

(Translation)

**Dear Shareholders:**

**Information to be Disclosed on the Internet upon Giving  
Notice of the 66th Ordinary General Meeting of Shareholders**

June 6, 2018

**Funai Electric Co., Ltd.**

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The above-listed matters are deemed to have been provided to the shareholders when posted on our Internet website (<http://www2.funai.co.jp/en/investors/>) in accordance as provided for in laws and ordinances and Article 14 of the Articles of Incorporation of the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Basis of Presenting the Consolidated Financial Statements**

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 20

(2) Names of major consolidated subsidiaries:

FUNAI CORPORATION, INC., Funai Electric (HK) Ltd. and FUNAI (THAILAND) CO., LTD.

(3) Name of major nonconsolidated subsidiary:

FGS Co., Ltd.

(Reason for exclusion from consolidation)

All nonconsolidated subsidiaries are excluded from the scope of consolidation because they are small companies and their aggregated total assets, net sales, net income (loss) (based on the Company's equity interest) and retained earnings (based on the Company's equity interest) do not have material impacts on the consolidated financial statements.

2. Application of equity method

(1) Number of nonconsolidated subsidiaries to which the equity method is applied: 0

(2) Name of the major nonconsolidated subsidiary and associated company to which the equity method is not applied:

Nonconsolidated subsidiary: FGS Co., Ltd.

Associated company : Digitec Industrial Ltd.

(Reason for not applying the equity method)

The nonconsolidated subsidiaries and associated companies have minor impacts on each of net income (loss) (based on the Company's equity interest) and retained earnings (based on the Company's equity interest) and, as a whole, do not have material impacts on the consolidated financial statements.

(3) Fiscal year ends of consolidated subsidiaries

The consolidated subsidiaries whose fiscal year ends differ from the consolidated fiscal year end are as follows:

Name	Fiscal year end
P&F MEXICANA, S.A. DE C.V.	December 31
Zhong Yue FUNAI Electron Co.	December 31

Zhong Shan Funai Electron Co.	December 31
Funai Trading Corp.	December 31
Funai Manufacturing,S.A.DE C.V.	December 31

For P&F MEXICANA, S.A. DE C.V., Funai Trading Corp. and Funai Manufacturing, S.A. DE C.V. listed above, their financial statements as of their respective fiscal year ends are used to prepare the consolidated financial statements with necessary adjustments provided for consolidation purposes with regard to material transactions between their respective fiscal year ends and the consolidated fiscal year end.

For Zhong Yue FUNAI Electron Co. and Zhong Shan Funai Electron Co., their provisional financial statements as of the consolidated balance sheet date are used to prepare the consolidated financial statements.

### 3. Summary of significant accounting policies

#### (1) Valuation basis and methods of significant assets

##### (i) Securities:

Available-for-sale securities:

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

Stated at fair market value on the balance sheet date of the fiscal year (Unrealized gain or loss is included directly in equity after adjusting for tax effect. Costs of securities sold are determined by the moving average method.)

Available-for-sale securities for which the fair values are not readily determinable:

Stated at cost determined by the moving average method

##### (ii) Inventories:

As to the Company and its domestic consolidated subsidiaries, merchandise and finished goods and work in process are stated principally at the lower of cost, determined using the average method, or net selling value. Raw materials are stated principally at the lower of cost, determined using the first-in, first-out method, or net selling value.

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

(2) Depreciation method for major fixed assets

(i) Property, plant, and equipment (excluding lease assets):

Depreciation of the Company and its domestic consolidated subsidiaries is computed using the declining-balance method, while the straight-line method is applied to buildings (excluding building accessories) acquired on and after April 1, 1998 and buildings and accompanying facilities acquired on and after April 1, 2016. Depreciation of the overseas consolidated subsidiaries is computed using the straight-line method.

The useful lives of main property, plant and equipment are as follows:

Buildings and structures:	3–50 years
Machinery, equipment, and motor vehicles:	3–10 years
Tools, furniture, and fixtures:	1–20 years

(ii) Intangible assets (excluding lease assets):

Amortization of intangible assets of the Company and its consolidated subsidiaries is computed using the straight-line method. Patents are amortized over the estimated useful lives (8–10 years) and software for internal use is amortized over the estimated useful lives (five years).

(iii) Lease assets:

Lease assets are depreciated using the straight-line method over the respective lease periods with the residual value as zero.

(3) Basis for provision of significant reserves

(i) Allowance for doubtful accounts:

Allowance for doubtful accounts is stated to cover probable losses from bad debts of receivables at the estimated uncollectable amount. The amount for general reserve is estimated using the credit loss rate based on past experience, and that for specific reserve is estimated based on the individually expected uncollectability.

(ii) Reserve for product warranty:

Reserve for product warranty is stated to cover the payment of after-sales service costs of sold products at the projected amount based on past experience.

(iii) Liabilities for Directors' and Audit & Supervisory Board Members' retirement benefits:

Liabilities for Directors' and Audit & Supervisory Board Members' retirement benefits are stated to cover the payment of retirement benefits to directors at the required amount at balance sheet date based on internal regulations.

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

(i) Accounting method of retirement benefits:

Liabilities for retirement benefits and assets for retirement benefits are stated to cover the payment of employees' retirement benefits at the amount of deducting the fair value of plan assets from projected benefit obligations at the consolidated balance sheet date.

Certain consolidated subsidiaries apply the simplified method.

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

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

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

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

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

(ii) Accounting for consumption taxes:

Consumption taxes are excluded from the revenues and expense accounts.

## Notes to Consolidated Balance Sheet

### Accumulated depreciation of assets

Accumulated depreciation of property, plant and equipment: ¥30,903 million

## Notes to Consolidated Statement of Operations

### Impairment losses

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

Use	Location	Type	Impairment loss (million yen)
Business Assets	Funai Electric Co., Ltd.	Tools, furniture and fixtures	148
		Lease assets (fixed)	4
		Patent right	2,451
		Software	75
		Long-term prepaid expenses	4,883
Business Assets	FUNAI ELECTRIC (H.K.), LTD.	Buildings and structures	42
		Machinery, equipment and vehicles	37
		Tools, furniture and fixtures	613
Business Assets	FUNAI (THAILAND) CO., LTD.	Buildings and structures	596
		Machinery, equipment and vehicles	181
		Tools, furniture and fixtures	413
		Land	56
		Software	1
Business Assets	Funai Electric Philippines Inc.	Buildings and structures	474
		Machinery, equipment and vehicles	331
		Tools, furniture and fixtures	218
		Software	34
Business Assets	Funai Electric Cebu, Inc.	Buildings and structures	539
		Machinery, equipment and vehicles	594
		Tools, furniture and fixtures	67
		Software	33



Use	Location	Type	Impairment loss (million yen)
Business Assets	FEP REAL ESTATE, INC.	Land	42
Business Assets	FUNAI CORPORATION, INC.	Buildings and structures	8
		Machinery, equipment and vehicles	2
		Tools, furniture and fixtures	3
		Lease assets (tangible)	293
Business Assets	Funai Trading Corp.	Buildings and structures	5
		Machinery, equipment and vehicles	27
		Tools, furniture and fixtures	33
		Software	55
Business Assets	Funai Lexington Technology Corporation	Buildings and structures	59
		Machinery, equipment and vehicles	136
		Tools, furniture and fixtures	66
		Software	3
Business Assets	Funai Manufacturing, S.A. DE C.V.	Buildings and structures	13
		Machinery, equipment and vehicles	5
		Tools, furniture and fixtures	4
		Software	8
Business Assets	P&F MEXICANA, S.A. DE C.V.	Machinery, equipment and vehicles	3
		Tools, furniture and fixtures	1
		Software	13
Total			12,586

In principle, on the impairment reviews, the Group categorizes business assets on the basis of a legal entity whose cash inflows and outflows are continuously recorded. Idle assets are separated individually.

The Group reduced the carrying amount to the recoverable value of business assets whose profitability has markedly decreased, and recorded such reduction (12,586 million yen) as impairment loss for this fiscal year.

The recoverable value of the asset is measured based on the net selling price for buildings and structures and land, and the net selling price based on the valuation calculated rationally by a real estate appraiser etc. is used, assets other than those mentioned above are measured based on the net selling price and the net selling price is calculated as zero.

### Notes to Consolidated Statement of Changes in Equity

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

(thousands of share)

	Number of shares as of April 1, 2015	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2016
Shares issued				
Shares of common stock	36,130	-	-	36,130
Total	36,130	-	-	36,130
Shares of treasury stock				
Shares of common stock	2,011	0	-	2,011
Total	2,011	0	-	2,011

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

## 2. Dividends

### (1) Amount of dividends paid:

Resolution	Type of shares	Total amount of dividends (million yen)	Amount of dividend per share (yen)	Record date	Effective date
Meeting of the Board of Directors held on May 25, 2017	Shares of common stock	341	10	March 31, 2017	June 8, 2017

### (2) Dividends whose record date is in the fiscal year ended March 31, 2016, but whose effective date will be in the fiscal year ending March 31, 2017, are as follows:

Not applicable.

## 3. Stock acquisition rights

Description of stock acquisition rights	Type of shares to be issued or transferred upon exercise of stock acquisition rights	Number of shares for stock acquisition rights (shares)
		As of March 31, 2018
The first stock acquisition rights issued in the year ended March 31, 2015	Shares of common stock	15,600
Total		15,600

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

## Notes to Financial Instruments

### 1. Status of financial instruments

The Group obtains financing from banks and invests funds in short-term deposits, etc. The Group uses derivatives to reduce risks which are described below, and has a policy not to conduct speculative trading.

With regard to customers' credit risks relating to notes and accounts receivable - trade, the Group has stipulated sales management rules and manages the trading terms and credit lines by each customer.

Investment securities are exposed to market risks. With regard to the risks, the market values and the financial positions of the issuers are reviewed periodically and reported to the internal Investment and Loan Committee.

Notes and accounts payable - trade and accounts payable - other mostly become due and payable within one year.

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. Such derivative transactions shall be executed and managed in accordance with the internal rules. To mitigate credit risk, the Group enters into transactions solely with financial institutions with high ratings.

## 2. Fair values, etc. of financial instruments

Amounts recorded in the consolidated balance sheet, fair values, and the differences between them as of March 31, 2018, are as follows:

(millions of yen)

	Amount recorded in the consolidated balance sheet*	Fair value*	Difference
(1) Cash and deposits	32,390	32,390	-
(2) Notes and accounts receivable-trade	9,953	9,953	-
(3) Investment securities:			
Available-for-sale securities	49	49	-
(4) Notes and accounts payable-trade	(11,808)	(11,808)	-
(5) Accounts payable-other	(10,372)	(10,372)	-
(6) Derivatives	-	-	-

\* The items recognized as liabilities are shown in the parentheses.

(Notes) 1. Calculation method of the fair values of financial instruments, securities and derivatives:

(1) Cash and deposits and (2) Notes and accounts receivable-trade:

The book value is used for these items, as the fair value approximates the book value as a result of their short settlement periods.

(3) Investment securities – Available-for-sale securities:

The fair value of stocks is determined by the prices of the stocks traded on an exchange.

(4) Notes and accounts payable-trade and (5) Accounts payable-other:

The book value is used for these items, as the fair value approximates the book value as a result of their short settlement periods.

(6) Derivatives:

Not applicable.

2. Unlisted shares (¥1,236 million on the consolidated balance sheet) have no market price and it is impossible to estimate their future cash flows. As it is extremely difficult to determine their fair values, they are not included in "(3) Investment securities – Available-for-sale securities".

## Notes to Per Share Information

Equity per share:	¥1,485.96
Net loss per share:	¥724.21

## Other Notes

### Additional Information

(Tax system for dealing with tax havens)

On June 29, 2011, the Company received notices from the Osaka Regional Taxation Bureau suggesting that a subsidiary in Hong Kong did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens and indicating its decision to incorporate the income generated by the subsidiary into the income of the Company for the duration of three years from April 1, 2007, to March 31, 2010, for taxation purposes. Because the Company objected to this corrective action, the Company applied for assessments by the Osaka National Tax Tribunal on August 25, 2011. On July 18, 2012, the Company received written verdicts on this case indicating that our assertions had been dismissed. The Company, unable to accept the verdicts, filed an appeal to have the action canceled with the Tokyo District Court on January 17, 2013, but on September 28, 2016 a ruling to dismiss our request was made. The Company, unable to accept the decision, appealed to the Tokyo High Court on October 12, 2016, but the Company received a ruling to dismiss our request on October 26, 2017. In response to this decision, the Company did not file a final appeal and a petition for accepting the final appeal, so the appeal trial judgment was finalized on November 10, 2017.

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.

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 (Note) All figures in the consolidated balance sheet, the consolidated statements of operations and changes in equity and the notes to the consolidated financial statements are shown by disregarding any fractions of the relevant units. Equity per share and net loss per share are shown by rounding off to two decimal places.

## NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS

### **Summary of Significant Accounting Policies:**

1. Valuation basis and methods of assets

(1) Securities:

Investment in subsidiaries and associated companies:

Stated at cost determined by the moving-average method.

Available-for-sale securities:

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

Stated at fair market value on the balance sheet date of the fiscal year (Unrealized gain or loss is included directly in equity after adjusting for tax effect. Costs of securities sold are determined by the moving-average method.)

Available-for-sale securities for which the fair values are not readily determinable:

Stated at cost determined by the moving average method.

(2) Inventories:

Finished goods:            Stated at the lower of cost, determined using the average method, or net selling value.

Raw materials:            Stated at the lower of cost, determined using the first-in, first-out method, or net selling value.

2. Depreciation method for fixed assets:

(1) Property, plant and equipment (excluding lease assets):

Depreciation is computed by the declining-balance method, while the straight-line method is applied to buildings (excluding building accessories) acquired on or after April 1, 1998 and buildings and accompanying facilities acquired on and after April 1, 2016.

(2) Intangible assets (excluding lease assets):

Amortization of intangible assets is computed using the straight-line method.

Patents are amortized over the estimated useful lives (8-10 years); and software for internal use is amortized over the estimated useful lives (five years).

(3) Lease assets:

Lease assets are depreciated using the straight-line method over the respective lease periods with the residual value as zero.

3. Basis for provision of reserves:

(1) Allowance for doubtful accounts:

Allowance for doubtful accounts is stated to cover probable losses from bad debts of receivables as the estimated uncollectable amount. The amount for general reserve using the credit loss rate based on past experience, and that for specific reserve is estimated based on the individually expected uncollectability.

(2) Reserve for product warranty:

Reserve for product warranty is stated to cover the payment of after-sales service costs of sold products at the projected amount based on past experience.

(3) Liabilities for retirement benefits:

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

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

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

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

(4) Liabilities for directors' retirement benefits:

Liabilities for directors' retirement benefits are stated to cover the payment of retirement benefits to directors at the required amount at the balance sheet date based on internal regulations.



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

(1) Accounting method of retirement benefits:

Accounting methods for unrecognized actuarial gains or losses and unrecognized past service cost related to retirement benefits differ from those for the consolidated financial statements.

(2) Accounting for consumption taxes:

Consumption taxes are excluded from the revenues and expense accounts.

**Notes to Nonconsolidated Balance Sheet:**

1. Accumulated depreciation of assets:

Accumulated depreciation of property, plant and equipment: ¥9,051 million

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

Short-term monetary receivables: ¥13,867 million

Long-term monetary receivables: ¥21,189 million

Short-term monetary payables: ¥9,531 million

Long-term monetary payables: ¥658 million

**Notes to Nonconsolidated Statement of Income:**

1. Amount of transactions with subsidiaries and associated companies

Operating transaction:

Sales amount: ¥83,392 million

Purchases amount: ¥95,902 million

Other operating expenses: ¥2,320 million

Non-operating transactions: ¥579 million

## 2. Impairment losses

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

Use	Location	Type	Impairment loss (million yen)
Business Assets	Funai Electric Co., Ltd.	Tools, furniture and fixtures	148
		Lease assets (fixed)	4
		Patent right	2,451
		Software	75
		Long-term prepaid expenses	4,883

In principle, the Group categorizes business assets on the basis of the legal entity whose cash flows and outflows are continuously recorded. Idle assets are separated individually.

The Group reduced the carrying amount to the recoverable value of business assets whose profitability has markedly decreased, and recorded such reduction (7,564 million yen) as impairment loss in the current fiscal year.

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

### Notes to Nonconsolidated Statement of Changes in Equity

Number of shares of treasury stock:

Type of shares	Number of shares as of April 1, 2015	Increase in the number of shares during the year	Decrease in the number of shares during the year	(thousands of share)
				Number of shares as of March 31, 2016
Common stock	2,011	0	-	2,011

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

## Notes on Deferred Tax Accounting

Significant components of deferred tax assets and deferred tax liabilities

	(millions of yen)
Deferred tax assets	
Liabilities for directors' retirement benefits	314
Accounts payable-other	1,124
Allowance for doubtful accounts	5,317
Accrued expenses (bonuses)	135
Loss on revaluation of investment securities	20
Loss on revaluation of investment in subsidiaries and associated companies	4,722
Impairment loss on fixed assets	2,109
Tax loss carryforwards	16,061
Other	1,025
Subtotal	<u>30,830</u>
Valuation allowance	<u>(30,830)</u>
Total	-
Deferred tax liabilities	
Prepaid pension cost	(401)
Reserve for advanced depreciation of fixed assets	<u>(53)</u>
Subtotal	<u>(454)</u>
Deferred tax liabilities, net	<u>(454)</u>

## Notes on Transactions with Related Parties

Subsidiaries, etc.

(millions of yen)

Type	Name	Voting rights held by the Company (or held by others)	Relationship	Transaction	Amount	Account	Balance as of March 31, 2016
Subsidiary	Funai Electric (HK) Ltd.	Direct, 100.00%	Production of products of the Company	Purchase of electronic products	44,188	Accounts payable - trade	1,297
				Loan of funds	5,598	Long-term loans receivable	7,755
				Repayment of loan	4,973		
				Interest income	199		
				Provision of allowance for doubtful accounts	780	Allowance for doubtful accounts	780
Subsidiary	FUNAI (THAILAND) CO., LTD.	Direct, 80.87% Indirect, 19.13%	Production of products of the Company	Purchase of electronic products	30,584	Accounts payable - trade	1,647
Subsidiary	Funai Electric Philippines Inc.	Direct, 100.00%	Production of products of the Company	Purchase of electronic products	6,132	Accounts payable - trade	789
Subsidiary	FEP REAL ESTATE, INC.	Direct, 40.00%	Aid for funds	Loan of funds	-	Long-term loans receivable	916
Subsidiary	FUNAI CORPORATION, INC.	Indirect, 100.00%	Sale of products of the Company	Sale of electronic products	75,205	Accounts receivable - trade	6,321
				Transfer pricing taxation adjustments	3,116	Accrued expenses	2,991
Subsidiary	P&F USA, INC.	Indirect, 100.00%	Sale of products of the Company	Sale of electronic products	5,855	Accounts receivable - trade	1,824
Subsidiary	Funai Trading Corp.	Direct, 100.00%	Sale of products of the Company	Loan of funds	768	Long-term loans receivable	424
Subsidiary	P&F MEXICANA, S.A. DE C.V.	Direct, 100.00% Indirect, 0.00%	Sale of products of the Company	Sale of electronic products	2,037	Accounts receivable - trade	5,064
				Loan of funds	-	Long-term loans receivable	1,170
				Provision of allowance for doubtful accounts	1,293	Allowance for doubtful accounts	6,046
Subsidiary	FUNAI EUROPE GmbH	Direct, 100.00%	Sale of products of the Company	Loan of funds	-	Long-term loans receivable	10,329
				Interest income	261		
				Reversal of allowance for doubtful accounts	47	Allowance for doubtful accounts	10,329

(Note) Transaction terms and policies on the determination of transaction terms, etc.:  
As with the terms of ordinary transactions, transaction terms are determined in consideration

of market prices and other factors.

### Note to Per Share Information

Equity per share:	¥1,504.87
Net loss per share:	¥569.64

### Other Notes

#### Additional Information

(Tax system for dealing with tax havens)

On June 29, 2011, the Company received notices from the Osaka Regional Taxation Bureau suggesting that a subsidiary in Hong Kong did not satisfy the conditions for exclusion from application of the tax system for dealing with tax havens and indicating its decision to incorporate the income generated by the subsidiary into the income of the Company for the duration of three years from April 1, 2007, to March 31, 2010, for taxation purposes. Because the Company objected to this corrective action, the Company applied for assessments by the Osaka National Tax Tribunal on August 25, 2011. On July 18, 2012, the Company received written verdicts on this case indicating that our assertions had been dismissed. The Company, unable to accept the verdicts, filed an appeal to have the action canceled with the Tokyo District Court on January 17, 2013, but on September 28, 2016 a ruling to dismiss our request was made. The Company, unable to accept the decision, appealed to the Tokyo High Court on October 12, 2016, but the Company received a ruling to dismiss our request on October 26, 2017. In response to this decision, the Company did not file a final appeal and a petition for accepting the final appeal, so the appeal trial judgment was finalized on November 10, 2017.

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(Note) All figures in the nonconsolidated balance sheet, the nonconsolidated statement of income, the nonconsolidated statement of changes in equity and the notes to the nonconsolidated financial statements are shown by disregarding any fractions of the relevant units. Equity per share and net loss per share are shown by rounding off to two decimal places.