Member, Financial Accounting Standards Foundation

Consolidated Financial Results for the First Quarter Ended June 30, 2017

August 7, 2017

Listed company name	Funai Electric Co., Ltd.			
Stock exchange listing	Tokyo First Section			
Securities code	6839	URL http://www2.funai.co.jp/en/index.html		
Representative	President and CEO	Hideaki Funakoshi		
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Scheduled date of Quarterly Report		August 9, 2017		
Scheduled date of Commencement of Annual Dividend Payment		—		
Quarterly Financial Results Supplementation		Yes		
Quarterly Financial Results Seminar		No		

1. Consolidated Financial Results for the First Quarter Ended June 30, 2017 (April 1, 2017 – June 30, 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	%
1st Quarter FY2017	32,071	27.8	(2,328)	—	(2,159)	—	(1,517)	—
1st Quarter FY2016	25,090	(33.7)	(2,873)	—	(5,859)	—	(5,712)	—

(Reference) Comprehensive Income 1st Quarter FY 2017 ended June 30, 2017 (1,732) million yen (—%)
1st Quarter FY 2016 ended June 30, 2016 (8,027) million yen(—%)

	Net Income(loss) Per Share	Net Income(loss) Per Share on a Fully Diluted Basis
	Yen	Yen
1st Quarter FY2017	(44.49)	—
1st Quarter FY2016	(167.42)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity	Equity Ratio
	Million yen	Million yen	Million yen	%
As of June 30,2017	123,195	74,584	74,433	60.4
As of March 31,2016	108,685	76,656	76,507	70.4

2. Dividends

	Dividend per Share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Annual
	yen	yen	yen	yen	yen
Fiscal Year 2016	—	0.00	—	10.00	10.00
Fiscal Year 2017	—				
Fiscal Year 2017 (Forecast)			—	—	—

(Note) Revision of Annual Dividends Forecast in this 1st Quarter: No

The dividend for FY 2017 has been undecided. The company's dividend policy of DOE is unchanged. Because of the high impact stemmed from the recent fluctuations in exchange rates give to the consolidated net assets, the dividend is to be disclosed at the time disclosure has become possible to public.

3. Consolidated Financial Forecast for the Fiscal 2017 (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
Six months ended Sep.30.2017	81,400	23.1	600	—	700	—	400	—	11.72
Full Year	160,000	19.5	600	—	700	—	200	—	5.86

(Note) Revision to consolidated financial forecast: No

*Note
(1) Changes in Consolidated Subsidiaries (Changes in Scope of Consolidation): No
In (Company name: ー) Out (Company name: ー)

(2) Adoption of special accounting methods of Quarterly consolidated financial statements: Yes

(3) Changes in accounting policies and estimates
1. Changes in accounting policies from revision of accounting standards: No
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 June 30, 2017	36,130,796
	As of March 31, 2017	36,130,796
2. Number of shares of treasury stock	As of June 30, 2017	2,011,765
	As of March 31, 2017	2,011,765
3. The Average number of outstanding shares	On June 30, 2017	34,119,031
	On June 30, 2016	34,119,109

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

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

1.Qualitative Information

(1) Consolidated Financial Results

In the first quarter of the consolidated fiscal year ended June 30, 2017, the United States, the Company's main market, saw its economy continue recovering gradually, supported by private demand including personal consumption. In Europe, both consumer and business sentiment remained strong, leading to the continuation of a well-balanced economic growth, under which consumption, investment, and export expanded at the same time. Meanwhile in China, the economy continued losing momentum. In Japan, the economy maintained a moderate recovery, buoyed by the recovery of export, mainly in the IT industry, increased public investment, and robust consumer spending.

As a result of the above factors, net sales amounted to ¥32,071 million, up 27.8% compared to the same quarter of the last fiscal year. Despite an increase in net sales, the Group posted an operating loss of ¥2,328 million (an operating loss of ¥2,873 million in the same quarter of the last fiscal year), due to high price of components such as liquid crystal panels and memories, as well as price intense competition in Mexico.
Ordinary loss amounted to ¥2,159 million (an ordinary loss of ¥5,859 million in the same quarter of the last fiscal year). Quarterly net loss attributable to owners of parent amounted to ¥1,517 million (a quarterly net loss attributable to owners of parent of ¥5,712 million in the same quarter of the last fiscal year).

Results by region

i) Japan
Electronic reception devices decreased due to excluding the DX Antenna Co., Ltd. from the scope of consolidation by transfer of this all shares held by the Company. However, LCD TVs and BD-recorder increased due to strong sales. As a result, net sales amounted to ¥10,413 million, up 49.9% year on year, and segment loss (operating loss) amounted to ¥137 million (a segment loss of ¥1,234 million in the same quarter of the last fiscal year).

ii) Americas
DVD players and Ink-jet printers decreased, however LCD TVs and BD-players increased due to good sales. As a result, net sales amounted to ¥21,570 million, up 20.7% year on year, and segment loss amounted to ¥836 million (a segment loss of ¥1,112 million in the same quarter of the last fiscal year).

iii) Asia
Net sales amounted to ¥71 million, down 29.3% year on year due to decrease on LCD TVs. Segment loss (operating loss) amounted to ¥1,366 million (a segment loss of ¥630 million in the same quarter of the last fiscal year).

iv) Europe
Ink-jet printers and ink-cartridge decreased. As a result, net sales amounted ¥16 million, down 90.8% year on year, and segment loss (operating loss) amounted to ¥21 million, (a segment loss of ¥28 million in the same quarter of the last fiscal year).

Results by product Segment

i) Audiovisual Equipment
DVD-Player and DVD-recorder decreased. However, LCD TVs and BD-recorder increased due to good sales. As a result net sales amounted to ¥30,548 million, up 47.4% year on year.

ii) Information Equipment
Ink-jet printers decreased. As a result, net sales of information Equipment amounted to ¥740 million, down 22.6% year on year.

iii) Other Products
Electronic reception devices decreased due to excluding the DX Antenna Co., Ltd. from the scope of consolidation by transfer of this all shares held by the Company. As a result, net sales of other products amounted to ¥783 million, down 77.0% year on year.

(2) Consolidated Financial Position

Total assets increased by ¥14,509 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥6,047 million in merchandise and finished goods, and ¥12,082 million in raw materials and supplies.
- ✓ Decrease of ¥4,822 million in cash and deposits.

Total liabilities increased by ¥16,581 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥15,964 million in notes and accounts payable-trade.

Net assets decreased by ¥2,072 million compared to the end of the last fiscal year. The primary components of the change were decrease of ¥1,859 million in retained earnings and ¥254 million in the foreign currency translation adjustment.

(3) Consolidated Financial Forecast

There is no change in the consolidated financial results forecast for first half consolidated fiscal year and full year forecasts announced in "FY2016 Financial Report" on May 15, 2017.

Note: The above forecasts are based on information currently available to the Group and contain risk and uncertainty. Actual results may differ from these forecasts due to various factors including changes in the economic conditions of overseas markets such as the United States, and significant fluctuations in product prices and foreign exchange.

2. Consolidated Financial Statements and Notes

(1) Consolidated Statement of Financial Position

(Units : Million Yen)

	Fiscal year 2016 (As of March 31, 2017)	1st Quarter FY2017 (As of june 30, 2017)
ASSETS;		
Current Assets		
Cash and deposits	40,136	35,313
Notes and accounts receivable - trade	15,571	14,870
Merchandise and finished goods	15,459	21,507
Work in process	1,149	1,045
Raw materials and supplies	9,644	21,726
Other	4,390	6,578
Allowance for doubtful accounts	(847)	(858)
Total current assets	85,503	100,184
Noncurrent Assets		
Property, plant and equipment	12,963	12,774
Intangible assets	3,342	3,334
Investments and other assets		
Net defined benefit asset	1,543	1,539
Other	5,583	5,599
Allowance for doubtful accounts	(252)	(238)
Total investments and other assets	6,875	6,901
Total noncurrent assets	23,181	23,010
TOTAL ASSETS	108,685	123,195
LIABILITIES;		
Current Liabilities		
Notes and accounts payable - trade	18,603	34,567
Income taxes payable	813	313
Provision	491	710
Other	9,667	10,555
Total current liabilities	29,575	46,147
Noncurrent Liabilities		
Provision	1,047	1,019
Net defined benefit liability	15	6
Other	1,391	1,437
Total noncurrent liabilities	2,453	2,462
TOTAL LIABILITIES	32,028	48,610

	Fiscal year 2016 (As of March 31, 2017)	1st Quarter FY2017 (As of june 30, 2017)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,603	33,603
Retained earnings	47,020	45,161
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	87,590	85,731
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11	24
Foreign currency translation adjustment	(11,206)	(11,460)
Remeasurements of defined benefit plans	111	138
Total accumulated other comprehensive income	(11,082)	(11,297)
Subscription rights to shares	149	150
Total net asset	76,656	74,584
TOTAL LIABILITIES AND NET ASSETS	108,685	123,195

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

(Consolidated Quarterly Statements of Income)

(Units : Million Yen)

	1st Quarter FY2016 (from April 1, 2016 to June 30, 2016)	1st Quarter FY2017 (from April 1, 2017 to June 30, 2017)
Net sales	25,090	32,071
Cost of sales	21,688	29,132
Gross profit	3,401	2,939
Selling, general and administrative expenses	6,274	5,267
Operating income (loss)	(2,873)	(2,328)
Non-operating income		
Interest income	56	53
Dividends income	3	2
Foreign exchange gains	—	314
Other	43	36
Total non-operating income	103	406
Non-operating expenses		
Interest expenses	53	3
Equity in losses of affiliates	1	—
Foreign exchange loss	2,938	—
Compensation expenses	—	225
Other	96	8
Total non-operating expenses	3,090	237
Ordinary income (loss)	(5,859)	(2,159)
Extraordinary income		
Gain on sales of non-current assets	189	2
Gain on sale of investment securities	31	9
Other	13	1
Total extraordinary income	234	12
Extraordinary loss		
Loss on disposal of noncurrent assets	—	4
Impairment loss	—	Notes.1 15
Total extraordinary loss	—	19
Income (loss) before income taxes	(5,624)	(2,166)
Income taxes	85	(648)
Income (loss) before minority interests	(5,710)	(1,517)
Minority interests in income (loss)	2	—
Net income (loss) attributable to owners of parent	(5,712)	(1,517)

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	1st Quarter FY2016 (from April 1, 2016 to June 30, 2016)	1st Quarter FY2017 (from April 1, 2017 to June 30, 2017)
Income (loss) before minority interest adjustment	(5,710)	(1,517)
Other comprehensive Income		
Valuation difference on avaiable-for-sale securities	(23)	12
Foreign currency translation adjustment	(2,226)	(254)
Share of other comprehensive income of entities accounted for using equity method	(11)	—
Remeasurements of defined benefit plans, net of tax	(55)	26
Total other comprehensive Income	(2,316)	(214)
Comprehensive income	(8,027)	(1,732)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(8,020)	(1,732)
Comprehensive income attributable to minority interests	(6)	—

(3) Consolidated Quarterly Statements of Income

(Notes for Continuing Enterprises)
Not Applicable

(Notes of remarkable changes in Shareholders Equity)
Not Applicable

(Adoption of special accounting methods of Quarterly consolidated financial statements)
[Calculate tax expense]
Tax expenses are calculated by multiplying income before income taxes by a reasonably estimated effective tax rate for income before income taxes after application of deferred tax accounting.

(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.

(Consolidated quarterly statements of income)
*Notes.1 Impairment loss
The Group recorded losses on impairment in the following asset groups for first quarter of this fiscal year.
In principle, the Group group's 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	P&F MEXICANA, S.A. DE C.V.	Software

The Group reduced the carrying amount to the recoverable value of business assets whose profitability has markedly decreased, and recorded such reduction (15 million yen) as impairment loss for the First Quarter of this fiscal year.
The recoverable amount of the asset is measured based on the net selling price and the net selling price is calculated as zero.

(Segment Information)

I. First Quarter of the last fiscal year (April 1, 2016 to June 30, 2016)
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	6,947	17,864	101	176	25,090	—	25,090
(2) Inter-segment sales	13,784	304	14,548	-	28,637	(28,637)	—
Total	20,732	18,168	14,649	176	53,727	(28,637)	25,090
Segment Income (Loss)	(1,234)	(1,112)	(630)	(28)	(3,005)	132	(2,873)

Note:
1. ¥132 million adjustment amount under segment income includes items such as ¥ 24 million relating to the cancellation of inter-segment transactions, ¥ -219 million of overall Group expenses that are not apportioned to each reporting segment, and ¥ 327 million adjustment relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

II. First Quarter of this fiscal year (April 1, 2017 to June 30, 2017)
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	10,413	21,570	71	16	32,071	—	32,071
(2) Inter-segment sales	23,312	368	28,597	—	52,278	(52,278)	—
Total	33,725	21,939	28,669	16	84,350	(52,278)	32,071
Segment Income (Loss)	(137)	(836)	(1,366)	(21)	(2,362)	33	(2,328)

Note:

1. ¥33 million adjustment amount under segment income includes items such as the ¥2 million relating to the cancellation of inter-segment transactions, ¥-212 million of overall Group expenses that are not apportioned to each reporting segment, and the ¥243 million adjustments relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

3. Others

(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 in the previous consolidated fiscal year and the first quarter of this fiscal year, events or circumstances that cast significant doubt on the going concern assumption exist now.

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 fundraising.

Since the Group is formulated "FY2017-FY2019 New policy and strategy" in the previous consolidated fiscal year and already implementing the following countermeasures in stages based on this policy, the Group believes that a resolution of the matter can be achieved.

① 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.

② 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.

③ 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.

④ 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.