# Consolidated Financial Results for the Fiscal Year Ended March 31, 2017

May 15, 2017

| | | | |
|---|---|---|---|
| Listed company name | Funai Electric Co., Ltd. | | |
| Stock exchange listing | Tokyo first section | | |
| Securities code | 6839 | URL http://www2.funai.co.jp | |
| Representative | President and CEO | Hideaki Funakoshi | |
| Inquiries | Officer General Manager | Makoto Ueshima | TEL: (072) 870-4395 |
| Annual general shareholders meeting | | June 28, 2017 | |
| Filing of securities report | | June 28, 2017 | |
| Commencement of annual dividend payments | | June 29, 2017 | |
| Financial results supplementation | | Yes | |
| Financial results meeting | | Yes | |

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2017 (April 1, 2016 – March 31, 2017)

(1) Consolidated Operating Results (% shows year on year rates)

| | Net Sales | | Operating Income(loss) | | Ordinary Income(loss) | | Net Income(loss) attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal Year 2016 | 133,838 | (21.3) | (6,775) | — | (7,726) | — | (6,745) | — |
| Fiscal Year 2015 | 170,041 | (21.5) | (10,539) | — | (13,653) | — | (33,839) | — |

(Note) Comprehensive Income (6,098)million yen (—%) for the FY2016, 37,479million yen (—%) for the FY2015

| | Net Income(loss) Per Share | Net Income Per Share on a Fully Diluted Basis | Return on Shareholders' Equity | Ordinary Income(loss) to Total Assets | Operating Income(loss) Ratio |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| Fiscal Year 2016 | (197.70) | — | (8.4) | (5.9) | (5.1) |
| Fiscal Year 2015 | (991.81) | — | (32.6) | (7.9) | (6.2) |

(Reference) Equity in earnings of affiliates (2) million yen for the FY2016 (4) million yen for the FY2015

(2) Consolidated Financial Position

| | Total Assets | Net Assets | Shareholders' Equity Ratio | Net Assets Per Share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| Fiscal Year 2016 | 108,685 | 76,656 | 70.4 | 2,242.38 |
| Fiscal Year 2015 | 154,191 | 84,439 | 54.0 | 2,442.28 |

(Reference) Shareholders' Equity 76,507 million yen for the FY2016 83,328 million yen for the FY2015

(3) Consolidated Cash Flows

| | Net Cash Provided by (Used in) Operating Activities | Net Cash Provided by (Used in) Investing Activities | Net Cash Provided by (Used in) Financing Activities | Cash and Cash Equivalents at the End of Period |
|---|---|---|---|---|
| | Million yen | Million yen | Million yen | Million yen |
| Fiscal Year 2016 | (13,329) | 13,266 | (11,150) | 38,971 |
| Fiscal Year 2015 | (7,549) | 11,805 | 69 | 47,116 |

2. Dividends

| | Dividend per Share | | | | | Total Dividend Payment | Pay-out Ratio Consolidated | Dividend on Equity Ratio Consolidated |
|---|---|---|---|---|---|---|---|---|
| | 1Q End | 2Q End | 3Q End | Year-End | Annual | | | |
| | yen | yen | yen | yen | yen | Million yen | % | % |
| Fiscal Year 2015 | — | 0.00 | — | 30.00 | 30.00 | 1,023 | — | 1.0 |
| Fiscal Year 2016 | — | 0.00 | — | 10.00 | 10.00 | 341 | — | 0.4 |
| Fiscal Year 2017 (Forecast) | — | — | — | — | — | | — | |

(Note) The dividend forecast for FY 2017 is undetermined; because the high impact stemmed from the recent fluctuations in exchange rates give to the consolidated net assets. Additionally the company's dividend policy of DOE is unchanged. The dividend forecast for FY 2017 will be announced as soon as it is determined.

3 Consolidated Financial Forecast for the Fiscal Year Ended March 31, 2018 (April 1, 2017 - March 31, 2018)

(% shows year on year rates)

| | Net Sales | | Operating Income(loss) | | Ordinary Income(loss) | | Net Income(loss) attributable to owners of parent | | Net Income(loss) Per Share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| The First Half | 81,400 | 23.1 | 600 | — | 700 | — | 400 | — | 11.72 |
| Full Year | 160,000 | 19.5 | 600 | — | 700 | — | 200 | — | 5.86 |

*Note

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

(2) Changes in accounting policies and estimates

1. Changes in accounting policies from revision of accounting standards: Yes
2. Changes in accounting policies from other reason: No
3. Changes in accounting estimates: No
4. Restatement: No

(4) Number of Shares Outstanding (Ordinary Shares)

| | | |
|---|---|---|
| 1. Number of shares outstanding (including treasury stock) | As of March 31, 2016 | 36,130,796 |
| | As of March 31, 2017 | 36,130,796 |
| 2. Number of shares of treasury stock | As of March 31, 2016 | 2,011,687 |
| | As of March 31, 2017 | 2,011,765 |
| 3. The Average number of outstanding shares | On March 31, 2016 | 34,119,119 |
| | On March 31, 2017 | 34,119,089 |

(Reference)
Non-consolidated Financial Results for the Fiscal Year ended March 31, 2017 (April 1, 2016– March 31, 2017)

(1) Non-consolidated Operating Results (% shows year on year rates)

| | Net Sales | | Operating Income(loss) | | Ordinary Income(loss) | | Net Income(loss) | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal Year 2016 | 103,982 | (23.1) | (9,084) | — | (5,315) | — | 2,138 | — |
| Fiscal Year 2015 | 135,147 | (12.2) | (7,860) | — | 14,980 | — | (4,610) | — |

| | Net Income(loss) Per Share | Net Income Per Share on a Fully Diluted Basis |
|---|---|---|
| | Yen | Yen |
| Fiscal Year 2016 | (62.69) | — |
| Fiscal Year 2015 | (135.12) | — |

(2) Non-consolidated Financial Position

| | Total Assets | Net Assets | Shareholders' Equity Ratio | Net Assets Per Share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| Fiscal Year 2016 | 91,994 | 71,269 | 77.3 | 2,084.46 |
| Fiscal Year 2015 | 116,239 | 70,197 | 60.3 | 2,053.17 |

(Reference) Shareholders' Equity 71,119 million yen for the FY2016 70,052 million yen for the FY2015

Note:
This document contains forward-looking statements and projections regarding business performance which are not historical facts. Please note that these statements are based on the current expectations, assumptions, estimates and projections of the Funai Group in light of the information currently available to it. Actual performance may materially differ from projections included in this document because of the impacts of uncertainty in various factors.

# 1. Business Performance and Financial Position

(1) Overview of Business Performance

1. Business Performance for the Fiscal Year2016

The United States, the Company's main market, saw a gradual expansion of the economy such as a recovery in companies' investment activities, despite a temporary decline in consumer spending. In Europe, the economy's pace of recovery is accelerating as consumer spending continues to see a gradual upturn. Meanwhile in China, the economic slowdown has come to a pause in some areas, as investments in fixed assets and exports have bottomed out.

In Japan, exports and industrial production continue to see a gradual recovery, while consumer spending is recovering on the back of the robust employment and income environment.

As a result of the above factors, net sales ended at ¥133,838 million, down 21.3% compared to the previous fiscal year (year on year). Furthermore, the Group posted an operating loss of ¥6,775 million (an operating loss of ¥10,539 million in the previous fiscal year), due to the drop in sales as well as a continued surge in liquid crystal panel prices until the fiscal year-end, inventory adjustment of old models of LCD-TVs in the first half, and a drop in gross margin due to tougher price competition in Mexico.

Ordinary loss amounted to ¥7,726 million due to foreign exchange losses in accounts receivable from the depreciation of the Mexican Peso against the U.S. dollar (an ordinary loss of ¥13,653 million in the previous fiscal year). Net loss attributable to owners of parent ended at ¥6,745 million (a net loss attributable to owners of parent of ¥33,839 million in the previous fiscal year).

**Results by region**

i) Japan

Although BD-recorders and ink cartridges increased due to strong sales, 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).

ii) Americas

Although BD-players and ink cartridges increased due to strong sales, 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).

iii) Asia

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

iv) 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 loss (operating loss) ended at ¥45 million (a segment loss of ¥300 million in the previous fiscal year).

**Results by product segment**

i) Audiovisual Equipment

BD-players increased due to strong sales. However, 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 ¥115,262 million, down 22.0% year on year.

ii) Information Equipment

Total sales increased due to increase of newly launched ink cartridges developed in-house. As a result, net sales amounted to ¥5,075 million, up 1.5% year on year.

iii) Other Products

Net sales of other products resulted in ¥13,500 million, down 22.0% year on year, due to the end of sales of audio accessories, whose contract terminated in the previous term.

(2) Consolidated Financial Forecast for the Fiscal Year 2017

The Company expects the operating climate to remain problematic, but we are committed to these following strategies and improve sales and profit.

(a) Display Business (LCD-TV business)

・Increase sales in the U.S. market : Increase sales with existing customers and open up new customers by introducing multiple models for large UHD.

・Enter the Japanese market: Increase share in the Japanese market through exclusive business with Yamada Denki Co., Ltd.

(b) Digital Media Business (DVD, BD business)

・Increase sales of UHD-BD players in the U.S. market.

・Enter the Japanese market: Increase share in the Japanese market through exclusive business with Yamada Denki Co., Ltd.

(c) Office Solution Business (information equipment-related business)

・Improve profit margin by increasing sales of high value-added printer products.

・Review the investment in microfluidic control technology.

(d) New Business

・Increase sales by developing and launching new products related to health care, medical, and the automotive market.

< Consolidated Operating Forecast >

| | | |
|---|---|---|
| Net sales | ¥ 160,000 million | ( 19.5 % increase year-on-year) |
| Operating income | 600 million | (Last fiscal year operating loss 6,775 million) |
| Ordinary income | 600 million | (Last fiscal year ordinary loss 7,726 million) |
| Net income attributable to owners of parent | 200 million | (Last fiscal year net income 6,745 million) |

For its earnings estimates, the Group has assumed an exchange rate of JPY 110 = US$1.00.

The operating forecast is a forward-looking statement about the future performance of the Company and is based on management's assumptions and beliefs in light of information currently available, and involves risks and uncertainties. Various factors such as changes in economic conditions overseas, especially in the U.S. market, and severe price fluctuations may cause actual results to differ from this forecast.

(2) Overview of Financial Position

1. Balance Sheet

Total assets decreased by ¥45,505 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Decrease of ¥17,473 million in cash and deposits, ¥8,521 million in notes and accounts receivable – trade, ¥3,568 million in merchandise and finished goods and ¥2,738 million in land.

Total liabilities increased by ¥37,722 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥2,998 million in note and accounts payable-trade
- ✓ Decrease of ¥5,118 million in short-term loans, ¥26,868 million in accounts payable-other and ¥6,009 million in long-term loans.

Net assets decreased by ¥7,782 million compared to the end of the last fiscal year. The primary components of the change were increase of ¥998 million in the foreign currency translation adjustment and decrease of ¥7,768 million in retained earnings and of ¥965 million in Non-controlling interests.

2. Cash Flow

An analysis of consolidated cash flows shows that net cash used in operating activities amounted to ¥13,329 million. Net cash provided by investing activities was ¥13,266 million, and net cash provided by financing activities was ¥11,150 million. The balance of cash and cash equivalent as of March 31, 2017 was ¥38,971 million.

Cash flow ratios

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|---|---|
| Shareholders' equity ratio (%) | 60.7 | 62.8 | 64.6 | 54.0 | 70.4 |
| Shareholders' equity ratio at market value (%) | 20.3 | 19.3 | 25.0 | 21.8 | 29.7 |
| Ratio of cash flow to interest-bearing debt(year) | - | - | 0.6 | - | - |
| Interest coverage ratio (%) | - | - | 89.6 | - | - |

| | |
|---|---|
| Shareholders' equity ratio | : Equity capital / Total assets |
| Shareholders' equity ratio at market value | : Market capitalization / Total assets |
| Ratio of cash flow to interest-bearing debt | : Interest-bearing debt / Operating cash flow |
| Interest coverage ratio | : Operating cash flows / Interest payments |

*All ratios are calculated based on consolidated financial statements.
*Market value is calculated by at price of shares at the end of the consolidated fiscal year × Number of shares outstanding (after deducting treasury stock)
*Operating cash flows represent the cash flows from net cash provided by (used in) operating activities on the Consolidated Statements of Cash Flows. Interest-bearing debt represents debt stated on the Consolidated Balance Sheets for which interest is paid. Interest paid represents corresponding amount stated on the Consolidated Statements of Cash Flows.
*The ratio of cash flow to interest-bearing debt and the interest coverage ratio for the fiscal year 2012, 2013, 2015 and 2016 have been omitted because cash flow from operating activities was negative.

(3) Dividend Policy

The Company regards returning profits to shareholders as one of its most important key issues, and basically provides stable dividends while strengthening its management base. The dividend policy is based on dividend on equity ratio (DOE) of 1% under the consideration of business conditions. Basically the Company plans to implement dividend payments once a year. When the Company pays an interim dividend, it makes a public announcement in advance.

Based on above policy, the dividend plan for the fiscal year 2016 is expected to be JPY 10 per share because we posted net loss attributable to owners of the parent. The dividend plan for the fiscal year 2017 is currently undecided.

(5) 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 2016, 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, repayment of borrowings, and other requirements for some time, there is no significant concern about fundraising.

Since the Group is already implementing the following countermeasures in stages, the Group believes that a resolution of the matter can be achieved.

(a) Display Business (LCD-TV business)
- Increase sales in the U.S. market: Increase sales with existing customers and open up new customers by introducing multiple models for large UHD.
- Enter the Japanese market: Increase share in the Japanese market through exclusive business with Yamada Denki Co., Ltd.

(b) Digital Media Business (DVD, BD business)
- Increase sales of UHD-BD players in the U.S. market.
- Enter the Japanese market: Increase share in the Japanese market through exclusive business with Yamada Denki Co., Ltd.

(c) Office Solution Business (information equipment-related business)
- Improve profit margin by increasing sales of high value-added printer products.
- Review the investment in microfluidic control technology.

(d) New Business
- Increase sales by developing and launching new products related to health care, medical, and the automotive market.

Accordingly, Funai judges that there is no significant uncertainty related to the going concern assumption as of March 31, 2018 and has omitted the Notes on Going Concern Assumption from the consolidated financial statements.

## 2. Basic Rationale on Selection of Accounting Standards

The Group applies Japanese accounting standards. We have not set a definite timetable for the adoption of international financial reporting standards (IFRS), but we will consider taking this step based on the situation of another companies in the same business.

## 3. Consolidated Financial Statements

(1) Consolidated Balance Sheets (Million Yen)

| | Fiscal year 2015 (As of March 31, 2016) | Fiscal year 2016 (As of March 31, 2017) |
|---|---|---|
| ASSETS; | | |
| Current Assets | | |
| Cash and deposits | 57,609 | 40,136 |
| Notes and accounts receivable-trade | 24,092 | 15,571 |
| Merchandise and finished goods | 22,768 | 15,459 |
| Work in process | 1,196 | 1,149 |
| Raw materials and supplies | 13,212 | 9,644 |
| Deferred tax assets | 664 | 489 |
| Other | 4,071 | 3,900 |
| Allowance for doubtful accounts | (400) | (847) |
| Total current assets | 123,214 | 85,503 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 18,138 | 14,832 |
| Accumulated depreciation | (9,794) | (8,691) |
| Buildings and structures, net | 8,343 | 6,140 |
| Machinery,equipment and vehicles | 10,746 | 8,748 |
| Accumulated depreciation | (8,964) | (7,354) |
| Machinery,equipment and vehicles, net | 1,781 | 1,394 |
| Tools, furniture and fixtures | 23,086 | 19,455 |
| Accumulated depreciation | (21,919) | (18,173) |
| Tools, furniture and fixtures, net | 1,166 | 1,281 |
| Lands | 6,331 | 3,592 |
| Lease assets | 697 | 597 |
| Accumulated depreciation | (203) | (230) |
| Lease assets, net | 493 | 367 |
| Other | 87 | 187 |
| Total property, plant and equipment | 18,203 | 12,963 |
| Intangible assets | | |
| Patent right | 3,297 | 2,576 |
| Other | 1,562 | 765 |
| Total intangible fixed assets | 4,860 | 3,342 |
| Investment and other assets | | |
| Investment securities | 2,418 | 1,425 |
| Deferred tax assets | 206 | 454 |
| Net defined benefit asset | 1,555 | 1,543 |
| Other | 4,003 | 3,703 |
| Allowance for doubtful accounts | (271) | (252) |
| Total investments and other assets | 7,912 | 6,875 |
| Total noncurrent assets | 30,976 | 23,181 |
| TOTAL ASSETS | 154,191 | 108,685 |

(Million Yen)

| | Fiscal year 2015 (As of March 31, 2016) | Fiscal year 2016 (As of March 31, 2017) |
|---|---|---|
| LIABILITIES; | | |
| Current Liabilities | | |
| Notes and accounts payable-trade | 15,604 | 18,603 |
| Short-term loans payable | 5,118 | - |
| Accounts payable-other | 34,149 | 7,280 |
| lease obligations | 251 | 242 |
| Income taxes payable | 783 | 813 |
| Provision for bonuses | 236 | 9 |
| Provision for product warranties | 689 | 481 |
| Foward exchange contracts | 18 | - |
| Other | 2,971 | 2,144 |
| Total current liabilities | 59,823 | 29,575 |
| Noncurrent liabilities | | |
| Long-term loans payable | 6,009 | - |
| lease obligations | 737 | 514 |
| Deferred tax liabilities | 811 | 595 |
| Deferred tax liabilities for land revaluation | 205 | - |
| Provision for directors' retirement benefits | 1,106 | 1,047 |
| Net defined benefit liability | 395 | 15 |
| Other | 662 | 281 |
| Total noncurrent liabilities | 9,927 | 2,453 |
| TOTAL LIABILITIES | 69,751 | 32,028 |
| NET ASSETS; | | |
| Shareholders' equity | | |
| Capital stock | 31,307 | 31,307 |
| Capital surplus | 33,301 | 33,603 |
| Retained earnings | 54,789 | 47,020 |
| Treasury stock | (24,341) | (24,341) |
| Total shareholders' equity | 95,058 | 87,590 |
| Accumulated other comprehensive income | | |
| Valuation difference on avaiable-for-sale securities | 160 | 11 |
| Foreign currency translation adjustment | (12,204) | (11,206) |
| Remeasurements of defined benefit plans | 314 | 111 |
| Total accumulated other comprehensive income | (11,729) | (11,082) |
| Subscription right to shares | 145 | 149 |
| Non-controlling interests | 965 | - |
| Total net assets | 84,439 | 76,656 |
| TOTAL LIABILITIES AND NET ASSETS | 154,191 | 108,685 |

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

(Million Yen)

| | Fiscal year 2015<br>( from April 1, 2015<br>to March 31, 2016 ) | Fiscal year 2016<br>( from April 1, 2016<br>to March 31, 2017 ) |
|---|---|---|
| Net sales | 170,041 | 133,838 |
| Cost of sales | 144,671 | 114,795 |
| Gross profit | 25,370 | 19,043 |
| Selling, general and administrative expenses | 35,910 | 25,818 |
| Operating income (loss) | (10,539) | (6,775) |
| Non-operating income | | |
| Interest income | 259 | 230 |
| Dividends income | 28 | 23 |
| Rent income on non-current assets | 208 | 119 |
| Gain on investments in partnership | 218 | - |
| Other | 79 | 146 |
| Total non-operating income | 793 | 519 |
| Non-operating expenses | | |
| Interest expenses | 296 | 152 |
| Equity in losses of affiliates | 4 | 2 |
| Foreign exchange losses | 3,244 | 1,122 |
| Other | 362 | 193 |
| Total non-operating expenses | 3,908 | 1,470 |
| Ordinary income (loss) | (13,653) | (7,726) |
| Extraordinary income | | |
| Gain on sales of noncurrent assets | 18 | 1,436 |
| Gain on sales of shares of subsidiaries | 41 | - |
| Settlement received | 902 | - |
| Refund of customs duty | 485 | - |
| Other | 114 | 141 |
| Total extraordinary income | 1,562 | 1,578 |
| Extraordinary loss | | |
| Loss on disposal of noncurrent assets | 475 | 57 |
| Impairment loss | 667 | 339 |
| Loss on disposal of affiliated company | - | 704 |
| Compensation for damage | 18,502 | - |
| Other | 303 | 57 |
| Total extraordinary loss | 19,948 | 1,158 |
| Income (loss) before income taxes and minority interests | (32,040) | (7,307) |
| Income taxes | 514 | 67 |
| Income tax adjustments | 1,322 | (632) |
| Total income taxes | 1,836 | (565) |
| Net income (loss) | (33,876) | (6,742) |
| Net income (loss) attributable to non-controlling interests | (37) | 3 |
| Net income (loss) attributable to owners of parent | (33,839) | (6,745) |

(Consolidated Statement of Comprehensive Income) (Million Yen)

| | Fiscal year 2015<br>( from April 1, 2015<br>to March 31, 2016 ) | Fiscal year 2016<br>( from April 1, 2016<br>to March 31, 2017 ) |
|---|---|---|
| Net income (Loss) | (33,876) | (6,742) |
| Other comprehensive income | | |
| Valuation difference on avaiable-for-sale securities | (264) | (148) |
| Foreign currency translation adjestment | (3,270) | 954 |
| Remeasurements of defined benefit plans, net of tax | (48) | (207) |
| Share of other comprehensive income of associates accounted for using equity method | (19) | 44 |
| Total other comprehensive income | (3,603) | 643 |
| Comprehensive income | (37,479) | (6,098) |
| (Comprehensive income attributable to) | | |
| Comprehensive income attributable to owners of the parent | (37,442) | (6,098) |
| Comprehensive income attributable to non-controlling interests | (37) | 0 |

(3) Consolidated Statements of Changes in Shareholders' Equity

Fiscal year 2015 (April 1, 2015 - March 31, 2016) (Million Yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Beginning balance | 31,307 | 33,272 | 89,903 | (24,341) | 130,142 |
| Changes of items during the period | | | | | |
| Dividends from surplus | | | (1,194) | | (1,194) |
| Income (loss) attributable to owners of parent | | | (33,839) | | (33,839) |
| Purchase of treasury stock | | | | (0) | (0) |
| Change of scope of consolidation | | | (79) | | (79) |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | 29 | | | 29 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | — | 29 | (35,113) | (0) | (35,084) |
| Ending balance | 31,307 | 33,301 | 54,789 | (24,341) | 95,058 |

| | Accumulated other comprehensive income | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Unrealized holding gains/losses on securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | | |
| Beginning balance | 421 | (8,913) | 365 | (8,127) | 142 | 1,061 | 123,218 |
| Changes of items during the period | | | | | | | |
| Dividends from surplus | | | | | | | (1,194) |
| Income (loss) attributable to owners of parent | | | | | | | (33,839) |
| Purchase of treasury stock | | | | | | | (0) |
| Change of scope of consolidation | | | | | | | (79) |
| Change in treasury shares of parent arising from transactions with non-controlling share holders | | | | | | | 29 |
| Net changes of items other than shareholders' equity | (260) | (3,290) | (51) | (3,602) | 2 | (95) | (3,695) |
| Total changes of items during the period | (260) | (3,290) | (51) | (3,602) | 2 | (95) | (38,779) |
| Ending balance | 160 | (12,204) | 314 | (11,729) | 145 | 965 | 84,439 |

Fiscal year 2016 (April 1, 2015 - March 31, 2016) (Million Yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Beginning balance | 31,307 | 33,301 | 54,789 | (24,341) | 95,058 |
| Changes of items during the period | | | | | |
| Dividends from surplus | | | (1,023) | | (1,023) |
| Income (loss) attributable to owners of parent | | | (6,745) | | (6,745) |
| Purchase of treasury stock | | | | (0) | (0) |
| Others | | 301 | | | 301 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | ― | 301 | (7,768) | (0) | (7,467) |
| Ending balance | 31,307 | 33,603 | 47,020 | (24,341) | 87,590 |

| | Accumulated other comprehensive income | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Unrealized holding gains/losses on securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | | |
| Beginning balance | 160 | (12,204) | 314 | (11,729) | 145 | 965 | 84,439 |
| Changes of items during the period | | | | | | | |
| Dividends from surplus | | | | | | | (1,023) |
| Income (loss) attributable to owners of parent | | | | | | | (6,745) |
| Purchase of treasury stock | | | | | | | (0) |
| Others | | | | | | | 301 |
| Net changes of items other than shareholders' equity | (149) | 998 | (202) | 647 | 3 | (965) | (314) |
| Total changes of items during the period | (149) | 998 | (202) | 647 | 3 | (965) | (7,782) |
| Ending balance | 11 | (11,206) | 111 | (11,082) | 149 | - | 76,656 |

## (4) Consolidated quartely statements of cash flows

(Million Yen)

| | Fiscal year 2015 ( from April 1, 2015 to March 31, 2016) | Fiscal year 2016 ( from April 1, 2016 to March 31, 2017) |
|---|---|---|
| Cash flows from operating activities | | |
| Income (Loss) before income taxes and minority interests | (32,040) | (7,307) |
| Depreciation | 4,498 | 4,098 |
| Impairment loss | 667 | 339 |
| Increase (decrease) in allowance for doubtful accounts | 41 | 451 |
| Increase (decrease) in net defined benefit liability | (125) | (117) |
| Interest and dividend income | (287) | (253) |
| Interest expenses | 296 | 152 |
| Share of (profit) loss of entities accounted for using equity method | 4 | 2 |
| Loss on retirement of property, plant and equipment | 357 | 57 |
| Loss (gain) on sales of property, plant and equipment | 9 | (1,382) |
| Loss (gain) on sales of investment securities | (68) | (127) |
| Loss (gain) on sales of shares of subsidiaries and associates | (41) | 704 |
| Loss (gain) on valuation of investment securities | 2 | - |
| Loss on valuation of shares of subsidiaries and associates | 6 | - |
| Decrease (increase) in notes and accounts receivable - trade | 12,199 | 4,601 |
| Decrease (increase) in inventories | 1,925 | 8,379 |
| Increase (decrease) in notes and accounts payable - trade | (15,381) | 3,470 |
| Increase (decrease) in notes and accounts payable - other | 20,520 | (25,539) |
| Other, net | 290 | (944) |
| Subtotal | (7,124) | (13,414) |
| Interest and dividend income received | 295 | 256 |
| Interest expenses paid | (294) | (151) |
| Income taxes paid | (454) | (69) |
| Income taxes refund | 28 | 49 |
| Net cash provided by (used in) operating activities | (7,549) | (13,329) |
| Cash flows from investing activities | | |
| Payments into time deposits | (21,227) | (6,205) |
| Proceeds from withdrawal of time deposits | 34,215 | 10,392 |
| Purchase of property, plant and equipment | (2,113) | (3,042) |
| Proceeds from sales of property, plant and equipment | 886 | 3,977 |
| Purchase of intangible assets | (270) | (117) |
| Purchase of investment securities | (62) | (10) |
| Proceeds from sales of investment securities | 242 | 178 |
| Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation. | - | 7,899 |
| Payments of loans receivable | (2) | (4) |
| Collection of loans receivable | 40 | 25 |
| Other, net | 98 | 174 |
| Net cash provided by (used in) investment activities | 11,805 | 13,266 |

(Million Yen)

| | Fiscal year 2015 ( from April 1, 2015 to March 31, 2016) | Fiscal year 2016 ( from April 1, 2016 to March 31, 2017) |
|---|---|---|
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | 1,124 | (6,510) |
| Payment of long-term loans payable | - | (3,192) |
| Purchase of treasury shares | (0) | 0 |
| Cash dividends paid | (1,194) | (1,023) |
| Other, net | 139 | (424) |
| Net cash provided by (used in) financing activities | 69 | (11,150) |
| Effect of exchange rate change on cash and cash equivalents | (251) | 3,069 |
| Net increase (decrease) in cash and cash equivalents | 4,074 | (8,145) |
| Cash and cash equivalents at beginning of period | 42,991 | 47,116 |
| Increase in cash and cash equivalents from newly consolidated subsidiary | 51 | - |
| Cash and cash equivalents at end of period | 47,116 | 38,971 |

## (5) Notes on Consolidated Financial Statements

### (Notes on Going Concern Assumption)

Not Applicable

### (Basis of presenting consolidated financial statements)

The matter regarding consolidation scope
The number of consolidated subsidiaries: 20

Principal consolidated subsidiaries are FUNAI CORPORATION, INC., Funai Electric (H.K.), Ltd., and FUNAI (THAILAND) CO., LTD.
The Group included subsidiaries Funai Trading Corp. and Funai Manufacturing, S.A.DE C.V., which were established in the consolidated fiscal year under review, in the scope of consolidation.
The Group has excluded HIGH DEFINITION COMMERCIAL SOLUTIONS and 嘉福金属有限公司 from the scope of consolidation in the fiscal year 2016, as a result of their liquidation.
Former consolidated subsidiary DX Antenna Co., Ltd. has been excluded from the scope of consolidation due to the transfer of all shares held by the Company. Following this, the Group also excluded its wholly owned subsidiaries, DX ANTENNA PHILIPPINES, INC. and DX ANTENNA MARKETING, INC., from the scope of consolidation. These three companies are consolidated in the statements of income only since the last day of the fiscal year under review is the deemed transfer date.

### (Change in Accounting Policy)
### (Application of "Practical Solution on a change in depreciation method due to Tax Reform 2016")

Following revisions to the Corporation Tax Act, the Group has applied the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (PITF No.32, June 17, 2016) in the consolidated fiscal year under review, and changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining balance method to the straight-line method. The impact on consolidated financial statements is minor.

### (Additional Information)
### (About Anti-Tax Haven Law)

The Group received a reassessment notice from the Osaka Regional Taxation Bureau on June 29, 2011. The Bureau determined that our Hong Kong subsidiary does not meet the requirements for exemption under the anti-tax haven rules. In addition, they imposed a tax on us adding up with the Hong Kong subsidiary's income for the three fiscal years ended March 31, 2008 through 2010, which deems as our income.
We objected to this reassessment of income taxes, and filed a request for examination to the Osaka National Tax Tribunal on August 25, 2011. However, we received written verdicts that reject our petition on July18, 2012. The Group filed a suit for cancellation of reassessment to the Tokyo District Court on January 17, 2013.
The additional tax amount is totally ¥825 million including corporate, enterprise and residence taxes (¥935 million including incidental taxes). We recorded this additional tax as "prior year's taxes" in the fiscal year ended March 31, 2012. Also, the financial impact, when applying this tax rules has been recorded in the fiscal year ended March 31, 2011 when tax investigation was completed.

### (Application of "Implementation Guidance on Recoverability of Deferred Tax Assets")

The "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) has been applied from the consolidated fiscal year under review.

### (Assignment of shares of a consolidated subsidiary)

At the meeting of its Board of Directors held on November 7, 2016, the Company resolved to enter into a basic agreement with Elecom Co., Ltd. ("Elecom") to transfer shares in the Company's consolidated subsidiary DX Antenna Co., Ltd. ("DX Antenna"), 96% of outstanding shares of which are owned by the Company. A basic agreement was concluded as of the same date. A final agreement concerning the share transfer was reached as a result of subsequent discussions, and the Company resolved to transfer the shares at the meeting of its Board of Directors held on February 21, 2017, concluded a share transfer agreement as of the same date, and transferred the shares on March 30, 2017.

1. Reason for share assignment
   We made DX Antenna our subsidiary in November 2001, and have since developed its domestic business as a manufacturing and sales company of antennas and TV reception equipment in Japan.

The company has had declining sales of LCD-TVs for reasons such as the intensifying price competition with competitors in the North American market—the company's main market. Given this situation, we were looking for an appropriate buyer for the company so that we could focus the management resources of the Funai Electric Group in core areas, and ELECOM offered to purchase all of the DX Antenna shares we held.

The markets for the products manufactured and sold by ELECOM and DX Antenna are geographically close. In addition, there is no overlap in sales channels. It is therefore expected that ELECOM's acquisition of DX Antenna will create synergies in terms of sales. In particular, ELECOM's sales capabilities, mainly through mass merchant home appliance stores, are likely to significantly boost DX Antenna's sales. We therefore decided to assign DX Antenna shares to ELECOM based on the view that this transaction would benefit both companies.

2. Name of the buyer
ELECOM Co., Ltd.

3. Timing of assignment
November 7, 2016 Signed a Letter of Intent
February 21, 2017 Sign a share assignment agreement
March 30, 2017 Share assignment date

4. Subsidiary's name, business and transactions with Funai
Name: DX Antenna Co., Ltd.
Business: Sales of electric machinery and equipment
Transactions with Funai: DX Antenna purchases electric machinery and equipment from us.

5. Number and price of shares to be assigned and shareholding ratio after assignment
The number of shares: 11,244,320 shares
Price of shares: ¥10,367 million
Shareholding ratio after assignment: 0%

6. Impact on profit/loss
We posted ¥704 million as loss on disposal of affiliated company in extraordinary loss for the fiscal year 2016 due to this assignment.

(Consolidated statement of income)
1. Settlement received
Fiscal year 2015 (April 1, 2015 - March 31, 2016)
The Group filed a lawsuit for a compensatory damage against Olympus Corporation due to Olympus's misstatements in its securities registration statement, etc. The Group recorded 902 million as settlement received after deducting necessary expenses from the settlement money in connection with this settlement.

2. Refund of customs duty
Fiscal year 2015 (April 1, 2015 - March 31, 2016)
This amount consists of refunded customs duties, legal costs, and associated interest received after consolidated subsidiary FUNAI EUROPE GmbH won a lawsuit claiming a refund of assessed additional customs duties brought against the German tax authorities in the District Court of Hamburg.

3. Impairment loss

Fiscal Year 2015 (April 1, 2015 - March 31, 2016)
The Group recorded losses on impairment in the following asset groups for fiscal year 2015.
In principle, the Group groups business assets on the basis of legal units that strive to maintain an ongoing understanding of income and expenses. The idle assets are grouped by individual asset.

| Use | Location | Type |
|---|---|---|
| Business Assets | Funai Electric Co., Ltd.<br>(Osaka Daito city) | Long-term prepaid expenses |
| Business Assets | Funai Electric (H.K.)LTD<br>(Hong Kong) | Machinery, equipment and vehicles<br>Tools, furniture and fixtures |
| Business Assets | Zhongshan Funai Electron Co.<br>(China Guangdong) | Tools, furniture and fixtures |

In the fiscal year 2015, as a result of the decision to withdraw from the laser printer business to concentrate information equipment enterprise resources on the inkjet printer business, Funai wrote down the book value of manufacturing facilities, development assets, and other assets not expected to be used in the future to the recoverable amount and recorded the reduction (¥431 million) in extraordinary loss. The total consists of ¥87 million for Funai Electric Co.,Ltd.(Long-term prepaid expenses), ¥10 million for Funai Electric(H.K.)LTD (¥6 million of Machinery, equipment and vehicles and ¥4 million of Tools, furniture and fixtures) and ¥333 million for Zhongshan Funai Electron Co.(Tools, furniture and fixtures).
The recoverable amount of the assets has been determined based on net selling price and calculated with the net selling price as zero.

| Use | Location | Type |
|---|---|---|
| Retirement Assets | Funai Electric Cebu, Inc.<br>(Philippine Cebu) | Machinery, equipment and vehicles |

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 through the acquired company. Although we previously grouped assets scheduled for retirement in connection with the end of production of some models as business assets, since the assets are now scheduled for retirement, we wrote down the book value to the recoverable amount and recorded the reduction (¥125 million) in extraordinary loss.
The recoverable amount of the assets has been calculated using net selling price based on disposal value.

| Use | Location | Type |
|---|---|---|
| Business Assets | P&F USA,Inc.<br>(U.S. Delaware) | Software |

Regarding the assets whose profitability has declined remarkably, we wrote down the book value to the recoverable amount and recorded the reduction (¥110 million) in extraordinary loss.
The recoverable amount of the assets has been calculated using net selling price based on disposal value.

Fiscal Year 2016 (April 1, 2016 - March 31, 2017)

| Use | Location | Type |
|---|---|---|
| Retirement Assets | Funai Electric Cebu, Inc.<br>(Philippine Cebu) | Machinery, equipment and vehicles |

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 through the acquired company. Although we previously grouped assets scheduled for retirement in connection with the end of production of some models as business assets, since the assets are now scheduled for retirement, we wrote down the book value to the recoverable amount and recorded the reduction (¥339 million) in extraordinary loss.
The recoverable amount of the assets has been determined based on net selling price and calculated with the net selling price as zero.

*4. Compensation for damage

Funai resolved to acquire all shares in a company taking over PHILIPS' Lifestyle Entertainment Business from Koninklijke PHILIPS N.V. ("PHILIPS"). However, PHILIPS filed against Funai a petition for arbitration to recover damages caused by breach of agreement of Funai as of October 25, 2013.

With regard to this matter, Funai recognizes there has been no breach of agreement on its behalf. Therefore, Funai filed a counterclaim for damages caused by breach of the agreement and unlawful actions by PHILIPS to the International Chamber of Commerce on December 6, 2013.

On April 26, 2016 the arbitral tribunal has ordered Funai to pay compensatory damages to Philips in the sum of EUR 134.8M, arbitration costs in the sum of USD 1.35M,and Philips's legal fees in the sum of EUR 2.5M plus interest (2%) for them and the arbitral tribunal has dismissed the counterclaim by Funai. Funai posted ¥18,502 million as compensatory damages etc. in extraordinary loss in this fiscal year.

(Consolidated statement of comprehensive income)

* 1. Reclassification adjustment and tax effect amount involved in other comprehensive income (Million Yen)

| | Fiscal year 2015 ( from April 1, 2015 to March 31, 2016 ) | Fiscal year 2016 ( from April 1, 2016 to March 31, 2017 ) |
|---|---|---|
| Valuation difference on available-for-sale securities: | | |
| Accrued amount on the current term | 323 | 93 |
| Reclassification adjustment amount | (66) | (255) |
| Pre-adjustment of tax effect | (389) | (162) |
| Tax effect amount | 125 | 13 |
| Valuation difference on available-for-sale securities | (264) | (148) |
| Foreign currency translation adjustment: | | |
| Accrued amount on the current term | (3,202) | 971 |
| Reclassification adjustment amount | (92) | (16) |
| Pre-adjustment of tax effect | (3,295) | 954 |
| Tax effect amount | 24 | - |
| Valuation difference on available-for-sale securities | (3,270) | 954 |
| Remeasurements of defined benefit plans: | | |
| Accrued amount on the current term | (153) | (49) |
| Reclassification adjustment amount | 69 | (122) |
| Pre-adjustment of tax effect | (83) | (171) |
| Tax effect amount | 35 | (35) |
| Foreign currency translation adjustment | (48) | (207) |
| Share of other comprehensive income of entities accounted for using equity method: | | |
| Accrued amount on the current term | 0 | (6) |
| Reclassification adjustment amount | (19) | 50 |
| Share of other comprehensive income of entities accounted for using equity method: | (19) | 44 |
| Total other comprehensive income | (3,603) | 643 |

(Segment Information)

[Segment Information]

1. Summary of Reporting Segments

The reporting segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decision about resource allocation and to assess their performance.

Businesses of the Group are to manufacture and sell electrical equipment and devices. In Japan, such functions are the responsibility of DX Antenna Co., Ltd. In the areas of the United States, Asia and Europe such functions are managed by Funai Corporation, Inc. (Americas), P&F USA, Inc. (Americas), Funai Electric (H.K.) Ltd. (Asia), FUNAI ELECTRIC EUROPE Sp.z o.o (Europe), and other local corporations. They are independent each other and plan comprehensive strategies on the products to carry in the region on their own.

Consequently, the Group is comprised of location-specific segments that are based on its manufacturing and sales structure and has “Japan”, “Americas”, “Asia” and “Europe” as its four reporting segments.

2. Measurement of the amount of net sales, income/loss, assets and liabilities and other in each reporting segment

The accounting policies of the reporting segment are the same as “Basis of presenting consolidated financial statements”. Net sales of intersegment are based on sales price to outside customers.

3. Net sales, income/loss, assets, liabilities and other by reporting segments

Fiscal year 2015 (April 1, 2015 - March 31, 2016) (Million Yen)

| | Japan | Americas | Asia | Europe | Total | Adjustments (Note 1) | Consolidated (Note 2) |
|---|---|---|---|---|---|---|---|
| Net Sales | | | | | | | |
| (1) Sales to outside customers | 34,139 | 132,216 | 2,426 | 1,259 | 170,041 | — | 170,041 |
| (2) Inter-segment sales | 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 Income (Loss) | (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 and amortization | 1,633 | 180 | 2,660 | 23 | 4,498 | — | 4,498 |
| Investment amount to equity method affiliate | — | — | 166 | — | 166 | — | 166 |
| Increase in tangible fixed assets and intangible assets | 752 | 510 | 1,863 | — | 3,127 | (0) | 3,127 |

Fiscal year 2016 (April 1, 2016 - March 31, 2017) (Million Yen)

| | Japan | Americas | Asia | Europe | Total | Adjustments (Note 1) | Consolidated (Note 2) |
|---|---|---|---|---|---|---|---|
| Net Sales | | | | | | | |
| (1) Sales to outside customers | 31,200 | 101,751 | 274 | 612 | 133,838 | - | 133,838 |
| (2) Inter-segment sales | 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 Income (Loss) | (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 and amortization | 1,589 | 171 | 2,337 | 0 | 4,098 | - | 4,098 |
| Amortization of goodwill | | | | | | | |
| Investment amount to equity method affiliate | | | | | | | |
| Increase in tangible fixed assets and intangible assets | 654 | 332 | 2,250 | - | 3,237 | (0) | 3,237 |

(Note) 1. Adjustments were as follows.

Segment Income(loss) (Million Yen)

| | Fiscal year 2015 | Fiscal year 2016 |
|---|---|---|
| Eliminations | 696 | 2,705 |
| Corporate expenses * | (761) | (767) |
| Inventories | 469 | 222 |
| Total | 404 | 2,160 |

* Corporate expenses are general & administration expenses that do not correspond to the reporting Segments

Segment Assets (Million Yen)

| | Fiscal year 2015 | Fiscal year 2016 |
|---|---|---|
| Total assets * | 27,677 | 22,762 |
| Adjustments of inventories | (1,520) | (1,298) |
| Eliminations | (86,428) | (80,133) |
| Total | (60,271) | (58,669) |

*Total assets are mainly excess cash/deposits and long term securities for investment that do not correspond to the reporting segments.

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

(Information per share)

| Fiscal year 2015 (April l,2015 – March 31,2016) | | Fiscal year 2016 (April l,2016 – March 31,2017) | |
|---|---|---|---|
| Book Value per share | 2,442.28 | Book Value per share | 2,242.38 |
| Net loss per share | 991.81 | Net loss per share | 197.70 |

(Note)

1. Net loss per share after dilution is not shown because there are no issuable shares with a dilutive effect.
2. The basis for the calculation of net income or net loss per share is as follows.

| | Fiscal year 2015 (April 1, 2015 – March 31,2016) | Fiscal year 2016 (April 1, 2016 – March 31,2017) |
|---|---|---|
| Net income (loss) per share | | |
| Net income (loss) attributable to owners of parent | (33,839) | (6,745) |
| Amount not attributable to owners of the parent (million yen) | — | — |
| Net income (loss) attributable to owners of parent available to common shares (million yen) | (33,839) | (6,745) |
| The average number of outstanding shares for the period（Thousands of shares） | 34,119 | 34,119 |
| Overview of potentially dilutive common shares not included in computation of net income per share after dilution because of their anti-dilutive effect | Two types of stock acquisition rights (number of stock acquisition rights: 2,837) have been excluded. | Three types of stock acquisition rights (number of stock acquisition rights: 4,290) have been excluded. |

(Events after the reporting period)

Not applicable