business performance.

ii) Litigation

There are litigation risks relating to the Group's business. A major lawsuit or other legal action could affect the Group's financial position and business performance.

iii) Information control

The Group has internal systems to prevent information leaks and protect itself against viruses. However, factors such as operational mistakes or new viruses may preclude the complete avoidance of information leaks and system shutdowns completely. Such events could affect the Group's financial position and business results.

iv) Retirement benefit obligations

The Group and its consolidated domestic subsidiaries have defined benefit corporate pension systems, which are based on actuarial assumptions on the pension assets, such as rates of return and discount rates. The Group's financial position and business results could be affected if there are any changes in these assumptions, if the pension assets decrease due to the deterioration in the investment environment, or if changes in the pension system cause future retirement benefit expenses to increase.

v) Financing

If the Group's financing is limited due to deteriorating business performance, the cost of finance could increase. This could affect the Group's financial position and business performance.

vi) Important information about going concern assumption

Since the Group recorded a significant operating loss, ordinary loss, net loss attributable to owners of the parent, and negative operating cash flow during the fiscal year under review, events or circumstances that cast significant doubt on the going concern assumption exist at the present time.

Since the Group's balance of cash and deposits is sufficient to cover working capital and other requirements for some time, there is no significant concern about financing.

Since the Group has already started medium term management strategies and implemented following countermeasures gradually, the Group believes that a resolution of the matter can be achieved.

Five-Year Summary

	Millions of Japanese yen (Note 1)					Millions of U.S. dollars (Notes 1 and 2)
Years ended March 31	2013	2014	2015	2016	**2017**	**2017**
Net Sales	191,082	233,802	216,553	170,041	**133,838**	**$1,194.98**
Operating Income (Loss)	(6,568)	(6,071)	(659)	(10,539)	**(6,775)**	**$(60.49)**
Net Income (Loss)	(1,681)	(2,908)	600	(13,653)	**(7,726)**	**$(68.98)**
Total Equity	119,264	114,743	123,218	84,439	**76,656**	**$684.43**
Total Assets	194,207	180,729	188,902	154,191	**108,685**	**$970.40**
Shareholders' Equity	117,969	113,568	122,014	83,328	**76,507**	**$683.10**
Net Cash Provided by (Used in) Operating Activities	(8,022)	(1,251)	16,897	(7,549)	**(13,329)**	**$(119.01)**
Net Cash (Used in) Provided by Investing Activities	12,863	(2,730)	(17,360)	11,805	**13,266**	**$118.45**
Free Cash Flow*	4,841	(3,981)	(463)	4,256	**(63)**	**$(0.56)**
Capital Investment	5,345	5,094	3,275	2,462	**3,070**	**$27.41**
Depreciation Expense	5,264	6,479	5,855	4,498	**4,098**	**$36.59**
Return on Assets (%)	(5.32)	(3.95)	0.02	(19.73)	**(5.13)**	
Return on Equity (%)	(8.22)	(6.39)	0.03	(32.96)	**(8.44)**	
Debt/Equity Ratio (%)	11.27	9.51	9.11	14.54	**0.99**	

	Japanese yen					U.S. dollars
	2013	2014	2015	2016	**2017**	**2017**
Shareholders' Equity per Share	3,457.56	3,328.58	3,576.14	2,442.28	**2,242.38**	**$20.02**
Net Income (Loss) per Share	(289.26)	(216.89)	0.92	(991.81)	**(197.70)**	**$(1.77)**
Cash Dividends per Share	35	35	35	30	**10**	**$0.09**

Notes: 1. From the current fiscal year, the Company rounded down Japanese yen figures less than a million to the nearest million yen and U.S. dollar figures less than a thousand to the nearest thousand dollars, except for per share data.
2. The exchange rate of ¥112=U.S.$1.00 (the approximate rate of exchange at March 31, 2017) is used for the above calculations.

*Net cash provided by operating activities plus net cash provided by investment activities.

Consolidated Balance Sheet

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
March 31, 2017

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2017**	2016	**2017**
CURRENT ASSETS:			
Cash and cash equivalents (Note 18)	**¥ 38,971**	¥ 47,116	**$ 347,955**
Time deposits (Note 18)	**1,165**	10,492	**10,401**
Receivables:			
Trade (Note 18)	**15,571**	24,092	**139,028**
Other	**2,400**	1,862	**21,430**
Allowance for doubtful accounts	**(847)**	(400)	**(7,566)**
Inventories (Note 5)	**26,253**	37,177	**234,407**
Deferred tax assets (Note 17)	**489**	664	**4,372**
Prepaid expenses and other current assets	**1,500**	2,208	**13,397**
Total current assets	**85,503**	123,214	**763,427**
PROPERTY, PLANT, AND EQUIPMENT:			
Land	**3,592**	6,331	**32,077**
Buildings and structures	**14,832**	18,138	**132,428**
Machinery, equipment and other (Note 6)	**28,203**	33,832	**251,814**
Lease assets (Note 16)	**597**	697	**5,338**
Construction in progress	**187**	87	**1,675**
Total property, plant, and equipment	**47,413**	59,086	**423,334**
Accumulated depreciation	**(34,449)**	(40,882)	**(307,586)**
Net property, plant, and equipment	**12,963**	18,203	**115,748**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 10 and 18)	**132**	951	**1,180**
Investments in and advances to unconsolidated subsidiaries and associated companies	**1,841**	2,101	**16,439**
Patents	**2,576**	3,297	**23,007**
Long-term loans	**244**	181	**2,182**
Long-term prepaid expenses (Note 6)	**2,620**	2,649	**23,394**
Assets for retirement benefits (Note 12)	**1,543**	1,555	**13,782**
Deferred tax assets (Note 17)	**454**	206	**4,061**
Other assets (Note 6)	**1,056**	2,100	**9,435**
Allowance for doubtful accounts	**(252)**	(271)	**(2,252)**
Total investments and other assets	**10,217**	12,772	**91,231**
TOTAL	**¥108,685**	¥154,191	**$970,408**

See notes to consolidated financial statements.

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND EQUITY	**2017**	2016	**2017**
CURRENT LIABILITIES:			
Short-term bank borrowings (Notes 11 and 18)		¥ 4,818	
Current portion of long-term debt (Notes 11, 16 and 18)	**¥ 242**	551	**$ 2,162**
Payables:			
Trade (Note 18)	**18,603**	15,604	**166,098**
Other (Note 18)	**7,280**	34,149	**65,008**
Income taxes payable	**813**	783	**7,261**
Other current liabilities	**2,635**	3,916	**23,535**
Total current liabilities	**29,575**	59,823	**264,065**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 11, 16 and 18)	**514**	6,746	**4,594**
Liability for retirement benefits (Note 12)	**1,062**	1,502	**9,483**
Long-term payables – other	**281**	615	**2,510**
Deferred tax liabilities (Note 17)	**595**	811	**5,316**
Other		252	
Total long-term liabilities	**2,453**	9,927	**21,905**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 16, 19 and 23)			
EQUITY (Notes 13, 14, and 22):			
Common stock:			
Authorized, 80,000,000 shares; issued, 36,130,796 shares in 2017 and 2016	**31,307**	31,307	**279,532**
Capital surplus	**33,603**	33,301	**300,028**
Stock acquisition rights	**149**	145	**1,332**
Retained earnings	**47,020**	54,789	**419,829**
Treasury stock – at cost 2,011,765 shares in 2017 and 2,011,687 shares in 2016	**(24,341)**	(24,341)	**(217,334)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**11**	160	**106**
Foreign currency translation adjustments	**(11,206)**	(12,204)	**(100,054)**
Defined retirement benefit plans	**111**	314	**996**
Total	**76,656**	83,473	**684,436**
Noncontrolling interests		965	
Total equity	**76,656**	84,439	**684,436**
TOTAL	**¥108,685**	¥154,191	**$970,408**

See notes to consolidated financial statements.

Consolidated Statement of Operations

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
NET SALES	**¥133,838**	¥170,041	**$1,194,989**
COST OF SALES (Note 15)	**114,795**	144,671	**1,024,960**
Gross profit	**19,043**	25,370	**170,028**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)	**25,818**	35,910	**230,523**
Operating loss	**(6,775)**	(10,539)	**(60,495)**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**253**	287	**2,262**
Interest expense	**(152)**	(296)	**(1,364)**
Foreign exchange loss – net	**(1,122)**	(3,244)	**(10,018)**
Income from rental of property, plant and equipment	**119**	208	**1,066**
Gain (loss) on sale or disposal of property, plant and equipment – net	**1,325**	(367)	**11,836**
Equity in losses of an unconsolidated subsidiary and an associated company	**(2)**	(4)	**(22)**
Loss on sale of an investment in a consolidated subsidiary	**(704)**		**(6,289)**
Gain on sales of investments in unconsolidated subsidiaries and associated companies		41	
Loss on impairment of long-lived assets (Note 6)	**(339)**	(667)	**(3,030)**
Settlement payment received (Note 7)		902	
Refund of customs duty (Note 8)		485	
Compensation for damages (Note 9)		(18,502)	
Other – net	**90**	(341)	**811**
Other expenses- net	**(531)**	(21,500)	**(4,748)**
LOSS BEFORE INCOME TAXES	**(7,307)**	(32,040)	**(65,243)**
INCOME TAXES (Note 17):			
Current	**67**	514	**599**
Deferred	**(632)**	1,322	**(5,646)**
Total income taxes	**(565)**	1,836	**(5,046)**
NET LOSS	**(6,742)**	(33,876)	**(60,196)**
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**3**	(37)	**29**
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ (6,745)**	¥ (33,839)	**$ (60,226)**

	Japanese yen		U.S. dollars
PER SHARE OF COMMON STOCK (Notes 2.w and 21):			
Basic net loss	**¥ (197.70)**	¥ (991.8)	**$ (1.77)**
Cash dividends applicable to the year	**10.00**	30.00	**0.09**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
NET LOSS	**¥(6,742)**	¥(33,876)	**$(60,196)**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 20):			
Unrealized loss on available-for-sale securities	**(148)**	(264)	**(1,325)**
Foreign currency translation adjustments	**954**	(3,270)	**8,521**
Defined retirement benefit plans	**(207)**	(48)	**(1,850)**
Share of other comprehensive income (loss) in associates	**44**	(19)	**399**
Total other comprehensive income (loss)	**643**	(3,603)	**5,744**
COMPREHENSIVE LOSS	**¥(6,098)**	¥(37,479)	**$(54,452)**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥(6,098)**	¥(37,442)	**$(54,447)**
Noncontrolling interests	**(0)**	(37)	**(4)**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Thousands	Millions of Japanese yen										
							Accumulated other comprehensive income					
	Number of shares of common stock outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
BALANCE, APRIL 1, 2015	**34,119**	**¥31,307**	**¥33,272**	**¥142**	**¥89,903**	**¥(24,341)**	**¥421**	**¥ (8,913)**	**¥365**	**¥122,157**	**¥1,061**	**¥123,218**
Net loss attributable to owners of the parent					(33,839)					(33,839)		(33,839)
Cash dividends, ¥30.00 per share					(1,194)					(1,194)		(1,194)
Purchase of treasury stock	(0)					(0)				(0)		(0)
Change of scope of consolidation					(79)					(79)		(79)
Change in a parent's ownership interest in a subsidiary arising from transactions with noncontrolling interests			29							29		29
Net change in the year				2			(260)	(3,290)	(51)	(3,600)	(95)	(3,695)
BALANCE, MARCH 31, 2016	**34,119**	**31,307**	**33,301**	**145**	**54,789**	**(24,341)**	**160**	**(12,204)**	**314**	**83,473**	**965**	**84,439**
Net loss attributable to owners of the parent					**(6,745)**					**(6,745)**		**(6,745)**
Cash dividends, 10.00 per share					**(1,023)**					**(1,023)**		**(1,023)**
Purchase of treasury stock	**(0)**					**(0)**				**(0)**		**(0)**
Change in a parent's ownership interest in a subsidiary arising from transactions with noncontrolling interests			**301**							**301**		**301**
Net change in the year				**3**			**(149)**	**998**	**(202)**	**650**	**(965)**	**(314)**
BALANCE, MARCH 31, 2017	**34,119**	**¥31,307**	**¥33,603**	**¥149**	**¥47,020**	**¥(24,341)**	**¥ 11**	**¥(11,206)**	**¥111**	**¥ 76,656**		**¥ 76,656**

	Thousands of U.S. dollars (Note 1)										
						Accumulated other comprehensive income					
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
BALANCE, MARCH 31, 2016	**$279,532**	**$297,338**	**$1,298**	**$489,195**	**$(217,333)**	**$1,436**	**$(108,971)**	**$2,803**	**$745,301**	**$8,621**	**$753,923**
Net loss attributable to owners of the parent				(60,226)					(60,226)		(60,226)
Cash dividends, $0.27 per share				(9,139)					(9,139)		(9,139)
Purchase of treasury stock					(0)				(0)		(0)
Change in a parent's ownership interest in a subsidiary arising from transactions with noncontrolling interests		2,689							2,689		2,689
Net change in the year			33			(1,330)	8,916	(1,807)	5,811	$(8,621)	(2,809)
BALANCE, MARCH 31, 2017	**$279,532**	**$300,028**	**$1,332**	**$419,829**	**$(217,334)**	**$ 106**	**$(100,054)**	**$ 996**	**$684,436**		**$684,436**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Japanese yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
OPERATING ACTIVITIES:			
Loss before income taxes	**¥ (7,307)**	¥(32,040)	**$ (65,243)**
Adjustments for:			
Income taxes – paid	**(69)**	(454)	**(624)**
Income taxes – refund	**49**	28	**444**
Depreciation and amortization	**4,098**	4,498	**36,595**
(Gain) loss on sale or disposal of property, plant and equipment	**(1,325)**	367	**(11,836)**
Loss on impairment of long-lived assets	**339**	667	**3,030**
Equity in losses of an unconsolidated subsidiary and an associated company	**2**	4	**22**
Gain on sales of investment securities	**(127)**	(68)	**(1,135)**
Loss on sale of an investment in a consolidated subsidiary	**704**		**6,289**
Gain on sales of investments in unconsolidated subsidiaries and associated companies		(41)	
Changes in assets and liabilities:			
Decrease in trade receivables	**4,601**	12,199	**41,082**
Decrease in inventories	**8,379**	1,925	**74,820**
Increase (decrease) in trade payables	**3,470**	(15,381)	**30,982**
(Decrease) increase in other payables	**(25,539)**	20,520	**(228,027)**
Decrease in liability for retirement benefits	**(147)**	(112)	**(1,318)**
Other - net	**(459)**	337	**(4,098)**
Total adjustments	**(6,022)**	24,490	**(53,774)**
Net cash used in operating activities	**(13,329)**	(7,549)	**(119,017)**
INVESTING ACTIVITIES:			
Payments for time deposits	**(6,205)**	(21,227)	**(55,405)**
Proceeds from time deposits	**10,392**	34,215	**92,790**
Proceeds from sale of property, plant and equipment	**3,977**	886	**35,511**
Purchases of property, plant and equipment	**(3,042)**	(2,113)	**(27,162)**
Purchases of intangible assets	**(117)**	(270)	**(1,052)**
Proceeds from sales of investment securities	**178**	242	**1,593**
Purchases of investment securities	**(10)**	(62)	**(95)**
Proceeds from sales of investments in a subsidiary with changes in consolidation scope (Note 4)	**7,899**		**70,532**
Payments for loans receivable	**(4)**	(2)	**(44)**
Proceeds from collection of loans receivable	**25**	40	**224**
Other – net	**174**	98	**1,555**
Net cash provided by investing activities	**13,266**	11,805	**118,446**
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank borrowings - net	**(6,510)**	1,124	**(58,133)**
Repayment of long-term debt	**(3,192)**		**(28,501)**
Dividends paid	**(1,023)**	(1,194)	**(9,139)**
Other – net	**(424)**	139	**(3,786)**
Net cash (used in) provided by financing activities	**(11,150)**	69	**(99,560)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**3,069**	(251)	**27,402**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(8,145)**	4,074	**(72,729)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**47,116**	42,991	**420,684**
CASH AND CASH EQUIVALENTS OF NEWLY - CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		51	
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥38,971**	¥ 47,116	**$347,955**

See notes to consolidated financial statements.

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Funai Electric Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112 to $1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Additionally, the Company rounded down Japanese yen figures to the nearest million and U.S. dollar figures to the nearest thousand, except for per share data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation** — The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 20 (23 in 2016) significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies over whose operations the Company, directly or indirectly, is able to exercise control are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

In 2017, investments in one (one in 2016) unconsolidated subsidiary, which was liquidated by the end of March 31, 2017, is accounted for using the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** — Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or the generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification or "FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process, so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in the equity through other comprehensive income; (c) expensing capitalized development costs of research and development (R&D); and (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting.

c. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method** — ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted, so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in the equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting.

d. **Business Combinations** — Business combinations are accounted for using the purchase method. Acquisition related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. **Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, and bond funds, all of which mature or become due within three months of the date of acquisition.

f. **Allowance for Doubtful Accounts** — The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

g. **Inventories** — Inventories of the Company and its consolidated domestic subsidiaries are mainly stated at the lower of cost, determined using the average method for merchandise, finished products and work in process and using the first-in, first-out method for raw materials, or net selling value.

Inventories of consolidated foreign subsidiaries are mainly stated at the lower of cost, determined using the first-in, first-out method, or net selling value.

h. **Investment Securities** — Investment securities are classified and accounted for depending on management's intent. All investment securities are classified as available-for-sale securities. Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

i. **Property, Plant, and Equipment** — Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its consolidated domestic subsidiaries is computed substantially using the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, and building improvements and structures acquired after April 1, 2016 at rates based on the estimated useful lives of the assets. Depreciation of property, plant, and equipment of consolidated foreign subsidiaries is principally computed using the straight-line method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from three to 50 years for buildings and structures and from one to 20 years for machinery, equipment, and other.

Lease assets are depreciated using the straight-line method over the respective lease periods.

Pursuant to an amendment to the Corporate Tax Act, the Company adopted Accounting Standards Board of Japan Practical Issues Task Force No. 32 "Practical Solution on a change in depreciation method due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The impact from adoption of this amendment was immaterial for the year ended March 31, 2017.

j. **Patents** — Patents are carried at cost, less accumulated amortization, which is computed using the straight-line method over the estimated useful lives.

k. Other Intangible Assets — Intangible assets are stated at cost. Amortization of intangible assets of the Company and its consolidated subsidiaries is computed using the straight-line method. Amortization of software for internal use is computed using the straight-line method over the estimated useful life (five years).

l. Long-Lived Assets — The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the sum of the discounted cash flows from the continued use and eventual disposition of the asset, or the net selling price at disposition.

m. Retirement and Pension Plans — The Company and certain consolidated subsidiaries have noncontributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain consolidated foreign subsidiaries also have defined contribution pension plans.

The Group accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss. Actuarial gains and losses are amortized using the straight-line method over a period within the average remaining years of service of the employees (10 years) starting from the following period. Past service cost is amortized using the straight-line method over a period within the average remaining years of service of the employees (10 years).

Retirement allowances for Directors and Executive Officers are recorded as a liability at the amount that would be required if all Directors and Executive Officers retired at each consolidated balance sheet date.

n. Asset Retirement Obligations — An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. Stock Options — The Company measures the cost of stock options granted to Directors, Executive Officers and employees of the Company, Executive Officers and employees of the subsidiaries based on the fair value at the date of grant and recognizes the compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

p. Research and Development Costs — Research and development costs are charged to income as incurred.

q. Leases — All finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

r. Construction Contracts — Construction revenue and construction costs are recognized by the percentage-of -completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

s. Income Taxes — The provision for income taxes is computed based on pretax income and included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company applied ASBJ Guidance No. 26 "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from adopting this guideline for the year ended March 31, 2017.

t. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.

u. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income as a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

v. Derivatives and Hedging Activities — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are recognized as either assets or liabilities and measured at fair value, and gains and losses on derivative transactions are recognized in the consolidated statements of operations.

w. Per Share Information — Basic net loss per share ("EPS") is computed by dividing net loss attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share is not disclosed as the Company recognizes net loss per share and the effect of including potential common shares is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years, including dividends to be paid after the end of the year.

x. New Accounting Pronouncements

a) Leases — In January 2016, IFRS 16 Leases was issued. For lessees, IFRS 16 requires most leases to be recognized on the balance sheet (under a single model), eliminating the distinction between operating and finance leases. On the other hand, it remains largely unchanged for lessors and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 Leases and related interpretations.

Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and is depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined, and the liability accrues interest. Under IFRS 16, lessors classify leases as operating or finance in nature, as under current IAS 17.

IFRS 16 must be applied for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.

In February 2016, the FASB issued an accounting standards update which requires lessees to recognize most leases on their balance sheets, but recognize expenses on their income statements in a manner similar to current guidance. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted.

The foreign subsidiaries expect to apply the new standards on leases effective April 1, 2019, and are in the process of measuring the effects of applying the new standards in future applicable periods.

3. BUSINESS COMBINATION

Sale of an investment in a consolidated subsidiary

The Company decided to enter into a basic agreement for the sale of an investment in a subsidiary (share ratio of stock issued: 96%) at a meeting of the Company's Board of Directors hold on November 7, 2016, and reached a basic agreement on the same day. After negotiations, the Board of Directors' resolved to sell the investment and the final agreement on February 21, 2017 and sold the investments on March 30, 2017.

[Overview of Business Combination]

(1) Name of the divested company and its main business
Name of the company: DX ANTENNA CO., Ltd. ("DX ANTENNA")
Main business: Sales of receiving, communication and security related devices

(2) Name of transferee: Elecom Co., Ltd ("ELECOM")

(3) Reason for the divestiture
The business combination was conducted to focus management resources on the Group's core business in face of the decrease in sales of the LED TV business due to severe competition in the Group's main market, North America.
Considering the similarity of products between DX ANTENNA and ELECOM, the Company resolved to transfer the shares of DX ANTENNA to ELECOM.

(4) Date of the business combination: March 30, 2017

(5) Legal form of business combination
Share transfer in which consideration is limited to cash

[Overview of accounting treatment]

The difference between the consolidated carrying amount and the sales amounts of DX ANTENNA was recognized as transfer profit (loss).

The Company recorded transfer loss of ¥704 million ($6,289 thousand) under "Loss on sales of investment in a consolidated subsidiary" in "Other income (expenses)".

4. ADDITIONAL INFORMATION OF CASH FLOWS

On March 30, 2017, the Company sold its shares in DX ANTENNA, with changes of consolidation scope.
Assets and liabilities of the divested company and net cash provided by the sales were as follows:

	Millions of Japanese yen	Thousands of U.S. dollars
	2017	2017
Current assets	¥12,006	$107,198
Noncurrent assets	3,826	34,169
Current liabilities	(3,178)	(28,377)
Long-term liabilities	(821)	(7,336)
Unrealized gain on available-for-sale securities	(128)	(1,147)
Foreign currency translation adjustments	(3)	(33)
Defined retirement benefit plans	(290)	(2,590)
Noncontrolling interests	(470)	(4,201)
Loss on sales of investment in a consolidated subsidiary	(704)	(6,289)
Related expenses to sales of the investment	132	1,178
Total sales amounts	10,367	92,569
Related expenses to sales of the investment	(132)	(1,178)
Cash and cash equivalents	(2,336)	(20,858)
Proceeds from sales of investment in a subsidiary	¥ 7,899	$ 70,532

5. INVENTORIES

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise and finished products	¥15,459	¥22,768	$138,034
Work in process	1,149	1,196	10,264
Raw materials and supplies	9,644	13,212	86,108
Total	¥26,253	¥37,177	$234,407

6. LONG-LIVED ASSETS

In principle, when the Company conducts an impairment test, the Group categorizes business assets on the basis of the legal entity whose cash inflows and outflows are continuously recorded. Idle assets are evaluated individually.

During the fiscal year ended March 31, 2017, the Group recorded losses on impairment in the following asset groups:

Use	Location	Type
Assets planned to be retired	Funai Electric Cebu, Inc. (Cebu, the Philippines)	Machinery, equipment, and other assets

Since acquiring the shares of a manufacturing subsidiary of Lexmark International, Inc. (now Funai Electric Cebu, Inc.), the Group has engaged in contract production of inkjet cartridges from Lexmark International, Inc. Although the Group previously categorized the assets as business assets, the production of certain models was discontinued, so the Group reduced the book values of the related manufacturing equipment to their recoverable amounts and recorded a loss on impairment of long-lived assets of ¥339 million ($3,030 thousand) in other income (expenses).

The recoverable amounts of the assets were calculated using net selling price based on disposal value.

During the fiscal year ended March 31, 2016, the Group recorded losses on impairment in the following asset groups:

Use	Location	Type
Business assets	Funai Electric Co., Ltd. (Daito City, Osaka)	Long-term prepaid expenses
Business assets	Funai Electric (H.K.) LTD. (New Territories, Hong Kong)	Machinery, equipment and other assets
Business assets	Zhong shan Funai Electron Co. (Guangdong, China)	Machinery, equipment and other assets

In the fiscal year ended March 31, 2016, the Group decided to exit from the laser printer business to concentrate enterprise resources on the information equipment business focusing on the inkjet printer business, and reduced the book values of manufacturing facilities, development assets and other assets not expected to be used in the future to their recoverable amounts and recorded loss on impairment of long-lived assets of ¥431 million in other income (expenses). This amount consists of ¥87 million for Funai Electric Co., Ltd. (long-term prepaid expenses), ¥10 million for Funai Electric (H.K.) LTD. (machinery, equipment and other assets) and ¥333 million for Zhong shan Funai Electron Co. (machinery, equipment and other assets).

The recoverable amounts of the assets were determined at their net selling price and were calculated with the net selling price as zero.

Use	Location	Type
Assets planned to be retired	Funai Electric Cebu, Inc. (Cebu, the Philippines)	Machinery, equipment, and other assets

Since acquiring the shares of a manufacturing subsidiary of Lexmark International, Inc. (now Funai Electric Cebu, Inc.), the Group has engaged in contract production of inkjet cartridges from Lexmark International, Inc. Although the Group previously categorized the assets as business assets, the production of certain models was discontinued, so the Group reduced the book values of the related manufacturing equipment to their recoverable amounts and recorded a loss on impairment of long-lived assets of ¥125 million in other income (expenses).

The recoverable amounts of the assets were calculated using net selling price based on disposal value.

Use	Location	Type
Business assets	P&A USA, Inc. (Delaware, the USA)	Software (included in "Other assets" in "Investment and other assets")

The Company reduced the book values of the business assets on which the profitability had declined significantly to their recoverable amounts in the fiscal year ended March 31, 2016, and recorded a loss on impairment of long-lived assets of ¥110 million as other income (expenses).

The recoverable amounts of the assets were determined at their net selling price and were calculated with the net selling price as zero.

7. SETTLEMENT PAYMENT RECEIVED

In the fiscal year ended March 31, 2016, the Company received a payment after reaching a settlement for a lawsuit regarding compensation for damages against Olympus Corporation due to Olympus's falsifications in its securities registration statement and other documents. This amount is after deducting necessary expenses from the settlement payment received.

8. REFUND OF CUSTOMS DUTY

In the fiscal year ended March 31, 2016, FUNAI EUROPE GmbH, a consolidated subsidiary, won a lawsuit claiming a refund of additional customs duties against the German tax authorities in the District Court of Hamburg. This amount consists of refunded customs duties, legal costs, and associated interest received.

9. COMPENSATION FOR DAMAGES

(Conclusion of arbitration)

The Company resolved to acquire from Koninklijke PHILIPS N.V. ("PHILIPS") all shares in a company that would succeed the operation of PHILIPS' Lifestyle Entertainment Business and concluded a sale and 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 agreement by the Company. With regard to this matter, the Company contested PHILIPS' claims. Consequently, the Company filed a counterclaim claiming compensation for damages on the grounds of a breach of the agreement and undue action by PHILIPS.

On April 26, 2016, the International Court of Arbitration rendered an arbitral award against the Company to pay compensatory damages of EUR 134.8 million, arbitration costs of US$1.35 million, and Philips's legal fees of approximately EUR 2.5 million plus interest (2%) thereon to Philips, and dismissed the counterclaim of the Company.

The Company posted ¥18,502 million as compensation for damages in other income (expenses) in the fiscal year ended March 31, 2016.

10. INVESTMENT SECURITIES

The costs and aggregate fair values of investment securities at March 31, 2017 and 2016 were as follows:

	Millions of Japanese yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
2017				
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 35**	**¥ 11**		**¥ 47**
2016				
Securities classified as:				
Available-for-sale:				
Equity securities	¥337	¥248	¥3	¥582

	Thousands of U.S. dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
2017				
Securities classified as:				
Available-for-sale:				
Equity securities	**$318**	**$106**		**$424**

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2017 and 2016, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	**2017**
Available-for-sale:			
Equity securities	**¥84**	¥368	**$755**

The information on available-for-sale securities which were sold during the years ended March 31, 2017 and 2016 is as follows:

	Millions of Japanese yen		
	Proceeds	Realized gains	Realized losses
2017			
Available-for-sale:			
Equity securities	**¥178**	**¥127**	
2016			
Available-for-sale:			
Equity securities	¥132	¥68	

	Thousands of U.S. dollars		
	Proceeds	Realized gains	Realized losses
2017			
Available-for-sale:			
Equity securities	**$1,597**	**$1,135**	

11. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans bore interest at an annual average rate of 2.0% at March 31, 2016.

Long-term debt at March 31, 2017 and 2016, consisted of the following:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unsecured loans from banks and other financial institutions, due serially through 2019 with average interest rates of 1.3% (2016)		¥6,309	
Obligations under finance leases	**¥756**	989	**$6,757**
Total	**756**	7,298	**6,757**
Less current portion	**(242)**	(551)	**(2,162)**
Long-term debt, less current portion	**¥514**	¥6,746	**$4,594**

Annual maturities of obligations under finance leases at March 31, 2017, were as follows:

Year Ending March 31	Millions of Japanese yen	Thousands of U.S. dollars
2018	¥242	$2,162
2019	237	2,121
2020	205	1,838
2021	68	614
2022	2	20
Total	¥756	$6,757

12. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees, Directors, and Executive Officers. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain consolidated subsidiaries have noncontributory funded defined benefit pension plans for employees. Certain consolidated foreign subsidiaries also have defined contribution pension plans. Some consolidated subsidiaries use the simplified method.

The liability for retirement benefits at March 31, 2017 and 2016 for Directors and Executive Officers is ¥1,047 million ($9,349 thousand) and ¥1,106 million, respectively. The retirement benefits for Directors are paid subject to the approval by the shareholders.

(1) The changes in defined benefit obligation for the year ended March 31, 2017 and 2016, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥8,468	¥8,583	$75,615
Current service cost	480	494	4,292
Interest cost	92	100	823
Benefits paid	(494)	(628)	(4,415)
Actuarial losses (gains)	47	(53)	428
Decrease in exclusion from consolidation scope	(1,896)		(16,936)
Others	(109)	(28)	(979)
Balance at end of year	¥6,588	¥8,468	$58,827

(2) The changes in plan assets for the year ended March 31, 2017 and 2016, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥9,629	¥9,752	$85,973
Expected return on plan assets	106	132	949
Benefits paid	(494)	(628)	(4,415)
Contributions from the employer	592	612	5,294
Actuarial losses	(2)	(206)	(18)
Decrease in exclusion from consolidation scope	(1,589)		(14,193)
Others	(124)	(33)	(1,114)
Balance at end of year	¥8,117	¥9,629	$72,475

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets	¥ 7,975	¥ 7,847	$ 71,209
Funded defined benefit obligation	(6,431)	(6,292)	(57,426)
Net asset arising from defined benefit obligation	¥ 1,543	¥1,555	$ 13,782
Funded defined benefit obligation	¥ (156)	¥(2,176)	$ (1,400)
Plan assets	141	1,781	1,266
Net liability arising from defined benefit obligation	¥ (15)	¥ (395)	$ (134)

(4) The components of net periodic benefit costs for the year ended March 31, 2017, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥480	¥494	$4,292
Interest cost	92	100	823
Expected return on plan assets	(106)	(132)	(949)
Recognized Actuarial losses	158	19	1,416
Amortization of prior service cost	(40)	(74)	(361)
Amortization of transitional obligation	58	124	526
Others	9	18	82
Net periodic benefit costs	¥652	¥550	$5,829

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gains	¥(177)	¥(133)	$(1,583)
Prior service cost	(222)	(74)	(1,986)
Others	58	124	526
Total	¥(340)	¥ (83)	$(3,043)

(6) Amounts recognized in accumulated other comprehensive income (loss) (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial gains	¥109	¥287	$ 979
Unrecognized prior service cost	5	228	52
Others		(58)	
Total	¥115	¥456	$1,031

(7) Plan assets

(a) Components of plan assets

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Debt investments	61%	57%
Equity investments	18%	26%
Loans receivable	2%	1%
Others	19%	16%
Total	100%	100%

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return that are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	1.4%	1.1%
Expected rate of return on plan assets	1.3%	1.3%
Expected rates of pay raises	5.6%	4.7%
Lump sum election rate	86.5%	90.8%

13. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a Board of Directors, (2) having the independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the Directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends–in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, an appointment committee, compensation committee and audit committee), or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by their nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 25, 2015. The Company meets all the above criteria, and accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution by the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined using a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14. STOCK OPTIONS

(1) The stock options outstanding as of March 31, 2017, are as follows:

Stock option	Persons granted	Number of options granted	Date of grant	Exercise price	Exercise period
2008 stock option	One Director Officer 10 Executive Officers 315 employees	431,700 shares	November 20, 2008	¥1,609 ($ 14)	From August 1, 2010 to July 31, 2017
2014 stock option	Three Directors Two Executive Officers Two Executive Officers of a subsidiary One employee of a subsidiary	120,000 shares	October 10, 2014	¥1,296 ($ 12)	From September 1, 2016 to August 31, 2023
2016 stock option	Four Directors One Executive Officer 50 employees Two employees of a subsidiary	174,000 shares	January 30, 2017	¥1,019 ($ 9)	From September 1, 2018 to August 31, 2023

(2) The stock option activity is as follows:
The number of stock options

	2008 stock option (Shares)	2014 stock option (Shares)	2016 stock option (Shares)
Year ended March 31, 2016			
Nonvested			
March 31, 2015 – Outstanding			
Granted		113,000	
Canceled		(82,000)	
Vested			
March 31, 2016 – Outstanding		31,000	
Vested			
March 31, 2015 – Outstanding	270,500		
Vested			
Exercised			
Canceled	(17,800)		
March 31, 2016 – Outstanding	252,700	31,000	
Year ended March 31, 2017			
Nonvested			
March 31, 2016 – Outstanding		31,000	
Granted			174,000
Canceled			
Vested		31,000	
March 31, 2017 – Outstanding			174,000
Vested			
March 31, 2016 – Outstanding	252,700		
Vested		31,000	
Exercised			
Canceled	(24,100)	(4,600)	
March 31, 2017 – Outstanding	228,600	26,400	174,000

The price information of the stock option is as follows:

	2008 stock option
Exercise price	¥1,609 ($14)
Average stock price at exercise	
Fair value price at grant date	
a. From August 1, 2010 to July 31, 2017	¥ 440 ($4)
b. From August 1, 2011 to July 31, 2017	¥ 447 ($4)
c. From August 1, 2012 to July 31, 2017	¥ 454 ($4)
d. From August 1, 2013 to July 31, 2017	¥ 458 ($4)
e. From August 1, 2014 to July 31, 2017	¥ 475 ($4)
f. From August 1, 2015 to July 31, 2017	¥ 487 ($4)
g. From August 1, 2016 to July 31, 2017	¥ 510 ($5)

	2014 stock option
Exercise price	¥1,296 ($12)
Average stock price at exercise	
Fair value price at grant date	
a. From September 1, 2016 to August 31, 2023	¥ 236 ($2)
b. From September 1, 2017 to August 31, 2023	¥ 280 ($3)
c. From September 1, 2018 to August 31, 2023	¥ 330 ($3)
d. From September 1, 2019 to August 31, 2023	¥ 353 ($3)
e. From September 1, 2020 to August 31, 2023	¥ 359 ($3)
f. From September 1, 2021 to August 31, 2023	¥ 359 ($3)
g. From September 1, 2022 to August 31, 2023	¥ 356 ($3)

	2016 stock option
Exercise price	¥1,019 ($9)
Average stock price at exercise	
Fair value price at grant date	
a. From September 1, 2018 to August 31, 2023	¥ 188 ($2)
b. From September 1, 2019 to August 31, 2023	¥ 199 ($2)
c. From September 1, 2020 to August 31, 2023	¥ 206 ($2)
d. From September 1, 2021 to August 31, 2023	¥ 212 ($2)
e. From September 1, 2022 to August 31, 2023	¥ 216 ($2)

(3) The Assumption Used to Measure the Fair Value of the 2016 Stock Option
Estimate method: Black-Sholes option-pricing model

2016 stock option	a	b	c	d	e
Volatility of stock price	40.06%	40.58%	40.51%	40.41%	40.23%
Estimated remaining outstanding period	4.085years	4.583years	5.084years	5.585years	6.084years
Estimated dividend	¥30 ($0.27)	¥30 ($0.27)	¥30 ($0.27)	¥30 ($0.27)	¥30 ($0.27)
Risk free interest rate	-0.119%	-0.109%	-0.097%	-0.078%	-0.059%

* Volatility of stock price is calculated based on the actual stock price during the below periods;
a: From December 30, 2012 to January 30, 2017
b: From July 1, 2012 to January 30, 2017
c: From December 31, 2011 to January 30, 2017
d: From July 1, 2011 to January 30, 2017
e: From December 31, 2010 to January 30, 2017

(4) Estimated method of number of vested options
The estimated number of vested options of the Company is determined based on historical data.

15. R&D COSTS

R&D costs charged to income were ¥7,248 million ($64,720 thousand) and ¥7,701 million for the years ended March 31, 2017 and 2016, respectively.

16. LEASES

The Group leases certain machinery and vehicles.
The minimum rental commitments under noncancelable operating leases at March 31, 2017 and 2016, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	**2017**
Due within 1 year	**¥ 581**	¥ 681	**$ 5,188**
Due after 1 year	**579**	1,263	**5,177**
Total	**¥1,160**	¥1,944	**$10,365**

17. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Liability for retirement benefits	**¥ 321**	¥ 471	**$ 2,877**
Accounts payable – other	**969**	7,559	**8,660**
Allowance for doubtful accounts	**479**	203	**4,285**
Accrued employees' bonuses	**165**	247	**1,480**
Impairment loss on investment securities	**20**	77	**184**
Inventories	**233**	315	**2,086**
Loss on impairment of long-lived assets	**51**	221	**459**
Transfer pricing adjustment	**699**	693	**6,247**
Tax loss carryforwards	**17,700**	12,723	**158,035**
Other	**1,435**	2,417	**12,820**
Less valuation allowance	**(21,053)**	(23,941)	**(187,981)**
Total	**1,025**	989	**9,157**
Deferred tax liabilities:			
Reserve for reduction entry of property assets	**56**	228	**507**
Unrealized gain on available-for-sale securities		73	
Prepaid pension cost	**471**	477	**4,211**
Other	**148**	150	**1,321**
Total	**676**	930	**6,040**
Net deferred tax assets	**¥ 349**	¥ 59	**$ 3,116**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of operations was not presented because of the net loss for the period.

On June 29, 2011, the Company received notice from the Osaka Regional Taxation Bureau suggesting that a subsidiary in Hong Kong did not satisfy the conditions for exclusion from incorporating of 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 verdict on this case indicating that our assertions had been dismissed. The Company, unable to accept the verdict, filed an appeal to have the action canceled with the Tokyo District Court on January 17, 2013, however the Court rejected the Company's claim on September 28, 2016. The Company unable to accept the adjudgment, so filed the appeal to the Tokyo High Court on October 12, 2016.

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 Assurance 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.

18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

1. Status of Financial Instruments

(1) Group Policy for Financial Instruments

The Group obtains financing from banks and invests funds in short-term deposits. The Group has a policy of not using derivatives.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Trade receivables, such as trade notes and trade accounts, are exposed to customer credit risk.

To avoid such risk, the Group has stipulated sales management rules and manages trading terms and credit lines by each customer.

Investment securities, mainly equity instruments, are exposed to market risk. 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.

Most payables, such as trade notes and trade accounts, 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 Group internal rules. To mitigate credit risk, the Group enters into transactions solely with financial institutions with high ratings.

Trade receivables and loans are exposed to liquidity risks. The Group manages these risks by having each company perform monthly financial planning.

2. Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, another rational valuation technique is used instead. The list below does not contain financial instruments whose fair values are not readily determinable.

(a) Fair value of financial instruments

	Millions of Japanese yen		
	Carrying amount	Fair value	Unrealized gain/loss
2017			
Cash and cash equivalents	**¥38,971**	**¥38,971**	
Time deposits	**1,165**	**1,165**	
Receivables-trade	**15,571**	**15,571**	
Investment securities	**47**	**47**	
Total	**¥55,754**	**¥55,754**	
Payables-trade	**¥18,603**	**¥18,603**	
Payables-other	**7,280**	**7,280**	
Total	**¥25,883**	**¥25,883**	

	Millions of Japanese yen		
	Carrying amount	Fair value	Unrealized gain/loss
2016			
Cash and cash equivalents	¥47,116	¥47,116	
Time deposits	10,492	10,492	
Receivables-trade	24,092	24,092	
Investment securities	582	582	
Total	¥82,284	¥84,284	
Short-term bank borrowings (excluding finance lease obligation)	¥ 5,118	¥ 5,118	
Payables-trade	15,604	15,604	
Payables-other	34,149	34,149	
Long-term debt (excluding finance lease obligation)	6,009	6,009	
Total	¥60,881	¥60,881	
Derivatives	¥ (18)	¥ (18)	

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
2017			
Cash and cash equivalents	**$347,955**	**$347,955**	
Time deposits	**10,401**	**10,401**	
Receivables-trade	**139,028**	**139,028**	
Investment securities	**424**	**424**	
Total	**$497,810**	**$497,810**	
Payables-trade	**$166,098**	**$166,098**	
Payables-other	**65,008**	**65,008**	
Total	**$231,106**	**$231,106**	

Assets

Cash and cash equivalents, time deposits, and receivables – trade

The carrying values of cash and cash equivalents, time deposits, and receivables – trade approximate fair value because of their short maturities.

Investment securities

Investment securities are measured at the quoted market prices on a stock exchange for the equity instruments.

Fair value information for investment securities is included in Note 10.

Liabilities

Short-term bank loans, payables – trade, and payables – other

The carrying value of short-term bank loans and payables approximates fair value because of their short maturities.

Long-term debt

The carrying value of long-term debt approximates fair value as such debt bears interest at floating rates and they reflect the market interest rates.

Derivatives

Fair Value Information for derivatives is included in Note 19.

(b) Financial instruments whose fair value cannot be reliably determined

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	**2017**
Investments in equity instruments that do not have a quoted market price in an active market	**¥1,377**	¥1,836	**$12,301**

(c) Maturity analysis for financial assets and securities with contractual maturities

	Millions of Japanese yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
2017				
Cash and cash equivalents	¥38,971			
Time deposits	1,165			
Receivables-trade	15,571			
Total	¥55,707			
2016				
Cash and cash equivalents	¥47,116			
Time deposits	10,492			
Receivables-trade	24,092			
Total	¥81,701			

	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
2017				
Cash and cash equivalents	$347,955			
Time deposits	10,401			
Receivables-trade	139,028			
Total	$497,385			

Please see Note 11 for annual maturities of obligations under finance leases.

19. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign currency exchange rate risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Group did not use any derivative transactions for the year ended March 31, 2017.
Derivative transactions to which hedge accounting is not applied:

	Millions of Japanese yen			
	Contract amount	Contract amount (Due after 1 year)	Fair value	Unrealized gain/loss
March 31, 2016				
Foreign currency forward contracts				
Buying U.S.$ / Selling Mexican Peso	¥653		¥(18)	¥(18)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution. The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

20. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized loss on available-for-sale securities:			
Gain (loss) arising during the year	¥ 93	¥ (323)	$ 832
Reclassification adjustments to profit or loss	(255)	(66)	(2,279)
Amount before income tax effect	(162)	(389)	(1,446)
Income tax effect	13	125	120
Total	¥(148)	¥ (264)	$(1,325)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 971	¥(3,202)	$ 8,671
Reclassification adjustments to profit or loss	(16)	(92)	(150)
Amount before income tax effect	954	(3,295)	8,521
Income tax effect		24	
Total	¥ 954	¥(3,270)	$ 8,521
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (50)	¥ (153)	$ (447)
Reclassification adjustments to profit or loss	(290)	69	(2,596)
Amount before income tax effect	(340)	(83)	(3,043)
Income tax effect	133	35	1,193
Total	¥(207)	¥ (48)	$(1,850)
Share of other comprehensive income (loss) in associates:			
(Loss) gain arising during the year	¥ (6)	¥ 0	$ (53)
Reclassification adjustments to profit or loss	50	(19)	453
Total	¥ 44	¥ (19)	$ 399
Total other comprehensive income (loss)	¥ 643	¥(3,603)	$ 5,744

21. NET LOSS PER SHARE

Information on basic net EPS for the years ended March 31, 2017 and 2016, was as follows:

	Millions of Japanese yen	Thousands of shares	Japanese yen	U.S dollars
	Net loss attributable to owners of the parent	Weighted-average shares	EPS	
For the year ended March 31, 2017:				
Basic EPS				
Net loss available to common shareholders	¥(6,745)	34,119	¥(197.70)	$(1.77)
For the year ended March 31, 2016:				
Basic EPS				
Net income available to common shareholders	¥(33,839)	34,119	¥(991.81)	

Diluted net income per share is not disclosed due to the net loss for the years ended March 31, 2017 and 2016.

22. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2017, was approved at a meeting of the Company's Board of Directors held on May 22, 2017:

	Millions of Japanese yen	Thousands of U.S. dollars
Year-end cash dividends, ¥10 ($0.09) per share	**¥341**	**$3,046**

23. CONTINGENT LIABILITIES

(Financial covenants)

With regard to bank loans, a syndicate loan agreement with balances at March 31, 2016, of ¥5,634 million includes financial covenant terms. Therefore, if the Company breaches any of the following clauses, the Company might lose the benefit of time of the obligations under the agreement and immediately need to pay the principal and interest on the loan.

(Clauses)

(1) The Company shall maintain the amount in the equity section in the consolidated balance sheets 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 statements 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 statements of operations for the fiscal year ending March 31, 2015, and for each fiscal year thereafter.

The limits and unused amounts of the commitment line agreement at March 31, 2016, was as follows.

	Millions of Japanese yen
	2016
Limit	¥13,000
Used Amounts	
Unused Amounts	¥13,000

(Clauses)

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

(2) The Company shall maintain the amount in the equity section in the stand-alone balance sheet as of the end of each fiscal year at no less than ¥65 billion

(3) The Company shall not report either one or both of a consolidated operating loss and a consolidated ordinary loss for each fiscal wear.

The Company breached the financial covenant terms at March 31, 2016. In the fiscal year ended March 31, 2017, the Company prepaid all loans to banks.

24. SEGMENT INFORMATION

Under ASBJ Statement No.17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group is engaged in the manufacture and sale of consumer electronics products. Mainly, the Company operates in Japan, FUNAI CORPORATION, INC. and P&F USA, INC. operates in the Americas, FUNAI ELECTRIC (H.K.) LTD. and FUNAI (THAILAND) Co., LTD. operate in Asia, and FUNAI ELECTRIC EUROPE Sp.zo.o. operates in Europe. Each overseas subsidiary is an independent management unit, which develops product strategies and business activities in its respective region. Therefore, the Group consists of four geographic segments based on the manufacturing and sales structures: "Japan," "Americas," "Asia," and "Europe."

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Sales prices between the segments are set on an arm's-length basis.

(3) Information about Sales, Profit (Loss), Assets, and Other Items

	Millions of Japanese yen						
	2017						
	Japan	Americas	Asia	Europe	Total	Reconciliations (Note A)	Consolidated (Note B)
Sales:							
Sales to external customers	**¥ 31,200**	**¥101,751**	**¥ 274**	**¥ 612**	**¥133,838**		**¥133,838**
Intersegment sales or transfers	**83,776**	**1,194**	**87,607**		**172,577**	**¥(172,577)**	
Total	**¥114,977**	**¥102,945**	**¥87,881**	**¥ 612**	**¥306,416**	**¥(172,577)**	**¥133,838**
Segment (loss) profit (Note B)	**¥ (8,219)**	**¥(131)**	**¥(630)**	**¥45**	**¥(8,935)**	**¥ 2,160**	**¥ (6,775)**
Segment assets	**88,400**	**34,976**	**42,110**	**1,868**	**167,355**	**(58,669)**	**108,685**
Other							
Depreciation	**1,589**	**171**	**2,337**	**¥ 0**	**4,098**		**4,098**
Increase in property, plant and equipment and intangible assets	**¥ 654**	**¥ 332**	**2,250**		**3,237**	**¥ (0)**	**3,237**
Impairment losses of assets			**¥ 339**		**¥ 339**		**¥ 339**

	Millions of Japanese yen						
	2016						
	Japan	Americas	Asia	Europe	Total	Reconciliations (Note A)	Consolidated (Note B)
Sales:							
Sales to external customers	¥ 34,139	¥132,216	¥ 2,426	¥1,259	¥170,041		¥170,041
Intersegment sales or transfers	112,001	1,159	96,794		209,955	¥(209,955)	
Total	¥146,140	¥133,376	¥99,220	¥1,259	¥379,997	¥(209,955)	¥170,041
Segment (loss) profit (Note B)	¥ (7,663)	¥ (2,964)	¥ (15)	¥ (300)	¥ (10,944)	¥ 404	¥ (10,539)
Segment assets	114,583	45,147	52,612	2,119	214,462	(60,271)	154,191
Other							
Depreciation	1,633	180	2,660	¥ 23	4,498		4,498
Investment in equity method affiliate			166		166		166
Increase in property, plant and equipment and intangible assets	752	510	1,863		3,127	¥ (0)	3,127
Impairment losses of assets	¥ 87	¥ 110	¥ 469		¥ 667		¥ 667

	Japan	Americas	Asia	Europe	Total	Reconciliations (Note A)	Consolidated (Note B)
	Thousands of U.S. dollars 2017						
Sales:							
Sales to external customers	$ 278,579	$908,493	$2,447	$ 5,469	$1,194,989		$1,194,989
Intersegment sales or transfers	748,006	10,661	782,206		1,540,874	$(1,540,874)	
Total	$1,026,586	$919,154	$784,654	$ 5,469	$2,735,864	$(1,540,874)	$1,194,989
Segment (loss) profit (Note B)	$ (73,387)	$ (1,170)	$ (5,625)	$ 402	$ (79,780)	$ 19,285	$ (60,495)
Segment assets	789,286	312,285	375,987	16,682	1,494,242	(523,834)	970,408
Other							
Depreciation	14,194	1,533	20,867	0	36,595		36,595
Increase in property, plant and equipment and intangible assets	5,844	2,966	20,098		28,909	(1)	28,908
Impairment losses of assets			3,030		3,030		3,030

Note A Components of reconciliations are as follows:

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Segment profit (loss)			
Elimination of intersegment transactions	¥2,705	¥696	$24,155
Company-wide expenses (*1)	(767)	(761)	(6,855)
Adjustment of inventory	222	469	1,985
Total	¥2,160	¥404	$19,285

	Millions of Japanese yen		Thousands of U.S. dollars
	2017	2016	2017
Segment assets			
Company-wide assets (*2)	¥ 22,762	¥27,677	$ 203,233
Adjustment of inventory	(1,298)	(1,520)	(11,594)
Elimination of intersegment assets and liabilities, etc.	(80,133)	(86,428)	(715,473)
Total	¥(58,669)	¥(60,271)	$(523,834)

(*1) Corporate expenses are mainly general and administrative expenses not attributable to any reportable segment.
(*2) Corporate assets mainly consist of cash surpluses (cash and cash equivalents and time deposits) and long-term-investments (investments securities, etc.) that are not attributable to any reportable segment.

Note B Segment (loss) profit is adjusted to operating loss in the consolidated statements of operations.

(4) Related Information

1. Information about each product and service

	Audiovisual equipment	Information equipment	Other	Total
	Millions of Japanese yen 2017			
Sales to external customers	¥115,262	¥5,075	¥13,500	¥133,838

	Audiovisual equipment	Information equipment	Other	Total
	Millions of Japanese yen 2016			
Sales to external customers	¥147,742	¥5,000	¥17,297	¥170,041

	Audiovisual equipment	Information equipment	Other	Total
	Thousands of U.S. dollars 2017			
Sales to external customers	$1,029,128	$45,321	$120,540	$1,194,989

2. Information about geographical areas

a. Sales

Note: Sales are classified by country or region based on the location of customers.

Japan	Americas			Asia	Europe	Total
	USA	Mexico	Other			
Millions of Japanese yen 2017						
¥29,521	¥93,384	¥6,895	¥2,588	¥424	¥1,023	¥133,838
Millions of Japanese yen 2016						
¥31,477	¥118,853	¥14,626	¥2,402	¥1,022	¥1,659	¥170,041
Thousands of U.S. dollars 2017						
$263,582	$833,794	$61,569	$23,109	$3,793	$9,139	$1,194,989

b. Property plant and equipment

Japan	Americas	Asia			Europe	Total
		Philippines	Thailand	Other		
Millions of Japanese yen 2017						
¥4,544	¥263	¥5,922	¥1,697	¥535		¥12,963
Millions of Japanese yen 2016						
¥9,521	¥77	¥6,405	¥1,784	¥411	¥2	¥18,203
Thousands of U.S. dollars 2017						
$40,572	$2,356	$52,880	$15,159	$4,779		$115,748

3. Information about major customers

Name of Customer	Sales: Millions of Japanese yen 2017	Sales: Millions of Japanese yen 2016	Sales: Thousands of U.S. dollars 2017	Related segment name
WAL-MART STORES, INC.	¥78,530	¥89,528	$701,161	Americas

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Funai Electric Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 27, 2017