Consolidated Financial Results for the First Quarter Ended June 30, 2018

August 6, 2018

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	
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Scheduled date of Quarterly Report August 9, 2018
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, 2018 (April 1, 2018 – June 30, 2018)

(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 FY2018	21,663	(32.5)	(1,233)	—	(915)	—	(19)	—
1st Quarter FY2017	32,071	27.8	(2,328)	—	(2,159)	—	(1,517)	—

(Reference) Comprehensive Income 1st Quarter FY 2018 ended June 30, 2018 494 million yen (—%)
1st Quarter FY 2017 ended June 30, 2017 (1,732) million yen(—%)

	Net Income(loss) Per Share	Net Income(loss) Per Share on a Fully Diluted Basis
	Yen	Yen
1st Quarter FY2018	(0.56)	—
1st Quarter FY2017	(44.49)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity	Equity Ratio
	Million yen	Million yen	Million yen	%
As of June 30,2018	79,638	51,215	51,193	64.3
As of March 31,2018	80,265	50,717	50,699	63.2

2. Dividends

	Dividend per Share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Annual
	yen	yen	yen	yen	yen
Fiscal Year 2017	—	0.00	—	0.00	0.00
Fiscal Year 2018	—				
Fiscal Year 2018 (Forecast)		—	—	—	—

(Note) Revision of Annual Dividends Forecast in this 1st Quarter: No
The dividend for FY 2018 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 2018 (April 1, 2018 - March 31, 2019)

(% 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 endedSep.30.2018	45,000	(37.6)	(2,400)	—	(2,500)	—	(2,300)	—	(67.41)
Full Year	103,000	(20.8)	400	—	(600)	—	(700)	—	(20.52)

(Note) Revision to consolidated financial forecast: No

*Note

(1) Changes in Consolidated Subsidiaries (Changes in Scope of Consolidation): Yes
In (Company name: ー) Out (Company name: FUNAI CORPORATION,INC.)

(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: 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 June 30, 2018	36,130,796
	As of March 31, 2018	36,130,796
2. Number of shares of treasury stock	As of June 30, 2018	2,011,829
	As of March 31, 2018	2,011,829
3. The Average number of outstanding shares	On June 30, 2018	34,118,967
	On June 30, 2017	34,119,031

* 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.

1.Qualitative Information

(1) Consolidated Financial Results

In the first quarter of the consolidated fiscal year ended June 30, 2018, the United States, the Company's main market, although concerns about the impact on the US economy due to tariff strengthening measures of the Trump regime are concerned, due to the fact that corporate capital investment and production are increasing and the employment environment is improving, large tax cuts and The economy has been steady due to the push-up effect of expenditure expansion. In Europe, the economic expansion is continuing due to improvements in wage growth rates and other factors. In China, although there is a concern about the impact of trade friction, there is a slowing pace of the economic expansion, but the economy is steadily growing. In Japan, the current account surplus in the external balance is maintained in surplus and employee income continues to recover, maintaining a moderate recovery trend.

As a result of the above factors, net sales amounted to ¥21,663 million, down 32.5% compared to the same quarter of the last fiscal year. Although sales declined, operating loss improved to ¥1,233 million (an operating loss of ¥2,328 million in the same quarter of the last fiscal year), for the following reasons. First, the reduction in manufacturing cost and selling, general and administrative expenses due to the impairment of fixed assets carried out in the previous consolidated fiscal year has come out on a certain scale. Second, as compared with the previous consolidated fiscal year, the price of parts such as the liquid crystal panel of the liquid crystal TV, which is the main product, has declined. Third, we reviewed the sale of unprofitable products, especially in the Mexican market and office solutions business. And etc. Ordinary loss amounted to ¥915 million (an ordinary loss of ¥2,159 million in the same quarter of the last fiscal year). Quarterly net loss attributable to owners of parent amounted to ¥19 million (a quarterly net loss attributable to owners of parent of ¥1,517 million in the same quarter of the last fiscal year).

Results by region

i) Japan

With respect to the FUNAI brand which started exclusive sales at Yamada Denki from June 2 in the previous consolidated fiscal year, since the introduction time of new products into July 14 was set for the current consolidated fiscal year, the sales declined for the first quarter. As a result, net sales amounted to ¥7,478 million, down 28.2% year on year, and segment loss (operating loss) amounted to ¥473 million (a segment loss of ¥137 million in the same quarter of the last fiscal year).

ii) Americas

As of the end of the previous consolidated fiscal year, overall North American markets were in excess inventory, and major mass merchandisers focused on their inventory sales, and sales of LCD TVs declined due to sluggish growth in our new sales. As a result, net sales amounted to ¥13,254 million, down 38.6% year on year, and segment loss amounted to ¥257 million (a segment loss of ¥836 million in the same quarter of the last fiscal year).

iii) Asia

Sales of LCD TVs were terminated by reviewing sales of unprofitable products, but sales of parts related sales increased. As a result, net sales amounted ¥922 million, net sales of ¥71 million in the same quarter of the last fiscal year, segment loss (operating loss) amounted to ¥129 million (a segment loss of ¥1,366 million in the same quarter of the last fiscal year).

iv) Europe

Ink-cartridge decreased. As a result, net sales amounted ¥7 million, down 51.0% year on year, and segment loss (operating loss) amounted to ¥5 million, (a segment loss of ¥21 million in the same quarter of the last fiscal year).

Results by product Segment

i) Audiovisual Equipment

Particularly due to the influence of the distribution inventory adjustment phase of the North American market, sales declined due to decreased sales of DVD and BD related products and LCD TVs. As a result net sales amounted to ¥18,856 million, down 38.3% year on year.

ii) Information Equipment

Sales of inkjet printers of unprofitable products were narrowed down, but sales increased due to sales of coupon printers and increased sales of commercial ink cartridges. As a result, net sales of information Equipment amounted to ¥1,017 million, up 37.4% year on year.

iii) Other Products

Healthcare-related sales increased. As a result, net sales of other products amounted to ¥1,789 million, up 128.4% year on year.

(2) Consolidated Financial Position

Total assets decreased by ¥30 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥556 million in notes and accounts receivable - trade, and ¥398 million in property, plant and equipment.
- ✓ Decrease of ¥1,441 million in merchandise and finished goods.

Total liabilities decreased by ¥529 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥2,634 million in notes and accounts payable-trade.
- ✓ Decrease of ¥2,575 million in accounts payable included in other.

Net assets increased by ¥498 million compared to the end of the last fiscal year. The primary components of the change were decrease of ¥19 million in retained earnings and increase of ¥521 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 "FY2018 Financial Report" on May 14, 2018.

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 2017 (As of March 31, 2018)	1st Quarter FY2018 (As of June 30, 2018)
ASSETS;		
Current Assets		
Cash and deposits	32,390	32,105
Notes and accounts receivable - trade	9,953	10,510
Merchandise and finished goods	13,251	11,809
Work in process	516	732
Raw materials and supplies	9,841	9,653
Other	2,379	2,629
Allowance for doubtful accounts	(1,021)	(977)
Total current assets	67,310	66,463
Noncurrent Assets		
Property, plant and equipment	8,193	8,592
Intangible assets	93	82
Investments and other assets		
Net defined benefit asset	1,840	1,836
Other	3,065	3,547
Allowance for doubtful accounts	(239)	(287)
Total investments and other assets	4,667	5,096
Total noncurrent assets	12,954	13,771
TOTAL ASSETS	80,265	80,234
LIABILITIES;		
Current Liabilities		
Notes and accounts payable - trade	11,808	14,442
Accounts payable included in other	10,372	7,796
Income taxes payable	664	220
Provision	990	817
Other	3,007	4,103
Total current liabilities	26,842	27,380
Noncurrent Liabilities		
Provision	1,025	22
Net defined benefit liability	3	7
Other	1,676	1,609
Total noncurrent liabilities	2,705	1,639
TOTAL LIABILITIES	29,548	29,019

	Fiscal year 2017 (As of March 31, 2018)	1st Quarter FY2018 (As of June 30, 2018)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,603	33,603
Retained earnings	21,970	21,951
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	62,539	62,520
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13	4
Foreign currency translation adjustment	(12,305)	(11,783)
Remeasurements of defined benefit plans	451	451
Total accumulated other comprehensive income	(11,840)	(11,327)
Subscription rights to shares	17	21
Total net asset	50,717	51,215
TOTAL LIABILITIES AND NET ASSETS	80,265	80,234

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

(Consolidated Quarterly Statements of Income)

(Units : Million Yen)

	1st Quarter FY2017 (from April 1, 2017 to June 30, 2017)	1st Quarter FY2018 (from April 1, 2018 to June 30, 2018)
Net sales	32,071	21,663
Cost of sales	29,132	20,113
Gross profit	2,939	1,550
Selling, general and administrative expenses	5,267	2,783
Operating income (loss)	(2,328)	(1,233)
Non-operating income		
Interest income	53	106
Dividends income	2	4
Foreign exchange gains	314	169
Other	36	63
Total non-operating income	406	343
Non-operating expenses		
Interest expenses	3	5
Compensation expenses	225	12
Other	8	6
Total non-operating expenses	237	25
Ordinary income (loss)	(2,159)	(915)
Extraordinary income		
Gain on sales of non-current assets	2	5
Gain on sales of investment securities	9	-
Other	1	0
Total extraordinary income	12	6
Extraordinary loss		
Loss on disposal of noncurrent assets	4	0
Impairment loss	Notes.1 15	-
Total extraordinary loss	19	0
Income (loss) before income taxes	(2,166)	(910)
Income taxes	(648)	(890)
Income (loss) before minority interests	(1,517)	(19)
Net income (loss) attributable to owners of parent	(1,517)	(19)

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	1st Quarter FY2017 (from April 1, 2017 to June 30, 2017)	1st Quarter FY2018 (from April 1, 2018 to June 30, 2018)
Income (loss) before minority interest adjustment	(1,517)	(19)
Other comprehensive Income		
Valuation difference on avaiable-for-sale securities	12	(8)
Foreign currency translation adjustment	(254)	521
Remeasurements of defined benefit plans, net of tax	26	0
Total other comprehensive Income	(214)	513
Comprehensive income	(1,732)	494
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(1,732)	494

(3) Consolidated Quarterly Statements of Income

(Notes for Continuing Enterprises)
Not Applicable

(Notes of remarkable changes in Shareholders Equity)
Not Applicable

(Changes in scope of consolidation or scope of application of equity method)
(Significant changes in scope of consolidation)
Since the first quarter consolidated accounting period, FUNAI CORPORATION, INC., which was a consolidated subsidiary, was excluded from the scope of consolidation due to the disappearance of the consolidated subsidiary P&F USA, Inc. as a surviving company.
The trade name of P&F USA, Inc. has been changed to FUNAI CORPORATION, INC.

(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.

(Changes in accounting policies)
Overseas consolidated subsidiaries except Americas apply IFRS No. 15 (Revenue from Contracts with Customers) since the first quarter consolidated accounting period.
The impact of application of the accounting standards on consolidated financial statements is slight.

(Additional Information)
[Application of Partial Amendments etc. to "Accounting standard for tax effect accounting"]
The company apply to Partial Amendments etc. to "Accounting standard for tax effect accounting" (Corporate Accounting Standards No. 28, 16 February 2018) since beginning of the year of the first quarter consolidated accounting period. Therefore, Deferred Tax Assets is presented division of Investments and other assets and Deferred Tax Liabilities is presented division of Noncurrent liabilities.

(Consolidated quarterly statements of income)
*Notes.1 Impairment loss
The Group recorded losses on impairment in the following asset groups for first quarter of last 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, 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 ¥ 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 ¥ -243 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, 2018 to June 30, 2018)

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	7,478	13,254	922	7	21,663	—	21,663
(2) Inter-segment sales	9,705	502	11,520	—	21,728	(21,728)	—
Total	17,184	13,757	12,443	7	43,392	(21,728)	21,663
Segment Income (Loss)	(473)	(257)	(129)	(5)	(865)	(367)	(1,233)

Note:

1. ¥ -367 million adjustment amount under segment income includes items such as the ¥ -9 million relating to the cancellation of inter-segment transactions, ¥ -204 million of overall Group expenses that are not apportioned to each reporting segment, and the ¥ -153 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 for some time, there is no significant concern about fundraising.

Since the Group conducts the following countermeasures step by step based on the medium-term management policy formulated in the previous consolidated fiscal year, the Group believes that a resolution of the matter can be achieved.

① Display Business (LCD-TV business)

・Increase sales at existing customers in the North American market and develop new customers.

・Concentration of management resources in developing FUNAI brand products and OEM products in the Japanese market.

② Digital Media Business (DVD, BD business)

・Development of product-focused niche strategy in the North American market.

・Enhancement of FUNAI brand products and development of new OEMs in the Japanese market.

③ Office Solution Business (information equipment-related business)

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

・Development of derivative business utilizing of 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 the end of the first quarter consolidated accounting period and has omitted the Notes on Going Concern Assumption from the consolidated financial statements.