Member, Financial Accounting Standards Foundation

Consolidated Financial Results for the Second Quarter Ended September 30, 2018

November 12, 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	
Representative	President and CEO	Hideaki Funakoshi	
Inquiries	Director and Officer	Makoto Ueshima	TEL: (072) 870-4395
Scheduled date of Quarterly Report		November 13, 2018	
Scheduled date of Commencement of Annual Dividend Payment		—	
Quarterly Financial Results Supplementation		Yes	
Quarterly Financial Results Seminar		Yes	

1. Consolidated Financial Results for the Second Quarter Ended September 30, 2018 (April 1, 2018 – September 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	%
2nd Quarter FY2018	46,731	(35.2)	(1,645)	—	(181)	—	650	—
2nd Quarter FY2017	72,132	9.1	(4,037)	—	(3,649)	—	(13,083)	—

(Reference) Comprehensive Income 2nd Quarter FY 2018 ended September 30, 2018 1,982 million yen (—%)
2nd Quarter FY 2017 ended September 30, 2017 (13,347) million yen(—%)

	Net Income(loss) Per Share	Net Income(loss) Per Share on a Fully Diluted Basis
	Yen	Yen
2nd Quarter FY2018	19.07	—
2nd Quarter FY2017	(383.48)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity	Equity Ratio
	Million yen	Million yen	Million yen	%
As of September 30,2018	85,367	52,704	52,681	61.7
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	—	0.00			
Fiscal Year 2018 (Forecast)			—	—	—

(Note) Revision of Annual Dividends Forecast in this 2nd Quarter: No

The company stipulate according to company contract that we can make an interim dividend based on September 30 as the record date. 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
Full Year	105,000	(19.3)	400	—	400	—	1,200	—	35.17

(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 September 30, 2018	36,130,796
	As of March 31, 2018	36,130,796
2. Number of shares of treasury stock	As of September 30, 2018	2,011,830
	As of March 31, 2018	2,011,829
3. The Average number of outstanding shares	On September 30, 2018	34,118,967
	On September 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

During the first half of the consolidated fiscal year under review (April 1, 2018 to September 30, 2018), the economy in the United States, the Group's mainstay market, continued to be steady, supported by solid private consumption against the backdrop of a continuous improvement in employment and income condition, although there were rising uncertainties, such as escalating trade frictions caused by the Trump administration's measures to impose higher tariffs. In Europe, the economy continued expanding buoyed by a gradual decline in the unemployment rate, although there were several factors that might affect the economy, such as uncertainty over BREXIT and prospect of the Italian budget plan. In China, the outlook of the economy remained uncertain, since concerns were rising that higher tariffs imposed on Chinese exports to the United States were likely to slow down economic growth.

In Japan, the economy continued recovering gradually, supported by a pickup in consumer spending and capital expenditures, although exports and production activities stagnated due the impact of natural disasters.

Under these circumstance, the Group reported net sales of ¥46,731 million (down 35.2% year on year) in the first half of the year ended September 30, 2018. This was attributable to moves by retailers in North America, the Group's mainstay market, to reduce inventories in the distribution channels in the first quarter of the year ended June 30, 2018. Retailers, mainly large mass merchandisers, focused on the sales of excessive inventories instead of new products, leading to a fall in the Group's net sales. Despite a decrease in net sales, the Group saw operating loss shrink to ¥1,645 million (an operating loss of ¥4,037 million in the previous fiscal year). This was due to the following reasons: component prices, such as LCD panels for LCD TVs, its mainstay product, declined from the previous fiscal year; it reviewed sales of unprofitable products, especially in the Mexican market and Office Solution business; and its efforts to reduce manufacturing costs and selling, general and administrative expenses paid off to some extent. The Group reported ordinary loss of ¥181 million (an ordinary loss of ¥3,649 million in the previous fiscal year), since it posted foreign exchange gains of ¥ 1,247 million caused by the yen's depreciation from the end of the previous fiscal year. However, the Group's profit attributable to owners of the parent amounted to ¥650 million (a loss attributable to owners of the parent of ¥13,083 million in the previous fiscal year), because it posted income taxes - deferred of ¥895 million associated with the merger of sales companies in North America.

Results by region

i) Japan

Following the previous fiscal year, the Company began marketing its high-end products, such as FUNAI brand new products including organic electroluminescent display (OELD) TVs, through Yamada Denki from July 14, 2018. However, as it delayed the launching date by around one month compared to the previous fiscal year (the launching date was June 2), the Company saw net sales decrease from the previous year in the second quarter ended September 30, 2018. As a result, net sales amounted to ¥16,974 million, down 16.1% year on year, and segment loss (operating loss) was ¥1,399 million (a segment loss of ¥782 million in the same quarter of the previous fiscal year).

ii) Americas

In the current fiscal year, the Company struggled to expand sales of LCD TVs, since large mass merchandisers gave priority to the disposal of inventories because excessive inventories continued remaining in the North America market from the previous fiscal year. Furthermore, demand of DVD and BD related equipment decreased owing to the impact of moving video distribution services via the Internet, resulting in a fall in the Company's net sales. Consequently, net sales amounted to ¥28,943 million, down 43.9% year on year, and segment loss (operating loss) was ¥166 million (a segment loss of ¥762 million in the same quarter of the previous fiscal year).

iii) Asia

Although the Company terminated sales of LCD TVs after reviewing sales of unprofitable products, sales of components increased. As a result, net sales amounted to ¥788 million, up 232.4% year on year, and segment profit (operating profit) was ¥202 million (a segment loss of ¥2,462 million in the same quarter of the previous fiscal year).

iv) Europe

Sales of ink-cartridge decreased. Consequently, net sales amounted to ¥24 million, down 62.7% year on year, and segment loss (operating loss) was ¥9 million (a segment loss of ¥41 million in the same quarter of the previous fiscal year).

Results by product Segment

i) Audiovisual Equipment

In the audiovisual equipment segment, sales decreased from the previous year, particularly due to a fall in sales of LCD TVs and DVD and BD related products caused by the reduction of unwanted inventory in the distribution channel in the North America market. As a result, net sales amounted to ¥42,014 million, down 38.7% year on year.

ii) Information Equipment

In the information equipment segment, sales increased from the previous year, since the Company continued marketing ink cartridges for ink jet printers (despite it reduced sales of unprofitable ink jet printers) and started marketing coupon printers, new products, and sales of commercial-use ink cartridges grew. Consequently, net sales amounted to ¥1,929 million, up 2.6% year on year.

iii) Other Products

In other equipment segment, sales of medical and healthcare-related products, such as CT for dental clinics and bed modules for the nursing care field, increased from the previous year. As a result, net sales amounted to ¥2,786 million, up 61.1% year on year.

(2) Consolidated Financial Position

Total assets increased by ¥5,102 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥4,363 million in cash and deposits, and ¥3,686 million in raw materials and inventory goods.
- ✓ Decrease of ¥1,866 million in merchandise and finished goods, and ¥2,053 million in etc.

Total liabilities increased by ¥3,114 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥6,442 million in notes and accounts payable-trade.
- ✓ Decrease of ¥1,316 million in accounts payable included in other.

Net assets increased by ¥1,987 million compared to the end of the last fiscal year. The primary components of the change were increase of ¥650 million in retained earnings and increase of ¥1,339 million in the foreign currency translation adjustment.

Also, 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. As for the financial condition, we compare by the retroactive processed numerical value at the end of the previous consolidated fiscal year.

(3) Consolidated Financial Forecast

There is 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.For details, please see the “Notice on non-operating income (Foreign exchange gains) and Income taxes-deferred to the Consolidated Financial Forecasts for the first Six Months of the fiscal period and Full Year” announced on November 5, 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)	2nd Quarter FY2018 (As of September 30, 2018)
ASSETS;		
Current Assets		
Cash and deposits	32,390	36,753
Notes and accounts receivable - trade	9,953	8,087
Merchandise and finished goods	13,251	11,197
Work in process	516	949
Raw materials and supplies	9,841	13,528
Other	2,379	2,080
Allowance for doubtful accounts	(1,021)	(776)
Total current assets	67,310	71,819
Noncurrent Assets		
Property, plant and equipment	8,193	8,425
Intangible assets	93	73
Investments and other assets		
Net defined benefit asset	1,840	1,830
Other	3,065	3,563
Allowance for doubtful accounts	(239)	(345)
Total investments and other assets	4,667	5,048
Total noncurrent assets	12,954	13,547
TOTAL ASSETS	80,265	85,367
LIABILITIES;		
Current Liabilities		
Notes and accounts payable - trade	11,808	18,251
Accounts payable included in other	10,372	9,055
Income taxes payable	664	160
Provision	990	895
Other	3,007	3,037
Total current liabilities	26,842	31,399
Noncurrent Liabilities		
Provision	1,025	22
Net defined benefit liability	3	10
Other	1,676	1,229
Total noncurrent liabilities	2,705	1,263
TOTAL LIABILITIES	29,548	32,662

	Fiscal year 2017 (As of March 31, 2018)	2nd Quarter FY2018 (As of September 30, 2018)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,603	33,603
Retained earnings	21,970	22,621
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	62,539	63,190
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13	4
Foreign currency translation adjustment	(12,305)	(10,966)
Remeasurements of defined benefit plans	451	452
Total accumulated other comprehensive income	(11,840)	(10,509)
Subscription rights to shares	17	23
Total net asset	50,717	52,704
TOTAL LIABILITIES AND NET ASSETS	80,265	85,367

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

(Consolidated Quarterly Statements of Income)

(Units : Million Yen)

		2nd Quarter FY2017 (from April 1, 2017 to September 30, 2017)	2nd Quarter FY2018 (from April 1, 2018 to September 30, 2018)
Net sales		72,132	46,731
Cost of sales		65,456	42,012
Gross profit		6,675	4,718
Selling, general and administrative expenses		10,712	6,363
Operating income (loss)		(4,037)	(1,645)
Non-operating income			
Interest income		121	203
Dividends income		2	7
Foreign exchange gains		417	1,247
Other		127	122
Total non-operating income		669	1,581
Non-operating expenses			
Interest expenses		17	11
Compensation expenses		225	-
Compensation for damage		-	51
Other		38	54
Total non-operating expenses		281	117
Ordinary income (loss)		(3,649)	(181)
Extraordinary income			
Gain on sales of non-current assets		6	11
Gain on reversal of subscription rights to shares		145	3
Other		9	-
Total extraordinary income		161	15
Extraordinary loss			
Loss on disposal of noncurrent assets		11	43
Impairment loss	Notes.1	9,991	-
Total extraordinary loss		10,002	43
Income (loss) before income taxes		(13,490)	(210)
Income taxes		(406)	(860)
Income (loss) before minority interests		(13,083)	650
Net income (loss) attributable to owners of parent		(13,083)	650

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	2nd Quarter FY2017 (from April 1, 2017 to September 30, 2017)	2nd Quarter FY2018 (from April 1, 2018 to September 30, 2018)
Income (loss) before minority interest adjustment	(13,083)	650
Other comprehensive Income		
Valuation difference on avaiable-for-sale securities	6	(8)
Foreign currency translation adjustment	(323)	1,339
Remeasurements of defined benefit plans, net of tax	53	0
Total other comprehensive Income	(263)	1,331
Comprehensive income	(13,347)	1,982
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(13,347)	1,982

(3) Consolidated quartely statements of cash flows

(Million Yen)

	2nd Quarter FY2017 (from April 1, 2017 to September 30, 2017)	2nd Quarter FY2018 (from April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Income (Loss) before income taxes and minority interests	(13,490)	(210)
Depreciation	1,881	377
Impairment loss	9,991	-
Increase (decrease) in allowance for doubtful accounts	324	(299)
Increase (decrease) in net defined benefit liability	18	(0)
Interest and dividend income	(124)	(210)
Interest expenses	17	11
Loss on retirement of property, plant and equipment	5	0
Loss (gain) on sales of property, plant and equipment	(6)	31
Loss (gain) on sales of investment securities	(9)	-
Decrease (increase) in notes and accounts receivable - trade	(720)	2,163
Decrease (increase) in inventories	(18,647)	(578)
Increase (decrease) in notes and accounts payable - trade	9,218	5,811
Increase (decrease) in notes and accounts payable - other	1,321	(1,592)
Other, net	262	(1,534)
Subtotal	(9,956)	3,969
Interest and dividend income received	116	209
Interest expenses paid	(18)	(12)
Income taxes paid	(174)	(364)
Income taxes refund	61	235
Net cash provided by (used in) operating activities	(9,972)	4,037
Cash flows from investing activities		
Payments into time deposits	(1,350)	(891)
Proceeds from withdrawal of time deposits	-	382
Purchase of property, plant and equipment	(979)	(802)
Proceeds from sales of property, plant and equipment	18	502
Purchase of intangible assets	(298)	(3)
Proceeds from sales of investment securities	316	-
Other, net	38	20
Net cash provided by (used in) investment activities	(2,255)	(791)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	5,564	-
Cash dividends paid	(341)	-
Other, net	(122)	(120)
Net cash provided by (used in) financing activities	5,100	(120)
Effect of exchange rate change on cash and cash equivalents	(153)	617
Net increase (decrease) in cash and cash equivalents	(7,280)	3,743
Cash and cash equivalents at beginning of period	38,971	30,650
Cash and cash equivalents at end of period	31,690	34,393

(4) 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 second quarter of last fiscal year.

The Group group’s business assets on the basis in management accounting of consolidated group. The idle assets are grouped by individual asset.

Second Quarter of last Fiscal year 2017 (April 1, 2017 to September 31, 2017)

Use	Location	Type	Impairment loss (million yen)
Business Assets	Funai Electric Co., Ltd.	Tools, furniture and fixtures	130
		Lease assets (fixed)	4
		Patent right	2,451
		Software	75
		Long-term prepaid expenses	2,918
Business Assets	FUNAI ELECTRIC (H.K.), LTD.	Buildings and structures	19
		Machinery, equipment and vehicles	29
		Tools, furniture and fixtures	466
Business Assets	FUNAI (THAILAND) CO., LTD.	Buildings and structures	566
		Machinery, equipment and vehicles	135
		Tools, furniture and fixtures	197
		Land	56
		Software	1
Business Assets	Funai Electric Philippines Inc.	Buildings and structures	471
		Machinery, equipment and vehicles	332
		Tools, furniture and fixtures	207
		Software	34
Business Assets	Funai Electric Cebu, Inc.	Buildings and structures	538
		Machinery, equipment and vehicles	597
		Tools, furniture and fixtures	67
		Software	33
Business Assets	FEP REAL ESTATE, INC.	Land	42

Use	Location	Type	Impairment loss (million yen)
Business Assets	FUNAI CORPORATION, INC.	Buildings and structures	0
		Machinery, equipment and vehicles	2
		Tools, furniture and fixtures	1
		Lease assets (tangible)	295
Business Assets	Funai Trading Corp.	Buildings and structures	4
		Machinery, equipment and vehicles	27
		Tools, furniture and fixtures	33
		Software	55
Business Assets	Funai Lexington Technology Corporation	Machinery, equipment and vehicles	136
		Tools, furniture and fixtures	5
		Software	3
Business Assets	Funai Manufacturing, S.A. DE C.V.	Buildings and structures	11
		Machinery, equipment and vehicles	4
		Tools, furniture and fixtures	4
		Software	8
Business Assets	P&F MEXICANA, SA. DE. C.V.	Machinery, equipment and vehicles	3
		Tools, furniture and fixtures	1
		Software	13
Total			9,991

The Group reduced the carrying amount to the recoverable value of business assets whose profitability has markedly decreased, and recorded such reduction (9,991 million yen) as impairment loss for the First half of this fiscal year.

The recoverable value of buildings and structures is measured using net sales value that is based on appraisal value reasonably calculated by real estate appraisers. The recoverable value of assets other than the aforementioned ones is measured using net sales value that is estimated at zero.

(Segment Information)

I. Second Quarter of the last fiscal year (April 1, 2017 to September 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	20,232	51,595	237	66	72,132	—	72,132
(2) Inter-segment sales	53,520	869	63,569	-	117,959	(117,959)	—
Total	73,753	52,465	63,806	66	190,092	(117,959)	72,132
Segment Income (Loss)	(782)	(762)	(2,462)	(41)	(4,048)	11	(4,037)

Note:
1. ¥ 11 million adjustment amount under segment income includes items such as ¥ 2 million relating to the cancellation of inter-segment transactions, ¥ -395 million of overall Group expenses that are not apportioned to each reporting segment, and ¥ 404 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. Second Quarter of this fiscal year (April 1, 2018 to September 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	16,974	28,943	788	24	46,731	—	46,731
(2) Inter-segment sales	23,010	891	25,239	—	49,141	(49,141)	—
Total	39,984	29,834	26,028	24	95,873	(49,141)	46,731
Segment Income (Loss)	(1,399)	(166)	202	(9)	(1,373)	(271)	(1,645)

Note:
1. ¥ -271 million adjustment amount under segment income includes items such as the ¥ 3 million relating to the cancellation of inter-segment transactions, ¥ 233 million of overall Group expenses that are not apportioned to each reporting segment, and the ¥ -508 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, 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 second quarter consolidated accounting period and has omitted the Notes on Going Concern Assumption from the consolidated financial statements.