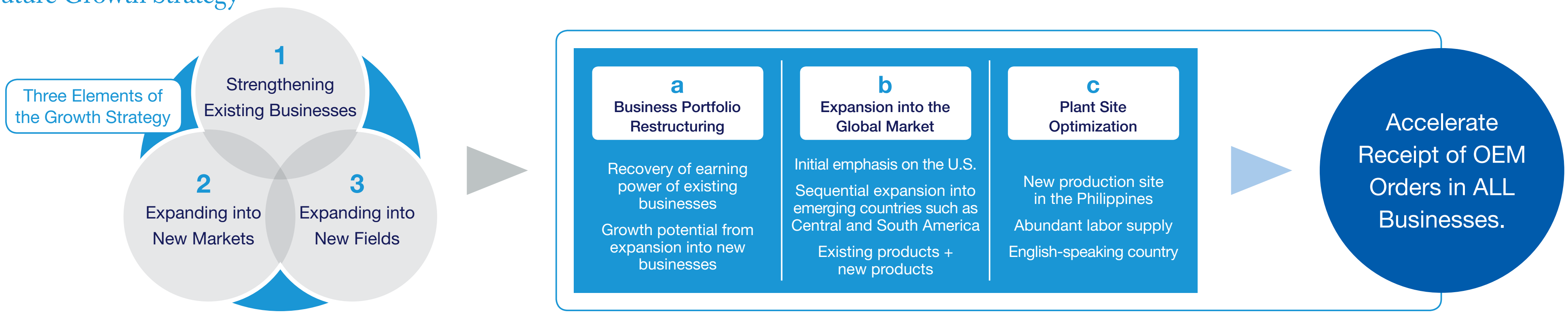
ANNUAL REPORT 2014

FUNAI ELECTRIC CO., LTD.

Funai Electric Group will pursue further growth by implementing global operational reforms under a new growth strategy.

Future Growth Strategy



Business Environment and Operating Results

In recent years, amid worldwide demand expansion, the home electronic appliance market has had to adjust to a disruptive and unprecedented transformation characterized by increased competition that drives product prices down, the rapid spread of smartphones, and other important developments. In the fiscal year ended March 31, 2014 (fiscal 2013), although the rapid spread of smartphones and tablets continued, demand for mobile phones, personal computers, digital still cameras, DVD and Blu-ray Disc (BD) related products, and other conventional products stagnated.

In this environment, the Funai Electric Group's consolidated net sales increased year on year. The trend toward larger TV screens, favorable sales leading up to the peak year-end sales period in the U.S. and sales expansion in Mexico led to an increase in sales of LCD TVs, the Group's mainstay product. In addition, higher orders for printers from OEM*[1] customers, entry into the ink cartridge business, and the full-year contribution from Philips-brand audio accessories, which began shipping in September 2012, also contributed to the revenue increase.

The Group faced difficulties on the profit front, however, recording losses as profitability at sales subsidiaries P&F USA, Inc. and P&F MEXICANA, S.A. DE C.V. deteriorated as a result of losses attributable to factors including disposal of inventory of Philips-brand LCD TVs and audio accessories in North America.

As a result of these developments, although consolidated net sales in fiscal 2013 were ¥234,043 million, up 21.9% year on year, operating loss was ¥5,466 million and net loss was ¥6,745 million.

In these conditions, the Group has initiated global measures to improve earnings. The reason for the losses was inefficiencies in the distribution and service systems of overseas sales subsidiaries. We are working to boost earnings by increasing efficiency these operations and strengthening purchasing management for audio accessory products.

*1 OEM (Original Equipment Manufacturer)

Future Growth Strategy

In addition to such measures, Funai has developed a growth strategy with three key elements: "strengthening existing businesses," "expanding into new markets," and "expanding into new fields." A number of initiatives are to be implemented centered around these elements.

To strengthen existing businesses, we will work to increase screen size and add high value to LCD TVs by introducing TVs 60 inches and up and supporting 4K TV*[2]. In addition, we will strengthen our response to networking and meticulously respond to needs in the global market.

Under the new strategy, Funai Electric Group has promoted various measures focusing on achieving earnings recovery over sales expansion.

Funai acquired the inkjet-related technologies and assets of U.S.-based Lexmark International Inc. in April 2013. We plan to engage in in-house development of inkjet printers and subsequently introduce products to the market.

To expanding into new markets, we will make forays into markets with high growth potential such as Central and South America while continuing efforts in North America, which has long been a key market.

To expand into new fields, we will expand into post-AV sectors with technologies, developed over years by us. Key products such as wireless chargers and in-vehicle displays for the B2B market will be the core of our advance. To facilitate early commercialization, the electric walking assistance cart business was spun out in July 2014.[*3]

*2 TVs with display panels offering four times the resolution of full high-definition TVs (1,080 pixels)
*3 see page 16

Optimizing Production

To further boost our manufacturing capabilities, the wellspring of Funai's strengths, we will undertake the optimization of plant locations.

In 2013, we concentrated production of LCD TVs, DVD-related products and printers into two plants in Huang Jiang[*4] and Zhong Shan, China and expanded production facilities at the Thai plant, making it the main LCD TVs production plant. In the Philippines, in addition to the Cebu Plant where ink cartridges are produced, the Philippines Plant is scheduled to start operating in 2014 as a new printer production plant.

We will also further improve the Funai Production System (FPS), our proprietary manufacturing system, to supply the global market with high-quality and high-value products. In addition, we will actively engage in consignment production on an OEM basis and pursue alliances in all of our businesses and markets.

Furthermore, to ensure that research and development more accurately and rapidly respond to market trends around the world, we strengthened the global development structure by opening a new U.S. development base in Lexington, Kentucky in addition to our overseas bases in Malaysia, China, and Singapore.

*4 The Huang Jiang Plant is a consignment production plant.

Outlook for the Fiscal Year Ending March 31, 2015

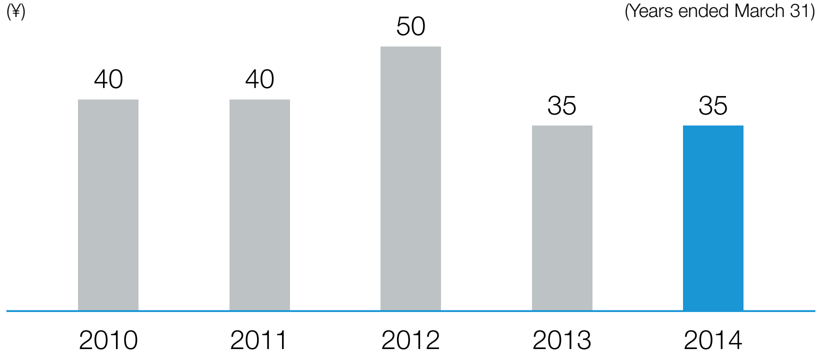
The Funai Electric Group has positioned fiscal 2014 as an important year for deciding its future strategic direction and has adopted a policy of focusing on earnings recovery over sales expansion.

The Group will create a new growth path by mounting an all-out effort to implement the previously mentioned growth strategy with three

Key Operating Results and Forecasts

Years ended March 31	Millions of Yen		
	2013	2014	2015 (Forecast)
Net Sales	192,008	234,043	200,000
Operating Income (Loss)	(5,273)	(5,466)	500
Net Income (Loss)	(8,543)	(6,745)	10

Cash Dividends per Share



key elements: "strengthening of existing businesses," "expansion into new markets," and "expansion into new fields." To realize this strategy, we will undertake business portfolio restructuring, expansion into the global market, and plant site optimization.

In our Audiovisual equipment category and other existing businesses, we will undertake earnings improvement by boosting cost competitiveness and introducing new products in developing countries and other markets that offer prospects for steady growth with appropriate timing. In the information equipment category, which includes printers and ink cartridges, we will develop and introduce products that meet diverse needs and work to increase sales of highly profitable commercial and industrial ink cartridges.

By promptly and steadily implementing such measures, the Group will aim to achieve fiscal 2014 targets of net sales of ¥200,000 million (down 14.5% year on year), operating income of ¥500 million, and net income of ¥10 million. We plan to link this profit recovery to renewed growth for the Funai Electric Group.

Basic Policy on Profit Distribution and Dividends

The Funai Electric Group considers providing returns to shareholders an important management priority and has adopted a basic policy of maintaining stable dividends while strengthening the business foundation. In implementing the dividend policy, we consider factors such as the business environment and use as a specific criterion a ratio of dividends to consolidated net assets of 1.0%. In principle, the Group pays a year-end dividend once a year. If the Group pays an interim dividend, it makes a public announcement in advance.

In accordance with the above policy, the Group declared an ordinary dividend of ¥35 per share as the year-end dividend for fiscal 2013, the same as the previous term. Although the dividend for fiscal 2014 has not yet been determined, we will continue to strive to enhance corporate value and provide returns to the shareholders.

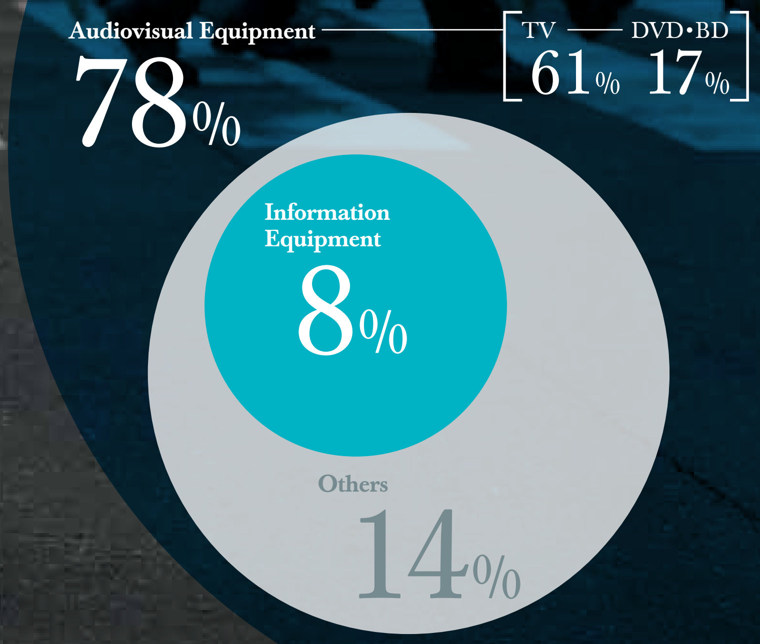
We look forward to receiving the continued support of our stakeholders in the coming years.

President and CEO Yoshikazu Uemura

Business Areas

Constantly Evolving Business Operations

Sales Composition by Products



Consolidated Net Sales ¥234 billion
(March 31, 2014)

Since its founding in 1961, Funai has accurately identified the constantly changing needs of the times and applied a unique perspective to create digital home electronic appliances that combine superb cost performance with high quality.

Today we do business worldwide in three general product fields. The Audiovisual equipment segment consists of the Display Business, which manages our main products, LCD TVs, and the Digital Media Business, which handles products related to DVDs and Blu-ray Discs (BDs). The Information equipment segment comprises the Office Solutions Business, which focuses on inkjet printers, laser beam printers, and peripheral equipment. The Others segment, includes audio accessory products and receiver-related products.

We will seek greater growth to transform Funai into a globally outstanding business group by continuing to supply the world with products that meet the needs of the times and renewing our focus on speed in business activities, a trademark of the company since its founding.

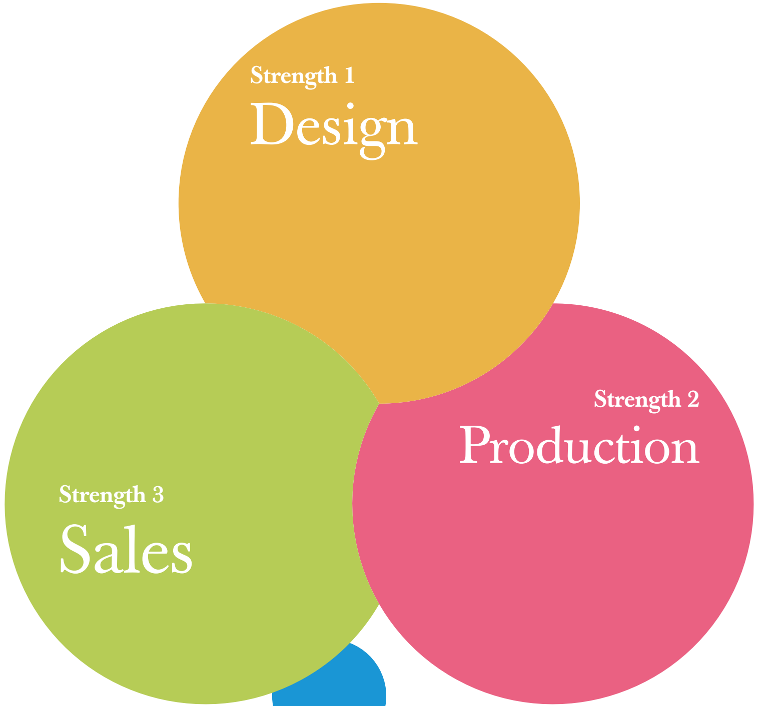
Business Strengths

Unique Strengths that Define Funai Electric Group

Strength 1 Pursuit of Cost Performance through Innovations from the Design Stage

Strength 2 Continuous Productivity Improvement through the Funai Production System (FPS)

Strength 3 Marketing Products around the World under Multiple Brands Meeting Global Needs



Message from Management
Business Strength
Social Activities / Topics
Corporate Governance
Management Discussion and Analysis
Financial Section
Corporate Data

Brand Competence

A Global Brand

FUNAI

Sales area: North America, Europe, India, Thailand

Simple

User-Friendly

Proven. Trusted

Timeless

Philips*1

Sales area: North America, Central and South America

Magnavox*2

Sales area: North America

Emerson

Sales area: North America

DX ANTENNA

Sales area: Japan

DX BROADTEC

Sales area: Japan

DX DELCATEC

Sales area: Japan

*1, *2 : See P53 " Important Contracts"

What's Funai?

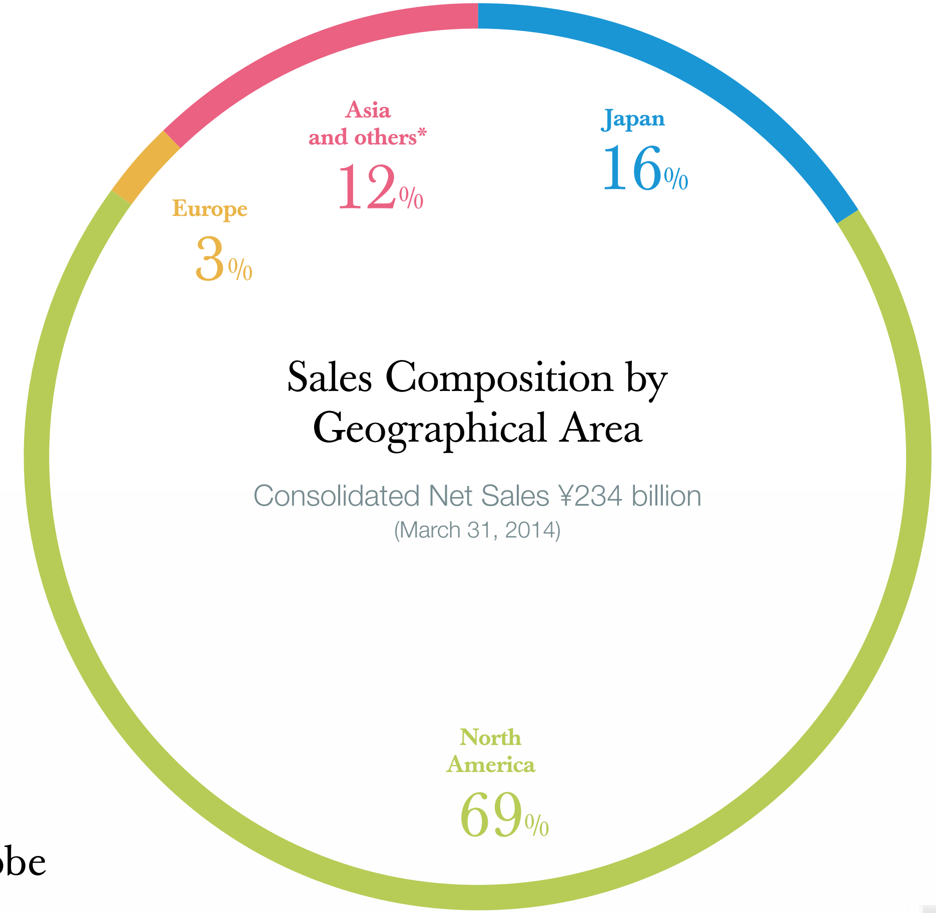
Funai supplies markets and customers around the world with products that deliver excellent cost performance and high quality. We have seven brands that we selectively deploy according to individual market situations and product characteristics. We are developing a robust global business structure in which domestic and overseas group companies develop, manufacture, and market products around the world, supported by our competitive brands.

We market LCD TVs, our mainstay product, under five brands (FUNAI, Philips, Magnavox, Emerson, and DX BROADTEC) and DVD/BD-related products under three brands (FUNAI, Philips, and DX BROADTEC) worldwide. In addition, we sell antennas and other receiver-related products under the DX ANTENNA brand and LED sensor lights and other products under the DX DELCATEC brand. We also manufacture products under customers' brands under OEM agreements.

We plan to vigorously develop the printer business, strengthened by the acquisition of Inkjet-related assets in 2013, using our own brands.

Global Operations

Brands and Operations that Span the Globe

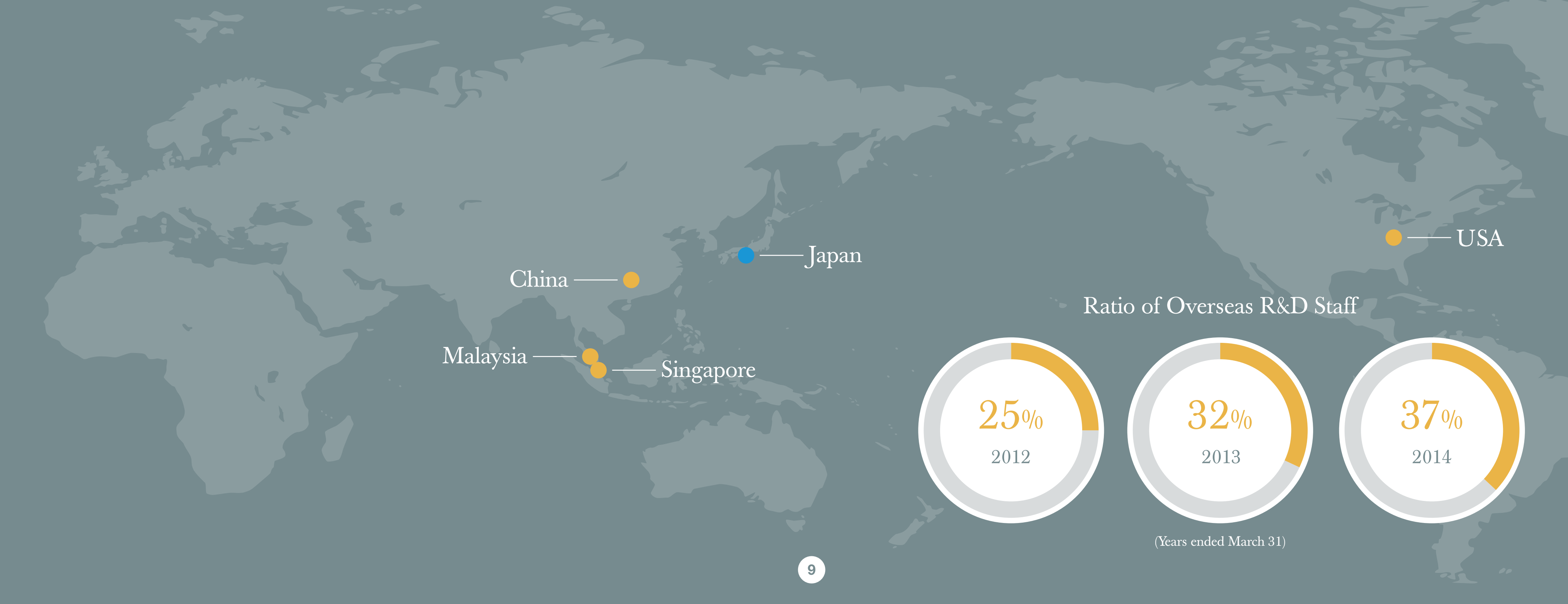


*Including sales of Central and South America

Design

Overseas R&D members now 37% of total R&D staff

Global Development Bases



(Years ended March 31)

Achieving formidable global cost competitiveness

Design Capabilities that Generate World-Class Cost Competitiveness

Funai's world-class cost performance is the result of three unique strengths: in-house production of core items, reducing the number of parts, and overseas onsite design. Our engineers are passionately committed to designing products that are easy to assemble and rigorously engage in design activities with productivity improvement in mind, such as reviews of parts and materials used, investigation of procurement methods, and process reduction.

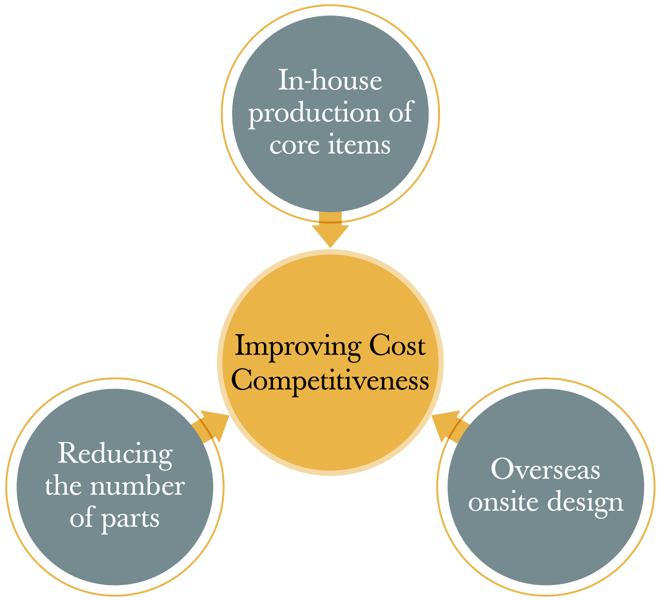
One example of this is in-house production of LCD modules, a key component of LCD TVs. Specifically, we have achieved parts reduction by procuring LCD-cell panels without backlights and engaging in design rationalization to integrate drive circuit design, backlight design, and chassis design. Furthermore, we perform OLB* processing (production of liquid crystal modules) in our plants. In this way, we pursue rationalization for the overall optimization of everything from parts to finished products.

In addition, we are offshoring product development by transferring design work previously performed in Japan to development bases in Malaysia, China, Singapore, the U.S. This has contributed significantly to cost performance improvement.

Funai will continue to pursue world-class cost competitiveness by applying a global perspective to recruitment and development and continuing our tireless efforts and innovations to reduce product cost.

*OLB: Outer Lead Bonding

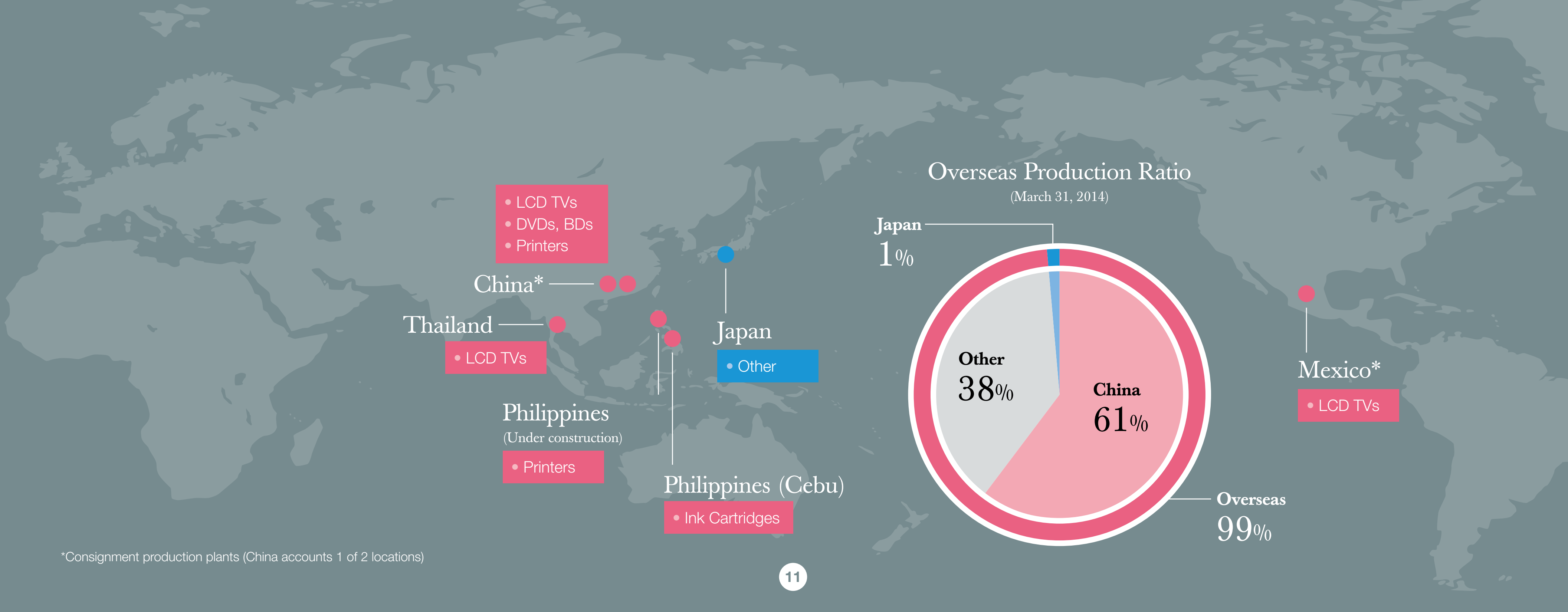
Three Unique Strengths in Design



Production

Seven manufacturing facilities in Five countries

Global Development Bases



*Consignment production plants (China accounts 1 of 2 locations)

Optimized quality, cost and delivery

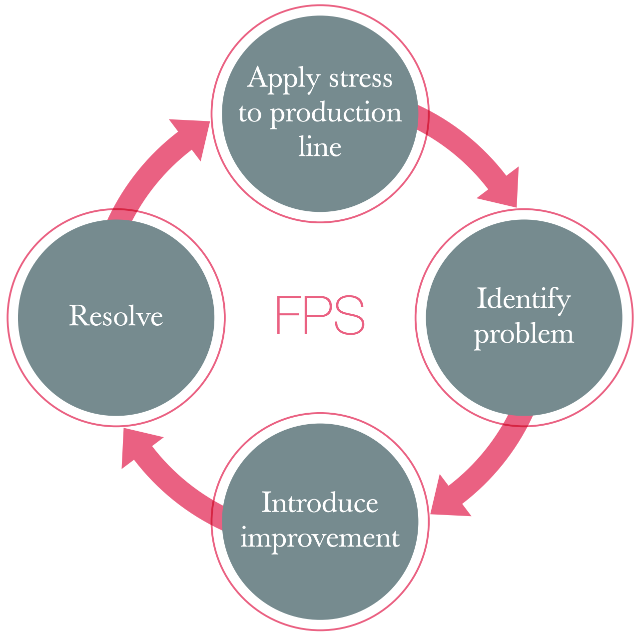
Our Quest to Improve Productivity with FPS and Optimize Production

Funai constantly strives to improve productivity to ensure that our products offer high quality, ease of use, and excellent cost performance. At the heart of this effort is the Funai Production System (FPS), our proprietary manufacturing system. With the FPS, we deliberately stress the production line, such as reducing the number of operators or increasing conveyor belt speed, to identify problems by causing the line to stop and implement improvements. By repeating this cycle, we strive for continuous productivity improvement. We consider the FPS a core group competence to be further developed and perfected in the coming years.

Since fiscal 2011, we have been shifting production capacity from production bases in China, where we had been producing 90% of our products, to other locations in Asia. In April 2013 we concentrated production activities in China into two plants in Huang Jiang (a consignment production plant) and Zhong Shan. In July 2013 we expanded our Number 3 Plant in Thailand, increasing production capacity in that country. In addition, we are building a plant on Luzon Island in the Philippines as a new production base scheduled to start operation in 2014. In April 2013 we acquired from Lexmark an ink cartridge plant located on Cebu Island and have begun in-house production of ink cartridges.

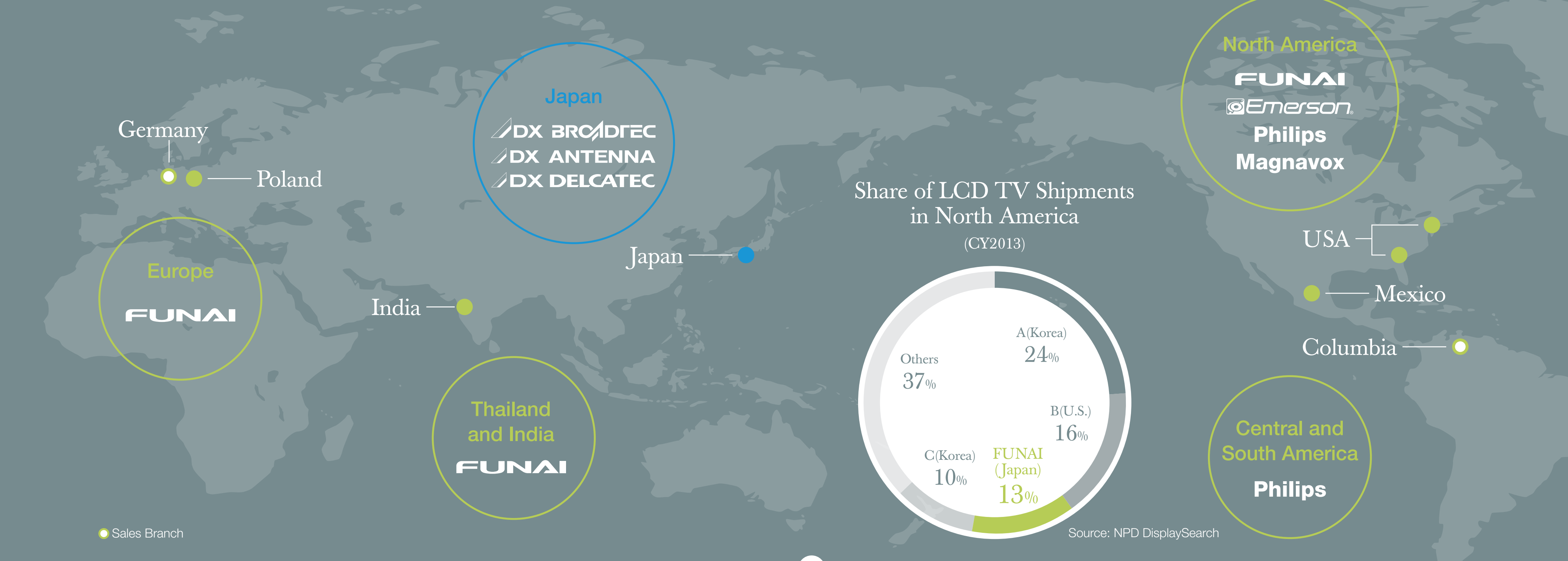
By reorganizing our production bases and increasing the local procurement ratio by concentrating production in optimal locations, we will work to achieve end-to-end production efficiency improvement and cost reduction in processes extending from procurement of parts and materials to delivery of finished products to our customers.

Funai Production System (FPS)



Top-three LCD TV share in North America

Global Sales Bases



Share of LCD TV Shipments in North America
(CY2013)

Source: NPD DisplaySearch

Pointing to future success in emerging markets

A Global Multi-Brand Strategy

Funai has established six major sales companies in Japan and overseas which implement sound sales strategies adapted to the individual characteristics of markets around the world.

North America is the world's largest market and our most important geographical area, where our Philips, Magnavox, and Emerson brands enjoy high name recognition. We have established close business relationships with leading mass merchandisers and have captured large market share for our products, especially LCD TVs.

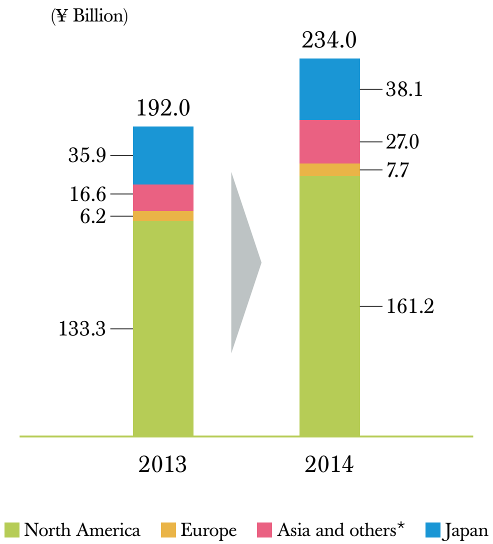
In Mexico, we offer the Philips brand, where we captured a 15% share of LCD TV shipments in 2013. In 2014, we will move ahead with sales expansion in Central and South America by means such as opening a sales branch in Colombia.

We have also begun sales under the FUNAI brand in Thailand and India. While continuing to emphasize North America, currently our main market, we will expand sales in emerging markets that continue to show rapid growth, particularly Central and South America.

In addition, we plan to leverage the inkjet-related assets acquired from Lexmark in April 2013 to not only sell printers developed in-house, but also to produce and supply commercial and industrial Ink cartridges and peripheral equipment to printer manufacturers.

Sales by Geographical Area

(Years ended March 31)



*Including sales of Central and South America

US-Japan Youth Baseball Exchange

Funai supports the US-Japan Youth Baseball Exchange, a program organized by the Red Sox Foundation, the official team charity of the Boston Red Sox. The program enables children from Japan and the United States to explore the customs and culture of each others' country through their shared love of baseball. In a recent exchange, from July 28 to August 7, 2012, twelve youths and two coaches selected from youth baseball teams in Kyoto and Chiba visited Boston to engage in an international cultural exchange. The youths received baseball instruction from coaches from the Red Sox and local universities and played friendly games with several local youth baseball teams. In addition, a commemorative event was held at Fenway Park, the home field of the Boston Red Sox, in the park's centennial year.


US-Japan Youth Baseball Exchange

The next youth baseball team from Japan will be welcomed in a ceremony at Fenway Park in August 2014.

Red Sox Foundation

The Red Sox Foundation is a charitable organization operated by the Boston Red Sox Major League Baseball club that was founded in 2002. The primary focus of the foundation is in serving the health, education, recreation, and social service needs of children and families in the New England region.

Support for the Make-A-Wish Foundation (Sponsored by a Leading U.S. Mass Merchandiser)

Since 2002, the Funai Group has supported the Make-A-Wish Foundation, which is sponsored by a leading mass merchandiser in the United States.

Since 1980, the Make-A-Wish Foundation has enriched the lives of children with life-threatening medical conditions through its wish-granting work. The Foundation's mission reflects the life-changing impact that a Make-A-Wish experience has on children, families, referral sources, donors, sponsors and entire communities.

In 2013, we hosted the Make-A-Wish hospitality events at two NASCAR races at Richmond International Raceway, the Toyota Care 250 and the Virginia 529 College Savings 250. Each event hosted 50 excited Make-A-Wish children, parents and guests at a pre-race hospitality area complete with food, games and fun.

This is not only a great way for other "Wish Kids" to interact with each other, but a great way for them to fulfill their wishes to attend a NASCAR race and meet their favorite drivers!

We also support social contribution activities of major national and local retail chains and engage in sponsorship activities in New York and Los Angeles, where Funai Group sales subsidiaries are located.

Assistance for Victims of Natural Disasters

Funai helps the unfortunate victims of natural disasters around the world in various ways.

To assist the victims of Hurricane Katrina, which struck the Gulf Coast of the United States in the summer of 2005, a Funai subsidiary in the U.S. donated 5,000 TV/VCR combination units.

Funai donated ฿2 million (approximately ¥5 million) in relief fund for victims of the Chao Phraya River flood in Thailand in 2011 for use in providing assistance to evacuees.


Assistance for victims of Typhoon Haiyan, a major typhoon that struck the central Philippines

Most recently, in response to a proposal from a local employee, Funai decided to donate to assist victims of Typhoon Haiyan, a major typhoon that struck the central Philippines in November 2013. Together with our local plant, we donated a total of ¥3.9 million through a charity organization in the Philippines.

We provide assistance to disaster victims in Japan as well. In July 2007, we donated LCD TVs to victims of the Niigata Chuetsu Earthquake. We also donated approximately 100 LCD TVs to victims of the Great East Japan Earthquake of March 2011 and simultaneously solicited donations from Funai employees, which through the Japanese Red Cross Society, contributed to support for victims.

U.S. Ambassador Caroline Kennedy attends the Red Sox World Championship Party held by the U.S. Embassy in Japan.

The Red Sox World Championship Party, hosted by Ambassador Caroline Kennedy, was held in January 2014 at the Ambassador's Residence in the U.S. Embassy in Tokyo. Funai President and CEO Yoshikazu Uemura and Vice Chairman Tomonori Hayashi received invitations to the party through the Red Sox. The company has had a cooperative relationship with the Red Sox since 2007 through the US-Japan Youth Baseball Exchange and has recently signed a partnership agreement with the club.

Red Sox World Champion Party at the U.S. Embassy

The 2013 World Series trophy won by the Red Sox was displayed at the party. The trophy was brought to Japan on January 20th along with Red Sox team mascot Wally the Green Monster. The party marked the third time for the trophy to come to Japan. In addition to pitchers Koji Uehara and Junichi Tazawa, who made important contributions to the Red Sox's championship, former New York Yankees and Saint Louis Cardinals players Mr. Hideki Matsui and Mr. So Taguchi and Maestro Mr. Seiji Ozawa, a friend of Ambassador Caroline Kennedy, were invited to the party.

Signing of a Partnership Agreement with the Red Sox

In February 2014, Funai signed a partnership agreement with the Boston Red Sox, a U.S. Major League Baseball team. Under the terms of the partnership agreement, the Funai logo was displayed on the signboard at the spring training camp, the background board that is used for interviews with the media and the bottom signboard of the back-net at Fenway Park. Funai also advertise in the Boston Red Sox magazine.

Press interview board

Selection of the Electric Walking Assistance Cart for the Project to Promote the Development and Introduction of Robotic Devices for Nursing Care

Funai has been developing the electric walking assistance cart since 2012. In recognition of the innovation and technological capabilities the cart incorporates, it has been selected for the Ministry of Economy, Trade and Industry's (METI) Project to Promote the Development and Introduction of Robotic Devices for Nursing Care in fiscal 2013. The cart was also displayed at the METI booth at International Robot Exhibition 2013, held at Tokyo Big Sight in November 2013, where the reaction and inquiries from visitors greatly exceeded expectations.

The robotics-based electric walking assistance cart

Reflecting societal changes such as population aging in developed countries and the global spread of smart electronic devices, the cart incorporates functions superior to those of currently available products. By applying our reliable development capabilities and technical strengths in the healthcare field to solve an important societal problem, we aim to make people's lives more pleasant and rewarding.

The electric walking assistance cart has once again been selected for the Project to Promote the Development and Introduction of Robotic Devices for Nursing Care in fiscal 2014.

To facilitate early commercialization, this business was spun out in July 2014.

1) Basic Philosophy on Corporate Governance

The Funai Electric Group's basic philosophy on corporate governance is to continuously increase corporate value by increasing the transparency of management to shareholders, consumers, vendors, local communities, employees, and other internal and external stakeholders and by responding to changes in the business environment by ensuring management soundness and efficiency and striving for prompt decision-making.

On the basis of this philosophy, the Group has introduced an executive officer system to ensure expeditious decision-making and establish a system for prompt business execution. The Group is also strengthening CSR activities. We have formulated the Funai Group Code of Conduct, which regulates the conduct of all members of the Funai Group, and the Funai Group Procurement Policy, which is based upon the Code of Conduct, and established the CSR Committee as an organization to promote corporate social responsibility.

2) Description of the Management Organization in the Fiscal Year under Review

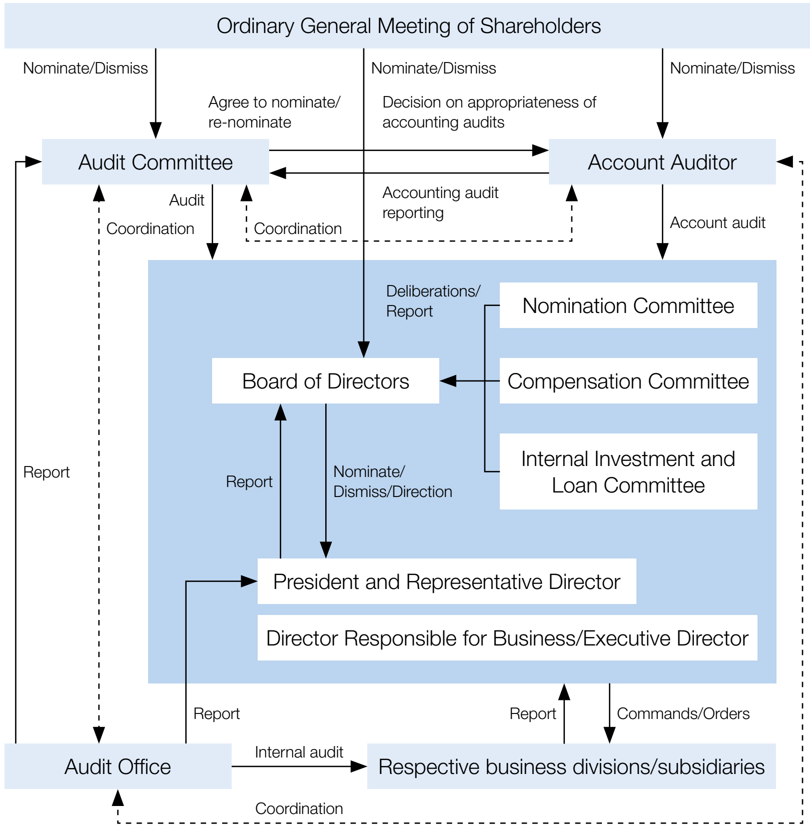
The Group has adopted a board of corporate auditors governance structure and introduced an executive officer system to establish a system for prompt business execution. We have also ensured objectivity and transparency in important decision-making processes by establishing the Nomination Committee, Compensation Committee, and Internal Investment and Loan Committee as advisory bodies.

a. Board of Directors

The Funai Electric Group Board of Directors consists of seven directors, of whom two are outside directors. The Group strives for prompt decision-making by inside directors knowledgeable about the Group's business matters, and participation in Board of Directors decision-making by outside directors with no special interest in the Company ensures management soundness and transparency.

In addition, Board of Directors meetings are held, in principle, at least once every three months and extraordinary meetings are held as necessary. Furthermore, the term of office of directors is one year, which makes it possible to clearly define the responsibilities of directors and develop a flexible management organization.

Corporate Governance Organization



Advisory Bodies

• Nomination Committee

The Nomination Committee consists of directors appointed by the Board of Directors. As an advisory body to the Board of Directors, it ensures the transparency and objectiveness of the candidate selection process by recommending candidates for director to the Board of Directors.

• Compensation Committee

The Compensation Committee consists of directors appointed by the Board of Directors. It ensures the transparency and objectiveness of the compensation decision process by deciding compensation and other payments for directors and executive officers under authority delegated by the Board of Directors. Compensation and other payments for corporate auditors is determined by consultation among the corporate auditors.

• Internal Investment and Loan Committee

The Internal Investment and Loan Committee consists of directors appointed by the president. It ensures the transparency and objectiveness of the decision-making process regarding major investment and loan projects by discussing the details of individual projects from a group-wide perspective.

b. Board of Corporate Auditors

The Board of Corporate Auditors consists of three corporate auditors, of whom two are outside auditors. No special interest exists between these outside auditors and the Funai Electric Group. Full-time Corporate Auditor Hiromu Ishizaki is a tax accountant with knowledge of finance and accounting. In principle, the Board of Corporate Auditors meets once a month.

c. Independent Auditors

The Company has appointed Deloitte Touche Tohmatsu LLC as independent auditors. The status of accounting audits is recorded in “4) Status of Statutory Audits, Internal Audits, and Accounting Audits e. Status of Accounting Audits.”

3) Status of Implementation of an Internal Control System

The Board of Directors has resolved the following with respect to an internal control system for the Funai Electric Group as a “System for ensuring the appropriateness of operations” and has implemented the system as follows.

a. The Funai Group Code of Conduct and Executive Compliance Regulations, systems for ensuring that the execution of duties of directors complies with laws and regulations and the Articles of Incorporation, clearly define proper conduct for directors and ensure that the execution of duties of directors complies with laws and regulations and the Articles of Incorporation.

CSR Activities

As a company that does business globally, Funai Electric must fulfill its responsibility to the global environment and to society as a good corporate citizen.

We established the CSR Committee as a companywide organization under the direct control of the president to promote corporate social responsibility (CSR) and companywide CSR activities. Our Environmental and Occupational Health and Safety Charter is a public declaration of our basic philosophy and guidelines for environmental preservation and occupational health and safety activities. The basic principles of the charter clearly express our commitment to environmental consideration in our business activities. We formulated the Environmental Policies and Occupational Health and Safety Policies as specific guidelines for activities conducted on a daily basis. In this way, we strive to meet the expectations of all our stakeholders, including customers, business partners, shareholders and investors, employees and the residents of host communities.

We engage in Green Procurement to purchase and use environment-friendly parts and materials. We have made greenhouse gas (CO_2) emissions reduction an indicator of eco-friendly products and continuously strive to develop products that help combat global warming. In the coming years, we will continue environmental preservation activities that conserve energy and resources and curb CO_2 emissions control at our business sites and lower environmental impact over the entire product lifecycle.

In addition, as part of our social contribution activities, we participate in community beautification and cleanup activities sponsored by Daito City and the activities of an organization that engages in the preservation and regeneration of a community forest near the head office. We also participate in an NPO-sponsored activity to pay the cost of vaccines for children in developing companies by separating, collecting, and recycling PET bottle caps.


Participating in a community cleanup activity

Business Performance in the Fiscal Year ended March 31, 2014

Net Sales

Net sales increased by 21.9% to ¥234,043 million as a result of factors including sales growth in the United States, the Group's principal market, and Mexico.

Operating Loss

The Company posted an operating loss of ¥5,466 million attributable mainly to deterioration in the profitability of Philips-brand LCD TVs and audio accessory products in the United States and Mexico.

Net Loss

An extraordinary loss of ¥3,397 million due to factors including the recording of business structure improvement expenses resulted in net loss of ¥6,745 million.

Performance by Geographical Area

North America

Sales rose sharply due to strong sales of large LCD TVs to a major mass merchandiser and favorable sales leading up to the peak year-end sales period. The full-year contribution from Philips-brand audio accessories, which began shipping in September 2012, also boosted sales. In the results for DVD-related products, BD players sold well. These developments, coupled with the recording of ink cartridge sales, resulted in sales of ¥161,242 million, up 21.0% year on year.

Japan

Higher sales of LCD TVs and BD-related products contributed to a 6.3% increase in sales from the previous fiscal year to ¥38,109 million.

Europe

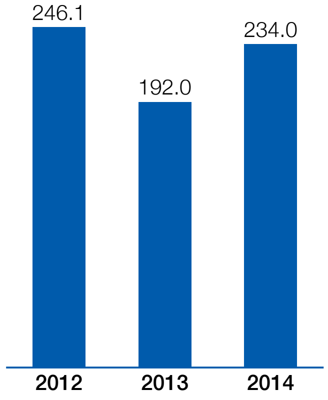
Although sales of printers and ink cartridges increased, sales of LCD TVs and DVD-related products declined in a market that remains sluggish. As a result, sales increased by 24.8% year on year to ¥7,736 million.

Asia and Others

Sales in Asia were ¥2,635 million, down 25.6% year on year. Sales in other regions increased 85.8% to ¥24,320 million on higher sales of LCD TVs in Mexico, among other factors.

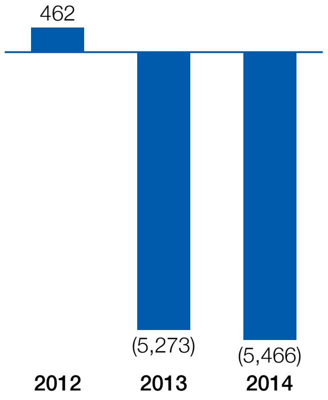
Net Sales

(¥ billion)



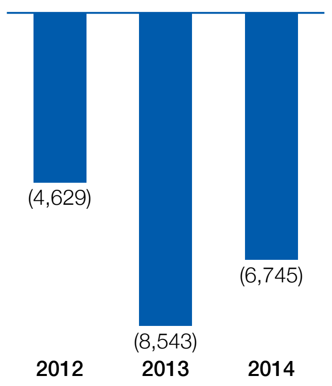
Operating Income (Loss)

(¥ million)



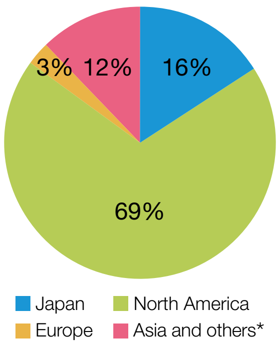
Net Loss

(¥ million)



Sales Composition by Geographical Area

(Year ended March 31, 2014)



*Including sales of Central and South America

Sales by Product Category

Audiovisual Equipment

Sales rose sharply in North America on strong sales of LCD TVs leading up to the peak year-end sales period, and sales of BD-related products increased year on year as well. As a result, net sales were ¥183,108 million, an increase of 17.6% year on year.

Information Equipment

In the information equipment sector, an increase in printer orders and the recording of ink cartridge sales resulted in net sales of ¥18,876 million, up 57.8% year on year.

Others

Net sales were ¥32,058 million, up 31.6% year on year, mainly as a result of the contribution from sales of audio accessory products in North America.

Financial Position

Current Assets

Current assets as of March 31, 2014 were ¥144,041 million, down ¥20,302 million from ¥164,343 million a year earlier.

The change is mainly attributable to a decrease of ¥18,645 in cash and deposits (from ¥67,813 million to ¥49,168 million) resulting from the acquisition of inkjet-related patent rights and development facilities from Lexmark International, Inc. and the acquisition of shares of a manufacturing subsidiary, among other factors.

Fixed Assets

Fixed assets as of March 31, 2014 were ¥37,300 million, up ¥7,119 million from ¥30,181 million a year earlier.

The change is mainly attributable to increases of ¥5,229 million in property, plant and equipment (from ¥16,676 million to ¥21,905 million) and ¥2,575 million in patents (from ¥2,079 million to ¥4,654 million). The main reason for the increases in property, plant and equipment and patents was the acquisition of inkjet-related patent rights and development facilities from Lexmark International, Inc.

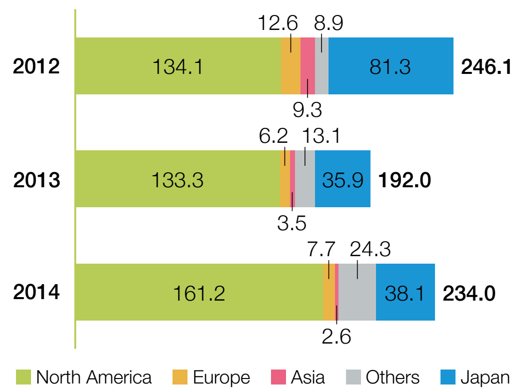
Current Liabilities

Current liabilities as of March 31, 2014 were ¥53,692 million, down ¥15,761 million from ¥69,453 million a year earlier.

The change is mainly attributable to decreases of ¥6,237 million in trade

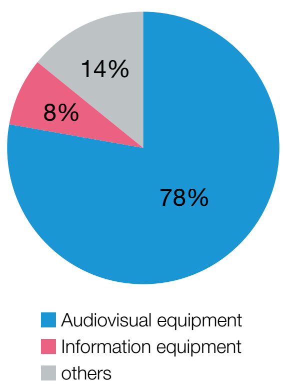
Sales by Geographical Area

(¥ billion)



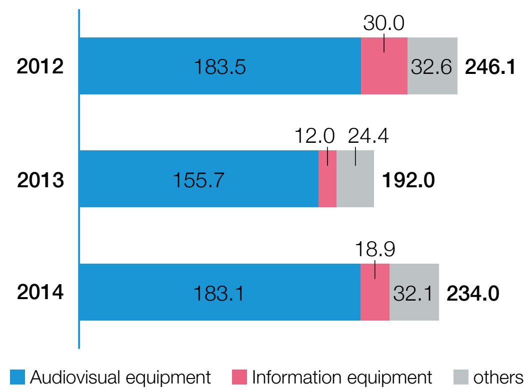
Sales Composition by Products

(Year ended March 31, 2014)



Sales by Products

(¥ billion)



payables (from ¥39,179 million to ¥32,942 million) and ¥8,756 million in short-term bank borrowings (from ¥12,982 million to ¥4,226 million). The main reason for the decrease in trade notes and accounts payable was payment for purchases of raw materials, and the main reason for the decrease in short-term bank borrowings were repayment of bank borrowings employed as working capital.

Long-Term Liabilities

Long-term liabilities as of March 31, 2014 were ¥9,965 million, up ¥6,292 million from ¥3,673 million a year earlier.

The change is mainly attributable to an increase of ¥6,038 million in long-term debt (from ¥147 million to ¥6,185 million), mainly bank borrowings employed as working capital.

Total Equity

Total equity as of March 31, 2014 were ¥117,684 million, down ¥3,714 million from ¥121,398 million a year earlier.

The change is mainly attributable to a decrease of ¥7,939 million in retained earnings (from ¥101,136 million to ¥93,197 million) and an increase of ¥4,227 million in foreign currency translation adjustments (from negative ¥21,723 million to negative ¥17,496 million).

Cash Flows

Cash and cash equivalents (hereafter "cash") on a consolidated basis as of March 31, 2014 were ¥43,613 million, down ¥6,625 million from a year earlier.

The change is mainly attributable to a decrease in trade payables, payments for the purchase of investments in subsidiaries resulting in change in the scope of consolidation, and a decrease in short-term bank borrowings, which offset a decrease in inventories and proceeds from long-term debt.

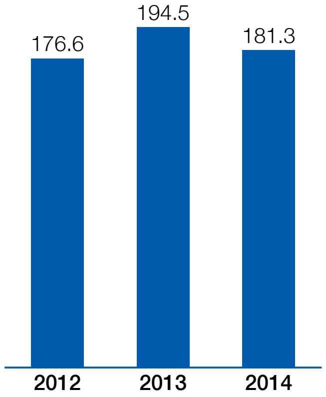
Cash flows during the fiscal year under review and factors affecting cash flows are as follows.

Cash Flows from Operating Activities

Net cash used in operating activities was ¥1,251 million, compared with ¥8,023 million in net cash used in the previous fiscal year. The change is mainly attributable to an increase in net loss before income taxes and minority interests and decreases in inventories and trade payables.

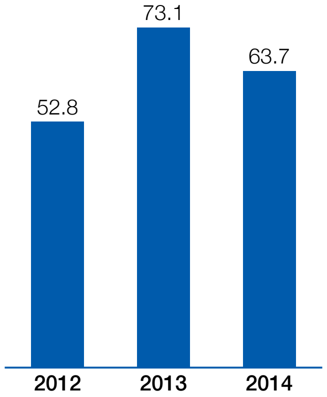
Total Assets

(¥ billion)



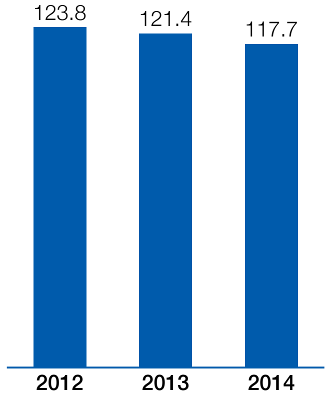
Total Liabilities

(¥ billion)



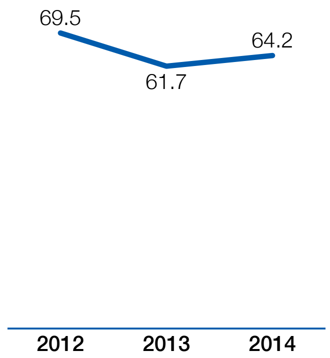
Total Equity

(¥ billion)



Shareholders' Equity Ratio

(%)



Cash Flows from Investing Activities

Net cash used in investing activities was ¥2,730 million, compared with ¥12,864 in net cash provided in the previous fiscal year. The change is mainly attributable to purchases of property, plant and equipment and intangible assets and the purchase of investments in subsidiaries resulting in change in the scope of consolidation.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥4,677 million, compared with ¥5,129 million in net cash provided in the previous fiscal year. The change is mainly attributable to a decrease in net short-term bank loans, which offset proceeds from long-term debt.

Business and Other Risks

Risks that may have a significant impact on the Group's financial situation and operating results are outlined below.

(1) The Funai Group's Management Policy

The Group manufactures and sells as our principal products audiovisual equipment, information equipment, and other equipment. Price competition in these product areas is intense; product life cycles are short; and competition to develop new technologies and functions is growing more severe. Accordingly, these factors may affect the Group's financial situation and operating results.

1) Product cost and market prices

When the cost of parts and raw materials rises due to intense competition in the home electronic appliance industry, even though we have implemented various countermeasures, cost pressures may affect the Group's financial situation and operating results.

2) Response to new technologies

To respond to various issues, the Group improves its technological capabilities, focusing mainly on new business sectors, by means such as business alliances with other companies, collaboration with academia, and personnel development, and also considers mergers and acquisitions as an option. However, greater than expected diversification of market needs or technological innovation may affect the Group's financial situation and operating results.

3) Defects relating to products and services

The Group's departments responsible for quality management and technologies play a central role in an effort to maintain and improve quality. In addition, the Group have established service companies and put in place a service system in Japan and overseas. However, if a product defect occurs that requires repair or replacement of products, the impact of warranties, damage to the Group's reputation, and other resulting factors may affect the Group's financial situation and operating results.

4) Intellectual property rights

Recent years have seen an increase in activity by "patent trolls," entities that sell no products of their own, but rather attempt to generate income from patent royalties by filing lawsuits using intellectual property rights acquired from third parties. This is a worrisome trend for the manufacturing and sales industry as a whole. Should the Group be compelled to make large compensation payments as a result of the activities of patent trolls, this may affect the Group's financial situation and operating results.

5) Corporate acquisitions and business alliances

At times the Group engages in corporate acquisitions and business alliances to more efficiently increase sales and profits. However, if for various reasons agreement is not reached on a corporate acquisition, initially expected acquisition synergies do not materialize, or an alliance partnership cannot be continued, this may affect the Group's financial situation, operating results, and growth prospects.

(2) Impact of Overseas Market Trends

1) Dependence on the North American market

Since a large portion of the Group's net sales originates in the North American market, should the North American economy rapidly go into recession, this may affect the Group's financial situation and operating results.

2) Dependence on production in China

Since the Group has a high rate of production (consignment fabrication and own production) in China to take advantage of cost benefits, changes in the political system in China, the occurrence of conflict or natural disaster, or other unforeseen circumstances may affect the Group's financial situation and operating results.

3) Foreign currency risk

The majority of the Group's purchasing and sales transactions are conducted in U.S. dollars. We believe this reduces the risks that accompany currency fluctuations. However, since it is impossible to completely eliminate foreign currency risk, and foreign currency-denominated assets and liabilities are translated to yen at the exchange rates on the settlement date, large currency fluctuations may affect the Group's financial situation and operating results.

(3) Other Risks

1) Statutory regulations

In the countries where it does business, the Group is subject to the application of various laws and regulations pertaining to areas such as commercial transactions, import and export, antitrust, intellectual property rights, product liability, environmental protection, consumer protection, financial transactions, and taxation of business entities. Should these laws and regulations or the interpretation of laws and regulations by the authorities become stricter, this may affect the Group's financial situation and operating results.

2) Litigation

Various litigation risks pertaining to the operation of the Group's businesses in Japan and overseas continuously exist. The filing of a major lawsuit may affect the Group's financial situation and operating results.

3) Management of information

Although the Group has implemented measures to prevent information leaks and virus protection systems on its internal information systems, it may not be possible to completely prevent information leaks or system crashes caused by human error or new virus strains. The occurrence of such an event may affect the Group's financial situation and operating results.

4) Retirement benefit obligations

The Group and some Group companies have in place defined benefit corporate pension systems, and retirement benefit obligations are calculated based on actuarial assumptions such as long-term expected rates of return and discount rates on pension assets. However, should it become necessary to change those assumptions, should pension assets decrease due to deterioration in the investment environment or other factors, or should future retirement benefit costs increase due to changes in the pension system, this may affect the Group's financial situation and operating results.

5) Deferred tax assets

The Group bases its decisions on the recoverability of deferred tax assets on various forecasts and assumptions about future taxable earnings. Should the forecasts and assumptions about future taxable earnings change or should the Group determine that part or all of its deferred tax assets cannot be recovered, deferred tax assets will decrease, and this may affect the Group's financial situation and operating results.

6) Financing

The Group may be subject to restrictions on financing resulting in an increase in financing costs due to deterioration in business performance, and this may affect the Group's financial situation and operating results.

In addition, a portion of the Group's borrowings are subject to financial covenants. Any infringement of the covenants may result in interest rate increases or forfeiture of benefit of time and affect the Group's financial situation and operating results.

Years ended March 31	Millions of yen 2010	2011	2012	2013	2014	Thousands of U.S. dollars (Note) 2014
Net Sales	314,912	295,924	246,148	192,008	**234,043**	**2,272,262**
Operating Income (Loss)	11,148	772	462	(5,273)	**(5,466)**	**(53,068)**
Net Income (Loss)	10,329	(1,170)	(4,629)	(8,543)	**(6,745)**	**(65,485)**
Total Equity	142,780	131,229	123,844	121,398	**117,684**	**1,142,563**
Total Assets	204,058	193,910	176,607	194,524	**181,341**	**1,760,592**
Shareholders' Equity	141,992	130,088	122,762	120,103	**116,509**	**1,131,155**
Net Cash (Used in) Provided by Operating Activities	3,640	(5,166)	16,416	(8,023)	**(1,251)**	**(12,145)**
Net Cash (Used in) Provided by Investing Activities	(2,714)	4,071	(6,435)	12,864	**(2,730)**	**(26,505)**
Free Cash Flow	926	(1,095)	9,981	4,841	**(3,981)**	**(38,650)**
Capital Investment	4,310	6,062	3,932	5,346	**10,926**	**106,078**
Depreciation Expense	4,300	4,867	4,971	4,057	**5,240**	**50,874**
Return on Assets (%)	5.11	(0.59)	(2.50)	(4.60)	**(3.59)**	
Return on Equity (%)	7.45	(0.86)	(3.66)	(7.03)	**(5.70)**	
Debt/Equity Ratio (%)	4.86	7.79	3.73	10.81	**9.14**	

	Yen 2010	2011	2012	2013	2014	U.S. dollars 2014
Shareholders' Equity per Share	4,164.86	3,813.57	3,598.03	3,520.11	**3,414.77**	**33.15**
Net Income (Loss) per Share	302.97	(34.31)	(135.69)	(250.38)	**(197.70)**	**(1.92)**
Cash Dividends per Share	40	40	50	35	**35**	**0.34**

Note: The exchange rate of ¥103.00=U.S.$1.00 (the approximate rate of exchange at March 31, 2014) is used for the above calculations.

Consolidated Balance Sheet

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
March 31, 2014

ASSETS	(Millions of yen) March 31, 2014	(Millions of yen) March 31, 2013	(Thousands of U.S. dollars) (Note 1) March 31, 2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	¥ 43,613	¥ 50,238	$ 423,427
Time deposits (Note 17)	5,555	17,575	53,932
Receivables:			
Trade (Note 17)	37,682	33,194	365,845
Other	2,567	2,025	24,922
Allowance for doubtful accounts	(211)	(178)	(2,049)
Inventories (Note 4)	49,276	55,641	478,408
Deferred tax assets (Note 16)	2,504	2,887	24,311
Prepaid expenses and other current assets	3,055	2,961	29,660
Total current assets	144,041	164,343	1,398,456
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,179	6,170	59,990
Buildings and structures	18,278	12,332	177,456
Machinery, equipment and other	36,126	30,778	350,738
Lease assets (Note 15)	491	698	4,767
Construction in progress	826	1,099	8,020
Total	61,900	51,077	600,971
Accumulated depreciation	(39,995)	(34,401)	(388,301)
Net property, plant and equipment	21,905	16,676	212,670
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 8 and 17)	2,448	2,900	23,767
Investments in and advances to unconsolidated subsidiaries and associated companies	3,151	3,270	30,592
Patents	4,654	2,079	45,185
Long-term loans	185	169	1,796
Long-term prepaid expenses	1,976	1,474	19,184
Goodwill	1	4	10
Assets for retirement benefits (Note 10)	336	879	3,262
Deferred tax assets (Note 16)	401	437	3,893
Other assets	2,540	2,486	24,660
Allowance for doubtful accounts	(297)	(193)	(2,883)
Total investments and other assets	15,395	13,505	149,466
TOTAL	¥181,341	¥194,524	$1,760,592

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	(Millions of yen) March 31, 2014	(Millions of yen) March 31, 2013	(Thousands of U.S. dollars) (Note 1) March 31, 2014
CURRENT LIABILITIES:			
Short-term bank borrowings (Notes 9 and 17)	¥ 4,226	¥ 12,982	$ 41,029
Current portion of long-term debt (Notes 9, 15, and 17)	388	163	3,767
Payables:			
Trade (Note 17)	32,942	39,179	319,825
Other (Note 17)	11,572	11,124	112,350
Income taxes payable (Note 16)	414	1,691	4,019
Other current liabilities (Note 16)	4,150	4,314	40,291
Total current liabilities	53,692	69,453	521,281
LONG-TERM LIABILITIES:			
Long-term debt (Notes 9, 15, and 17)	6,185	147	60,049
Liability for retirement benefits (Note 10)	1,864	2,009	18,097
Long-term payables – other	470	4	4,563
Deferred tax liabilities (Note 16)	1,154	1,169	11,204
Other	292	344	2,835
Total long-term liabilities	9,965	3,673	96,748
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 15 and 22)			
EQUITY (Notes 11, 12, and 20)**:**			
Common stock:			
Authorized, 80,000,000 shares; issued, 36,130,796 shares in 2014 and 2013	31,308	31,308	303,961
Capital surplus	33,272	33,272	323,029
Stock acquisition rights	131	122	1,272
Retained earnings	93,197	101,136	904,825
Treasury stock – at cost 2,011,615 shares in 2014 and 2013	(24,341)	(24,341)	(236,320)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	673	451	6,534
Foreign currency translation adjustments	(17,496)	(21,723)	(169,864)
Defined retirement benefit plans	(103)		(1,000)
Total	116,641	120,225	1,132,437
Minority interests	1,043	1,173	10,126
Total equity	117,684	121,398	1,142,563
TOTAL	¥181,341	¥194,524	$1,760,592

Consolidated Statement of Operations

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2014

	(Millions of yen) Years ended March 31, 2014	2013	(Thousands of U.S. dollars) (Note 1) Year ended March 31, 2014
NET SALES	**¥234,043**	¥192,008	**$2,272,262**
COST OF SALES (Note 14)	**201,456**	163,341	**1,955,883**
Gross profit	**32,587**	28,667	**316,379**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 13 and 14)	**38,053**	33,940	**369,447**
Operating loss	**(5,466)**	(5,273)	**(53,068)**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**269**	321	**2,612**
Interest expense	**(193)**	(112)	**(1,874)**
Foreign exchange gain – net	**3,477**	4,691	**33,757**
(Loss) gain on sale or disposal of property, plant and equipment	**(45)**	421	**(437)**
Equity in losses of associates	**(125)**	(70)	**(1,213)**
Loss on impairment of investment securities	**(513)**	(413)	**(4,981)**
Loss on impairment of long-lived assets (Note 5)	**(267)**	(1,614)	**(2,592)**
Compensation expenses	**(529)**		**(5,136)**
Advisory fees (Note 7)	**(1,166)**		**(11,320)**
Business structure improvement expenses (Note 6)	**(1,281)**		**(12,437)**
Other – net	**199**	(462)	**1,932**
Other (expenses) income – net	**(174)**	2,762	**(1,689)**
NET LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS	**(5,640)**	(2,511)	**(54,757)**
INCOME TAXES (Note 16):			
Current	**519**	725	**5,039**
Prior years		967	
Deferred	**549**	4,326	**5,330**
Total income taxes	**1,068**	6,018	**10,369**
NET LOSS BEFORE MINORITY INTERESTS	**(6,708)**	(8,529)	**(65,126)**
MINORITY INTERESTS	**(37)**	(14)	**(359)**
NET LOSS	**¥ (6,745)**	¥ (8,543)	**$ (65,485)**

	(Japanese yen) 2014	2013	(U.S. dollars) 2014
PER SHARE OF COMMON STOCK (Notes 2.v and 19):			
Basic net loss	**¥ (197.70)**	¥ (250.38)	**$ (1.92)**
Cash dividends applicable to the year	**35.00**	35.00	**0.34**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Loss

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2014

	(Millions of yen) Years ended March 31, 2014	2013	(Thousands of U.S. dollars) (Note 1) Year ended March 31, 2014
NET LOSS BEFORE MINORITY INTERESTS	**¥(6,708)**	¥(8,529)	**$(65,126)**
OTHER COMPREHENSIVE INCOME (Note 18):			
Unrealized gain on available-for-sale securities	**224**	396	**2,175**
Foreign currency translation adjustments	**4,169**	7,190	**40,476**
Defined retirement benefit plans	**135**		**1,310**
Share of other comprehensive income in associates	**58**	33	**563**
Total other comprehensive income	**4,586**	7,619	**44,524**
COMPREHENSIVE LOSS (Note 18)	**¥(2,122)**	¥ (910)	**$(20,602)**
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	**¥(2,161)**	¥ (953)	**$(20,981)**
Minority interests	**39**	43	**379**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2014

	(Thousands)	(Millions of Japanese yen)										
							Accumulated other comprehensive (loss) income					
	Number of shares of common stock outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
BALANCE, APRIL 1, 2012	34,119	¥31,308	¥33,272	¥107	¥111,385	¥(24,341)	¥ 56	¥(28,918)		¥122,869	¥ 975	¥123,844
Net loss					(8,543)					(8,543)		(8,543)
Cash dividends, ¥50.00 per share					(1,706)					(1,706)		(1,706)
Purchase of treasury stock						(0)				(0)		(0)
Net change in the year				15			395	7,195		7,605	198	7,803
BALANCE, MARCH 31, 2013	34,119	31,308	33,272	122	101,136	(24,341)	451	(21,723)		120,225	1,173	121,398
Net loss					**(6,745)**					**(6,745)**		**(6,745)**
Cash dividends, ¥35.00 per share					**(1,194)**					**(1,194)**		**(1,194)**
Net change in the year				**9**			**222**	**4,227**	**(103)**	**4,355**	**(130)**	**4,225**
BALANCE, MARCH 31, 2014	**34,119**	**¥31,308**	**¥33,272**	**¥131**	**¥ 93,197**	**¥(24,341)**	**¥673**	**¥(17,496)**	**¥(103)**	**¥116,641**	**¥1,043**	**¥117,684**

	(Thousands of U.S. dollars) (Note 1)										
						Accumulated other comprehensive (loss) income					
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2013	$303,961	$323,029	$1,184	$981,903	$(236,320)	$4,379	$(210,903)		$1,167,233	$11,388	$1,178,621
Net loss				**(65,485)**					**(65,485)**		**(65,485)**
Cash dividends,$0.34 per share				**(11,593)**					**(11,593)**		**(11,593)**
Net change in the year			**88**			**2,155**	**41,039**	**(1,000)**	**42,282**	**(1,262)**	**41,020**
BALANCE, MARCH 31, 2014	**$303,961**	**$323,029**	**$1,272**	**$904,825**	**$(236,320)**	**$6,534**	**$(169,864)**	**$(1,000)**	**$1,132,437**	**$10,126**	**$1,142,563**

See notes to consolidated financial statements.

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2014

	(Millions of yen) Years ended March 31,		(Thousands of U.S. dollars) (Note 1) Year ended March 31,
	2014	2013	2014
OPERATING ACTIVITIES:			
Net loss before income taxes and minority interests	¥ (5,640)	¥ (2,511)	$ (54,757)
Adjustments for:			
Income taxes – paid	(2,422)	(1,010)	(23,514)
Income taxes – refund	747	684	7,252
Depreciation and amortization	6,480	5,265	62,913
Loss (gain) on sale or disposal of property, plant and equipment	45	(421)	437
Loss on impairment of long-lived assets	267	1,614	2,592
Equity in losses of associates	125	70	1,213
Loss on sales of investment securities - net	0	92	0
Business structure improvement expenses	1,045		10,146
Changes in assets and liabilities			
(Increase) decrease in trade receivables	(261)	4,389	(2,534)
Decrease (increase) in inventories	11,037	(15,194)	107,155
(Decrease) increase in trade payables	(12,057)	1,328	(117,058)
Decrease in liability for employees' retirement benefits	(16)	(112)	(155)
Other – net	(601)	(2,217)	(5,835)
Total adjustments	4,389	(5,512)	42,612
Net cash used in operating activities	(1,251)	(8,023)	(12,145)
INVESTING ACTIVITIES:			
Payments for time deposits	(5,500)	(59,777)	(53,398)
Proceeds from time deposits	18,377	80,150	178,417
Proceeds from sale of property, plant and equipment	68	497	660
Purchases of property, plant and equipment	(5,175)	(5,384)	(50,243)
Purchases of intangible assets	(4,321)	(415)	(41,951)
Proceeds from sales of investment securities	221	357	2,146
Purchases of investment securities	(362)	(702)	(3,515)
Payments for purchase of investments in subsidiaries resulting in change in scope of consolidation	(5,832)		(56,621)
Payments for loans receivable	(56)	(1,074)	(544)
Proceeds from collection of loans receivable	7	85	68
Other – net	(157)	(873)	(1,524)
Net cash (used in) provided by investing activities	¥ (2,730)	¥12,864	$ (26,505)

	(Millions of yen) Years ended March 31,		(Thousands of U.S. dollars) (Note 1) Year ended March 31,
	2014	2013	2014
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans – net	¥ (9,391)	¥ 6,900	$ (91,175)
Repayments of long-term debt	(525)		(5,097)
Dividends paid	(1,194)	(1,706)	(11,593)
Other – net	6,433	(65)	62,457
Net cash (used in) provided by financing activities	(4,677)	5,129	(45,408)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	2,033	3,667	19,738
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,625)	13,637	(64,320)
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		34	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	50,238	36,567	487,747
CASH AND CASH EQUIVALENTS, END OF YEAR	¥43,613	¥50,238	$423,427

See notes to consolidated financial statements.

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2014

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Funai Electric Co., Ltd. (the "Company"), is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103 to $1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation**—The consolidated financial statements as of March 31, 2014, include the accounts of the Company and its 21 significant (18 in 2013) subsidiaries (together, the "Group").

Under the control or influence concept, those companies over whose operations the Company, directly or indirectly, is able to exercise control are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

In 2014, investments in one (one in 2013) unconsolidated subsidiary and one (one in 2013) associated company are accounted for using the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—In May 2006, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process, so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of research and development (R&D); (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if included in net income.

c. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted, so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if included in net income.

d. **Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

e. **Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Inventories—Inventories of the Company and its consolidated domestic subsidiaries are mainly stated at the lower of cost, determined using the average method for finished products and work in process and using the first-in, first-out method for raw materials, or net selling value.

Inventories of the consolidated foreign subsidiaries are mainly stated at the lower of cost, determined using the first-in, first-out method, or net selling value.

g. Investment Securities—Investment securities are classified and accounted for depending on management's intent. All investment securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

h. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially using the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the estimated useful lives of the assets. Depreciation of property, plant and equipment of consolidated foreign subsidiaries is principally computed using the straight-line method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from three to 50 years for buildings and structures and from 1 to 20 years for machinery, equipment and other.

Lease assets are depreciated using the straight-line method over the respective lease periods.

i. Patents—Patents are carried at cost, less accumulated amortization, which is computed using the straight-line method over the estimated useful lives.

j. Goodwill—Cost in excess of the net assets of subsidiaries acquired is amortized on a straight-line basis over five years.

k. Intangible Assets—Intangible assets are stated at cost. Amortization of intangible assets of the Company and its consolidated subsidiaries is computed using the straight-line method. Amortization of software for internal use is computed using the straight-line method based over the estimated useful life (five years).

l. Long-Lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the sum of the discounted cash flows from the continued use and eventual disposition of the asset, or the net selling price at disposition.

m. Retirement and Pension Plans—The Company and certain consolidated subsidiaries have non-contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain consolidated foreign subsidiaries also have defined contributed pension plans.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The total transitional obligation determined as of April 1, 2000, was charged to income when adopted, except that of a certain domestic subsidiary, which is being amortized over 15 years.

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

Retirement allowances for directors, corporate auditors, and executive officers are recorded as a liability at the amount that would be required if all directors, corporate auditors, and executive officers retired at each consolidated balance sheet date.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2.x)

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the starting of annual periods beginning on or after April 1, 2014, or for the starting of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the starting of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, an asset for retirement benefits of ¥315 million ($3,058 thousand) and a liability for retirement benefits of ¥643 million ($6,243 thousand) were recorded. Accumulated other comprehensive income decreased by ¥238 million ($2,311 thousand) and minority interests increased by ¥14 million ($136 thousand).

Net asset value per share decreased by ¥6.99 ($0.07).

n. **Asset Retirement Obligations**—In March 2008, the ASBJ published ASBJ Statement No. 18, “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. **Stock Options**—In December 2005, the ASBJ issued ASBJ Statement No. 8, “Accounting Standard for Stock Options” and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received.

The Company recognizes compensation expense for stock options granted to directors, corporate auditors, executive officers and employees based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. A domestic subsidiary also measures options at their intrinsic value if it cannot reliably estimate the fair value. In the consolidated balance sheet, the stock option is presented as “Stock acquisition right” as a separate component of equity until exercised.

p. **R&D Costs**—R&D costs are charged to income as incurred.

q. **Leases**—In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in a note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

r. **Construction Contracts**—In December 2007, the ASBJ issued ASBJ Statement No. 15, “Accounting Standard for Construction Contracts,” and ASBJ Guidance No. 18, “Guidance on Accounting Standard for Construction Contracts.” Under this accounting standard, construction revenue and construction costs should be recognized using the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the consolidated balance sheet date are deemed to be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

s. Income Taxes—The provision for income taxes is computed based on the pretax income and included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

t. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations to the extent that they are not hedged by forward exchange contracts.

u. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income (loss) as a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

v. Per Share Information—Basic net loss per share is computed by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because it is antidilutive due to the Company's net loss position.

Cash dividends per share presented in the accompanying consolidated statement of operations are dividends applicable to the respective years, including dividends to be paid after the end of the year.

w. Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied after revision of an accounting standards, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

x. New Accounting Pronouncements

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, and ASBJ Guidance No. 25, which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009. Major changes are as follows:

(a) Treatment in the consolidated balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the consolidated balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the consolidated statement of operations and the consolidated statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the starting of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods starting on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the starting of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

3. CHANGE IN PRESENTATION

Prior to April 1, 2013, loss on investments in limited partnership – net was disclosed separately in the other income (expenses)-net section of the operations. During this fiscal year ended March 31, 2014, the amount decreased significantly; as such, the amount is included in the other-net among the other income (expenses) section of the operations as of March 31, 2014. The amount included in other-net as of March 31, 2013, was ¥57 million.

4. INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	**2014**
Merchandise and finished products	**¥31,666**	¥34,547	**$307,437**
Work in process	**1,182**	2,096	**11,476**
Raw materials and supplies	**16,428**	18,998	**159,495**
Total	**¥49,276**	¥55,641	**$478,408**

5. LONG-LIVED ASSETS

During the fiscal year ended March 31, 2014, the Group recorded losses on impairment in the following asset groups:

Use	Location	Type
Business assets	Zhong Yue Funai Electron Co. (Guangdong, China)	Machinery, equipment, and vehicles, etc.
Business assets	Zhong Shan Funai Electron Co. (Guangdong, China)	Machinery, equipment, and vehicles, etc.

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

As the prospects for future profitability are expected to worsen due to factors including a decrease in orders for information equipment during the fiscal year ended March 31, 2014, the Company reduced the book value of manufacturing facilities, etc., to their recoverable amounts and recorded the decrease in value of ¥267 million ($2,592 thousand) as Other income (expense). The details of the losses are ¥202 million ($1,961 thousand) for machinery, equipment and other, and ¥65 million ($631 thousand) for long-term prepaid expenses.

The recoverable amounts of the assets were determined at net realizable value. The net realizable value of long-term prepaid expenses and assets other than long-term prepaid expenses is determined at zero and reasonable estimates based on market value, respectively.

During the year ended March 31, 2013, the Group recorded losses on impairment in the following asset groups:

Use	Location	Type
Idle assets	FUNAI ELECTRIC CO., LTD. (Daito City, Osaka)	Long-term prepaid expenses, etc.

The Company revised its production model in line with decreasing global demand. As a result, the Group revalued its licensing of patents based on its expected future degree of use, thereby reducing the expected amount collectible for these assets by ¥1,614 million. This impairment loss was recorded as Other income (expense).

As the recoverable value of these assets is estimated as their value in use and no future cash flows can be expected, their value in use has been reduced to zero.

6. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses were mainly expenses incurred due to shrinking of the overseas light emitting diode (hereinafter, "LED") business, including an inventory valuation loss of ¥206 million ($2,000 thousand), a loss on revaluation of investment in nonconsolidated subsidiaries and associated companies of ¥652 million ($6,330 thousand) and impairment losses of ¥393 million ($3,816 thousand).

(Impairment losses)

During the fiscal year ended March 31, 2014, the Group recorded losses on impairment in the following asset groups:

Use	Location	Type
Business assets	Zhong Yue Funai Electron Co.(Guangdong, China)	Machinery, equipment, and vehicles, etc.
Business assets	Zhong Shan Funai Electron Co.(Guangdong, China)	Machinery, equipment, and vehicles, etc.
Business assets	FUNAI Optical Electronics Co., Ltd.(Guangdong, China)	Machinery, equipment, and vehicles, etc.

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

Mainly, as a result of the decision to downsize the overseas LED business, during the fiscal year ended March 31, 2014, the Company reduced the book value of manufacturing facilities, etc., with no prospects of future use to their recoverable amount, and recorded the decrease in value of ¥393 million ($3,816 thousand) as business structure improvement expenses under Other income (expense). The details of the losses are ¥338 million ($3,282 thousand) for machinery, equipment, and other, and ¥55 million ($534 thousand) for long-term prepaid expenses.

The recoverable amounts of the assets were determined at net realizable value. The net realizable value of long-term prepaid expenses and assets other than long-term prepaid expenses is determined at zero and reasonable estimates based on market value, respectively.

7. ADVISORY FEES

Advisory fees were paid as specified compensation and fees to third-party advisors to determine an acquisition price for the intended acquisition of all shares in a company handling the Lifestyle Entertainment Business of Philips. However, the Company recorded these compensation and fees as expenses since Philips terminated the share purchase agreement and filed a petition for arbitration with the International Chamber of Commerce, and the Company filed a counterclaim in this regard.

8. INVESTMENT SECURITIES

The costs and aggregate fair values of investment securities at March 31, 2014 and 2013, were as follows:

	(Millions of Japanese yen)			
	Cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2014				
Securities classified as:				
Available-for-sale:				
Equity securities	**¥1,157**	**¥722**	**¥ 6**	**¥1,873**
March 31, 2013				
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,287	¥453	¥88	¥1,652

	(Thousands of U.S. dollars)			
	Cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2014				
Securities classified as:				
Available-for-sale:				
Equity securities	**$11,233**	**$7,009**	**$58**	**$18,184**

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2014 and 2013, were as follows:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	**2014**
Available-for-sale:			
Equity securities	**¥252**	¥ 957	**$2,447**
Investments in limited partnerships	**323**	291	**3,136**
Total	**¥575**	¥1,248	**$5,583**

The proceeds realized gains and realized losses of the available-for-sale securities, which were sold during the years ended March 31, 2014 and 2013, were as follows:

	(Millions of Japanese yen)		
	Proceeds	Realized gains	Realized losses
March 31, 2014			
Available-for-sale:			
Equity securities			
Total			
March 31, 2013			
Available-for-sale:			
Equity securities	¥348		¥92
Total	¥348		¥92

	(Thousands of U.S. dollars)		
	Proceeds	Realized gains	Realized losses
March 31, 2014			
Available-for-sale:			
Equity securities			
Total			

The impairment losses on available-for-sale equity securities for the years ended March 31, 2014 and 2013, were ¥513 million ($4,981 thousand) and ¥413 million, respectively.

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans bore interest at an annual average rate of 1.6% at March 31, 2014 and 2013, respectively.

Long-term debt at March 31, 2014 and 2013, consisted of the following:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	**2014**
Unsecured loans from banks and other financial institutions, due serially through 2019 with average interest rates of 1.0% (2014):	**¥6,421**	¥	**$62,340**
Obligations under finance leases	**152**	310	**1,476**
Total	**¥6,573**	¥ 310	**$63,816**
Less current portion	**(388)**	(163)	**(3,767)**
Long-term debt, less current portion	**¥6,185**	¥ 147	**$60,049**

Annual maturities of long-term debt, excluding finance leases (see Note 15), at March 31, 2014, were as follows:

Year ending March 31	(Millions of Japanese yen)	(Thousands of U.S. dollars)
2015	¥ 300	$ 2,913
2016	300	2,913
2017	300	2,913
2018	2,873	27,893
2019	2,648	25,708
Total	¥6,421	$62,340

10. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees, directors, corporate auditors and executive officers. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain consolidated subsidiaries have noncontributory funded defined benefit pension plans for employees. Certain consolidated foreign subsidiaries also have defined contribution pension plans.

The liability for retirement benefits at March 31, 2014 and 2013, for directors, corporate auditors and executive officers is ¥1,088 million ($10,563 thousand) and ¥1,082 million, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval by the shareholders.

Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	(Millions of Japanese yen)	(Thousands of U.S. dollars)
Balance at beginning of year	¥(9,258)	$(89,883)
Current service cost	(525)	(5,097)
Interest cost	(117)	(1,136)
Benefits paid	748	7,262
Actuarial losses	213	2,068
Increase in business combination	(290)	(2,816)
Others	42	408
Balance at end of year	¥(9,187)	$(89,194)

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

	(Millions of Japanese yen)	(Thousands of U.S. dollars)
Balance at beginning of year	¥8,013	$77,796
Expected return on plan assets	92	893
Benefits paid	(748)	(7,262)
Contributions from the employer	756	7,340
Actuarial gains	661	6,417
Increase in business combination	37	359
Others	(64)	(621)
Balance at end of year	¥8,747	$84,922

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2014, was as follows:

	(Millions of Japanese yen)	(Thousands of U.S. dollars)
Plan assets	¥ 7,288	$ 70,757
Funded defined benefit obligation	(6,952)	(67,495)
Net asset arising from defined benefit obligation	¥ 336	$ 3,262
Funded defined benefit obligation	¥(2,235)	$(21,699)
Plan assets	1,459	14,165
Net liability arising from defined benefit obligation	¥ (776)	$ (7,534)

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	(Millions of Japanese yen)	(Thousands of U.S. dollars)
Service cost	¥ 525	$ 5,097
Interest cost	117	1,136
Expected return on plan assets	(92)	(893)
Amortization of prior service cost	(109)	(1,058)
Recognized actuarial losses	108	1,048
Amortization of transitional obligation	125	1,214
Others	13	126
Net periodic benefit costs	¥ 687	$ 6,670

(5) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014, was as follows:

	(Millions of Japanese yen)	(Thousands of U.S. dollars)
Unrecognized prior service cost	**¥(412)**	**$(4,000)**
Unrecognized actuarial losses	**452**	**4,388**
Others	**232**	**2,253**
Total	**¥ 272**	**$ 2,641**

(6) Plan assets

(a) Components of plan assets

Plan assets consisted of the following:

Debt investments	**51%**
Equity investments	**32%**
Cash and cash equivalents	**2%**
Others	**15%**
Total	**100%**

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return that are expected currently and in the future from the various components of the plan assets.

(7) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	**1.3%**
Expected rate of return on plan assets	**1.2%**

Year Ended March 31, 2013

The liability for employees' retirement benefits at March 31, 2013 consisted of the following:

	(Millions of Japanese yen)
Projected benefit obligation	¥ 9,258
Fair value of plan assets	(8,013)
Unrecognized prior service cost	521
Unrecognized actuarial loss	(1,284)
Unrecognized transitional obligation	(434)
Prepaid pension cost	879
Net liability	¥ 927

The components of net periodic benefit costs for the year ended March 31, 2013 are as follows:

	(Millions of Japanese yen)
Service cost	¥ 473
Interest cost	155
Expected return on plan assets	(133)
Amortization of prior service cost	(109)
Recognized actuarial gain	185
Amortization of transitional obligation	125
Net periodic benefit costs	¥ 696

Assumptions used for the years ended March 31, 2013 are as follows:

	2013
Discount rate	1.1%–1.4%
Expected rate of return on plan assets	1.1%–1.4%
Amortization period of prior service cost	10 years
Recognition period of actuarial gain/loss	10 years

11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a Board of Directors, (2) having the independent auditors, (3) having a Board of Corporate Auditors and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution by the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined using a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. STOCK OPTIONS

The stock options outstanding as of March 31, 2014, are as follows:

(The Company)

Stock option	Persons granted	Number of options granted	Date of grant	Exercise price	Exercise period
2004 stock option ①	2 directors 293 employees 5 other persons	359,900 shares	July 21, 2004	¥16,167 ($157)	From August 1, 2006 to July 31, 2013
2004 stock option ②	20 employees 1 other person	25,600 shares	August 13, 2004	¥16,836 ($163)	From August 1, 2006 to July 31, 2013
2005 stock option	2 directors 293 employees 5 other persons	346,400 shares	July 12, 2005	¥12,369 ($120)	From August 1, 2007 to July 31, 2014
2008 stock option	1 director officer 10 executive officers 315 employees	431,700 shares	November 20, 2008	¥1,609 ($16)	From August 1, 2010 to July 31, 2017

(DX ANTENNA CO., LTD.)

Stock option	Persons granted	Number of options granted	Date of grant	Exercise price	Exercise period
2010 stock option	4 directors 29 employees	152,000 shares	February 13, 2010	¥384 ($4)	From February 11, 2012 to February 10, 2019
2011 stock option	2 directors 39 employees	116,900 shares	May 27, 2011	¥807 ($8)	From May 27, 2013 to May 26, 2020

The stock option activity is as follows:

(The Company)

	2004 stock option ① (Shares)	2004 stock option ② (Shares)	2005 stock option (Shares)	2008 stock option (Shares)
Year ended March 31, 2012				
Nonvested				
March 31, 2012 – Outstanding				
Granted				
Canceled				
Vested				
March 31, 2013 – Outstanding				
Vested				
March 31, 2012 – Outstanding	359,900	25,600	346,400	360,500
Vested				
Exercised				
Canceled				30,100
March 31, 2013 – Outstanding	359,900	25,600	346,400	330,400
Year ended March 31, 2013				
Nonvested				
March 31, 2013 – Outstanding				
Granted				
Canceled				
Vested				
March 31, 2014 – Outstanding				
Vested				
March 31, 2013 – Outstanding	359,900	25,600	346,400	330,400
Vested				
Exercised				
Canceled	359,900	25,600		19,600
March 31, 2014 – Outstanding			346,400	310,800

	2004 stock option ① (Shares)	2004 stock option ② (Shares)	2005 stock option (Shares)	2008 stock option (Shares)
Exercise price	¥16,167 ($157)	¥16,836 ($163)	¥12,369 ($120)	¥1,609 ($16)
Average stock price at exercise				
Fair value price at grant date				
From August 1, 2010 to July 31, 2017				¥440 ($4)
From August 1, 2011 to July 31, 2017				¥447 ($4)
From August 1, 2012 to July 31, 2017				¥454 ($4)
From August 1, 2013 to July 31, 2017				¥458 ($4)
From August 1, 2014 to July 31, 2017				¥475 ($5)
From August 1, 2015 to July 31, 2017				¥487 ($5)
From August 1, 2016 to July 31, 2017				¥510 ($5)

(DX ANTENNA CO., LTD.)

	2010 stock option (Shares)	2011 stock option (Shares)
Year ended March 31, 2012		
Nonvested		
March 31, 2012 – Outstanding		111,300
Granted		
Canceled		17,500
Vested		
March 31, 2013 – Outstanding		93,800
Vested		
March 31, 2012 – Outstanding	146,500	
Vested		
Exercised		
Canceled	24,000	
March 31, 2013 – Outstanding	122,500	
Year ended March 31, 2013		
Nonvested		
March 31, 2013 – Outstanding		93,800
Granted		
Canceled		
Vested		93,800
March 31, 2014 – Outstanding		
Vested		
March 31, 2013 – Outstanding	122,500	
Vested		93,800
Exercised		
Canceled	14,000	4,200
March 31, 2014 – Outstanding	108,500	89,600
Exercise price	384 $(4)	807 $(8)

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The Assumption Used to Measure Fair Value

(DX ANTENNA CO., LTD.)

On February 13, 2010 and May 27, 2011, DX ANTENNA CO., LTD., one of the subsidiaries, granted stock options. As DX ANTENNA CO., LTD. was a nonpublic company, the fair unit value of the stock options was measured at their intrinsic value.

The total intrinsic value of the stock options granted on February 13, 2010, for the year ended March 31, 2013, was ¥63 million ($612 thousand). The total intrinsic value of the stock options granted on May 27, 2011, for the year ended March 31, 2013, was ¥14 million ($136 thousand).

Estimated Method of Number of Vested Options

(The Company)

Estimated number of vested options of the Company is determined based on historical data.

(DX ANTENNA CO., LTD.)

Estimated number of vested options of DX ANTENNA CO., LTD. is determined based on the actual cancellation data because the number of options canceled in the future cannot be reasonably estimated.

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2014 and 2013, principally consisted of the following:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	**2014**
Promoting fee	**¥ 1,230**	¥ 991	**$ 11,942**
Royalty on patents	**10,327**	8,916	**100,262**
Depreciation	**1,474**	1,565	**14,311**
Amortization of goodwill	**4**	9	**39**
Provision for accrued pension and severance costs	**377**	359	**3,660**

14. R&D COSTS

R&D costs charged to income were ¥8,491 million ($82,437 thousand) and ¥9,383 million for the years ended March 31, 2014 and 2013, respectively.

15. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Obligations under finance leases were as follows:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	**2014**
Due within 1 year	**¥ 88**	¥163	**$ 854**
Due after 1 year	**64**	147	**622**
Total	**¥152**	¥310	**$1,476**

The minimum rental commitments under noncancelable operating leases at March 31, 2014 and 2013, are as follows:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	**2014**
Due within 1 year	**¥ 768**	¥ 859	**$ 7,456**
Due after 1 year	**2,013**	2,185	**19,544**
Total	**¥2,781**	¥3,044	**$27,000**

Pro forma information for leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13 requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheets. However, ASBJ Statement No. 13 permits leases that do not transfer ownership of the leased property to the lessee and whose lease inception was before March 31, 2008, to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the consolidated financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008 and continued to account for such leases as operating lease transactions.

Pro forma information for leased property whose lease inception is before March 31, 2014, was as follows:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	2014
Acquisition cost	¥12	¥98	$117
Accumulated depreciation	12	97	117
Net leased property		¥ 1	

Obligations under finance leases:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	2014
Due within 1 year		¥1	
Due after 1 year			
Total		¥1	

Depreciation expense, interest expense and other information under finance leases:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	2014	2013	2014
Depreciation expense	¥0	¥10	$0
Interest expense	0	0	0
Total	¥0	¥10	$0
Lease payments	¥0	¥10	$0

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statement of operations, are computed using the straight-line method and the interest method, respectively.

16. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 35.6% and 38.0% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carry-forwards, which resulted in deferred tax assets and liabilities, at March 31, 2014 and 2013, were as follows:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	2014
Deferred tax assets:			
Liability for retirement benefits	¥ 625	¥ 718	$ 6,068
Accounts payable - other	1,476	650	14,330
Allowance for doubtful accounts	3,843	3,792	37,311
Accrued employees' bonuses	381	396	3,699
Impairment loss on investment securities	423	399	4,107
Inventories	817	807	7,932
Intercompany profit	9	6	87
Tax loss carry-forwards	11,501	9,659	111,660
Other	1,608	2,464	15,612
Less valuation allowance	(18,040)	(15,885)	(175,146)
Total	¥ 2,643	¥ 3,006	$ 25,660
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 369	¥ 243	$ 3,582
Prepaid pension cost	120	310	1,165
Other	403	299	3,913
Total	¥ 892	¥ 852	$ 8,660
Net deferred tax assets	¥ 1,751	¥ 2,154	$ 17,000

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the years ended March 31, 2014 and 2013, is not presented because of the net loss for the period.

On June 28, 2005 and June 16, 2008, the Company received notices of supplementary tax assessment for additional tax on the income of its subsidiary in Hong Kong under the tax haven rules for the three financial years ended March 31, 2002 to March 31, 2004, and the three financial years ended March 31, 2005 to March 31, 2007, from the Osaka Regional Taxation Bureau, as the subsidiary in Hong Kong did not satisfy the conditions for exemption from the application of tax haven rules. The Company has contested the validity in court as the Company disagreed with this assessment and considered it to be unacceptable. Therefore, the Company asked the Osaka National Tax Tribunal to examine the case on July 25, 2006 and again on August 6, 2008. Thereafter, the Company received written verdicts on this case on July 3, 2008 and July 23, 2009, indicating that its assertions had been dismissed. The Company brought a case for the cancellation of the notice to the Osaka District Court on November 16, 2006 and again on November 14, 2008 and these cases had been consolidated and held since November 26, 2008. The court dismissed the claims of the Company on June 24, 2011. Thereafter, as the Company did not accept the Osaka District Court's judgment, the Company filed a notice of appeal with the Osaka High Court on July 7, 2011. With respect to this action, on July 20, 2012, the court dismissed the claims of the Company. The Company was unable to accept the judgment, filed appeal and an application for the acceptance of the appeal with the Supreme Court on August 1, 2012.

The additional tax assessments were ¥16,651 million (¥19,184 million, including incidental taxes) and ¥15,038 million (¥16,838 million, including incidental taxes), including corporate income taxes, inhabitant taxes and enterprise taxes. They were recognized as "INCOME TAXES – Prior years" for the fiscal years ended March 31, 2007, and March 31, 2009, in accordance with Japanese Institute of Certified Public Accountants (hereinafter, "JICPA") Audit and Assurance Practice Committee Report No. 63, "Treatment of Accounting and Presentation of Taxes for the Purpose of Audits".

On June 29, 2011, the Company received notices of supplementary tax assessment for additional tax on the income of its subsidiary in Hong Kong under the tax haven rules for the three financial years ended March 31, 2008 to March 31, 2010, from the Osaka Regional Taxation Bureau, as the subsidiary in Hong Kong did not satisfy the conditions for exemption from the application of tax haven rules. The Company has contested the validity in court as the Company disagreed with this assessment and considered it to be unacceptable. Therefore, the Company asked the Osaka National Tax Tribunal to examine the case on August 25, 2011. On July 18, 2012, the Company received written verdicts on this case indicating that its 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.

The additional tax assessments were ¥825 million (¥935 million including incidental taxes), including corporate income taxes, inhabitant taxes and enterprise taxes. They were recognized as"INCOME TAXES – Prior years" for the year ended March 31, 2012.

The cases that were brought to the Osaka District Court by the Company on June 28, 2005 and June 16, 2008, were dismissed on June 24, 2011. Accordingly, the Company has been accounting at an amount that was estimated based on an assumption that the Company had been applying the tax haven rules for expenses from the fiscal year ended March 31, 2011, which is the fiscal year following the year when the assessment was applied, as an expense from the fiscal year ended March 31, 2012.

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

1. Status of Financial Instruments

(1) Group Policy for Financial Instruments

The Group uses bank loans for fund-raising and short-term deposits to fund operations. The Group does not use derivatives. In principle, derivatives are not permitted.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk.

To avoid such a risk, the Group sets up sales management regulations and determines trading conditions and credit limit by each customer.

The Company has many receivables and payables based on foreign currencies due to its overseas operations. Basically, the Group does not make forward foreign currency contracts because of its U.S. dollar-basis trading.

Investment securities, mainly equity instruments, are exposed to market risk. Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis. This risk should be reported to investment committee internally.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Loans, both short term and long term, are financed for sales operations. Basically, derivatives are not permitted. Although the variable interest rates of loans are exposed to market risks, those risks may be mitigated by using interest rate swap derivatives. This derivative transaction should be executed and managed by corporate regulations. To decrease credit risks, the Group enters into relationships with highly rated financial institutions only.

Trade credit and loans are exposed to liquidity risks. The Group manages these risks by having the associated companies make monthly financial plans.

2. Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, another rational valuation technique is used instead. The list below does not contain financial instruments for which fair values are difficult to determine.

(a) Fair value of financial instruments

	(Millions of Japanese yen)		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2014			
Cash and cash equivalents	**¥43,613**	**¥43,613**	
Time deposits	**5,555**	**5,555**	
Receivables trade	**37,682**	**37,682**	
Investment securities	**1,873**	**1,873**	
Total	**¥88,723**	**¥88,723**	
Short-term bank loans (excluding finance lease obligation)	**¥ 4,526**	**¥ 4,526**	
Payables trade	**32,942**	**32,942**	
Payables other	**11,572**	**11,572**	
Long-term debt (excluding finance lease obligation)	**6,121**	**6,121**	
Total	**¥55,161**	**¥55,161**	
March 31, 2013			
Cash and cash equivalents	¥ 50,238	¥ 50,238	
Time deposits	17,575	17,575	
Receivables trade	33,194	33,194	
Investment securities	1,652	1,652	
Total	¥102,659	¥102,659	
Short-term bank loans (excluding finance lease obligation)	¥ 12,982	¥ 12,982	
Payables trade	39,179	39,179	
Payables other	11,124	11,124	
Total	¥ 63,285	¥ 63,285	

	(Thousands of U.S. dollars)		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2014			
Cash and cash equivalents	**$423,427**	**$423,427**	
Time deposits	**53,932**	**53,932**	
Receivables trade	**365,845**	**365,845**	
Investment securities	**18,184**	**18,184**	
Total	**$861,388**	**$861,388**	
Short-term bank loans (excluding finance lease obligation)	**$ 43,942**	**$ 43,942**	
Payables trade	**319,825**	**319,825**	
Payables other	**112,350**	**112,350**	
Long-term debt (excluding finance lease obligation)	**59,427**	**59,427**	
Total	**$535,544**	**$535,544**	

Assets

Cash and cash equivalents, time deposits and receivables trade

The carrying values of cash and cash equivalents, time deposits and trade receivables approximate fair values because of their short maturities.

Investment securities

Investment securities are measured at the quoted market prices on the stock exchange for the equity instruments.

Liabilities

Short-term bank loans, payables trade and payables other

The carrying value of short-term bank loans and payables approximates fair value because of their short maturities.

Long-term debt

The carrying value of long-term debt approximates the fair value because loans based on floating rates reflect market interest rates over a short period of time, as long as the credit standing of the Group does not change significantly from the time of borrowing.

Derivatives

Not applicable because derivatives are not permitted.

(b) Financial instruments whose fair values cannot be reliably determined

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	**2014**
Investments in equity instruments and investment in limited partnerships that do not have a quoted market price in an active market	**¥575**	¥1,248	**$5,583**

(c) Maturity analysis for financial assets and securities with contractual maturities

	(Millions of Japanese yen)			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2014				
Cash and cash equivalents	**¥43,613**			
Time deposits	**5,555**			
Receivables trade	**37,682**			
Total	**¥86,850**			
March 31, 2013				
Cash and cash equivalents	¥ 50,238			
Time deposits	17,575			
Receivables trade	33,194			
Total	¥101,007			

	(Thousands of U.S. dollars)			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2014				
Cash and cash equivalents	**$423,427**			
Time deposits	**53,932**			
Receivables trade	**365,845**			
Total	**$843,204**			

Please see Note 15 for obligations under finance leases.

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2014	2013	**2014**
Unrealized gain on available-for-sale securities:			
Gain arising during the year	**¥ 262**	¥ 201	**$ 2,544**
Reclassification adjustments to profit or loss	**87**	413	**844**
Amount before income tax effect	**349**	614	**3,388**
Income tax effect	**(125)**	(218)	**(1,213)**
Total	**¥ 224**	¥ 396	**$ 2,175**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥4,163**	¥7,190	**$40,418**
Amount before income tax effect	**4,163**	7,190	**40,418**
Income tax effect	**6**		**58**
Total	**¥4,169**	¥7,190	**$40,476**
Defined retirement benefit plans:			
Adjustments arising during the year	**¥ 142**		**$ 1,378**
Amount before income tax effect	**142**		**1,378**
Income tax effect	**(7)**		**(68)**
Total	**¥ 135**		**$ 1,310**
Share of other comprehensive income in associates:			
Gain arising during the year	**¥ 58**	¥ 33	**$ 563**
Total	**¥ 58**	¥ 33	**$ 563**
Total other comprehensive income	**¥4,586**	¥7,619	**$44,524**

19. NET INCOME PER SHARE

Information on basic net loss per share ("EPS") for the years ended March 31, 2014 and 2013, was as follows:

	Millions of Japanese yen	Thousands of Shares	Japanese yen	Dollars
	Net Loss	Weighted-Average Shares	EPS	
For the year ended March 31, 2014:				
Basic EPS				
Net loss available to common shareholders	**¥(6,745)**	**34,119**	**¥(197.70)**	**$(1.92)**
For the year ended March 31, 2013:				
Basic EPS				
Net loss available to common shareholders	¥(8,543)	34,119	¥(250.38)	

Diluted net income per share in 2014 and 2013 is not disclosed due to the loss positions.

20. BUSINESS COMBINATIONS

Business Combination through Acquisition

(1) Outline of the business combination

(a) Counterparty and business acquired:

Name of the counterparty: Lexmark International, Inc. (hereinafter, "Lexmark")

Business acquired: Inkjet-related technologies and assets, including patents

(b) Main reason for the business combination:

As a contract manufacturer, the Company has supplied inkjet printer hardware to Lexmark since July 1997. The Company has worked closely with Lexmark for around 16 years in developing printer hardware and has established a strong relationship with Lexmark.

The acquisition of the patents for printer-related products, including ink cartridges that have long been marketed by Lexmark globally (specifically, in North America), as well as product-developing functions and technologies and manufacturing functions and technologies, enables the Company to start and grow its own inkjet business, including manufacture and sale of more profitable ink cartridges, rather than as a contract manufacturer of printer products, by utilizing the strong inkjet business platform that Lexmark has spent years establishing. As a result, the Company believes the Group will be able to sustainably expand its business going forward.

(c) Date of the business combination:

April 30, 2013

(d) Legal form of the business combination:

Acquisition of patents and development facilities and acquisition of shares in a manufacturing subsidiary

(e) Name of the manufacturing subsidiary after business combination:

Funai Electric Cebu, Inc.

(f) Ratio of voting rights acquired: 100%

(2) Period of operating results of the acquired business included in the consolidated financial statements

From May 1, 2013 to March 31, 2014

(3) Amount and breakdown of the acquisition cost

		(Millions of Japanese yen)	(Thousands of U.S. dollars)
Consideration for the acquisition:	Cash	**¥10,037**	**$97,447**
Expenses directly associated with the acquisition	Advisory fees, etc.	**242**	**2,349**
Acquisition cost		**¥10,279**	**$99,796**

(4) Amount of gain on bargain purchase generated and the reason for recognition

(a) Amount of gain on bargain purchase generated: ¥8 million

(b) Reason for recognition:

As the net amount of acquired assets and assumed liabilities exceeded the acquisition cost, the difference was recorded as a gain on bargain purchase.

(c) Amount and breakdown of the assets acquired and the liabilities assumed at the acquisition date

	(Millions of Japanese yen)	(Thousands of U.S. dollars)
Current assets	**¥ 544**	**$ 5,282**
Fixed assets	**10,398**	**100,951**
Total assets	**10,942**	**106,233**
Current liabilities	**402**	**3,903**
Long-term liabilities	**253**	**2,456**
Total liabilities	**¥ 655**	**$ 6,359**

21. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2014 was approved at the meeting of the Company's Board of Directors held on May 26, 2014:

	(Millions of Japanese yen)	(Thousands of U.S. dollars)
Year-end cash dividends, ¥35 ($0.34) per share	**¥1,194**	**$11,592**

22. CONTINGENT LIALIBITIES

(Arbitration)

The Company resolved to acquire from Philips all shares in a company that would succeed the operation of Philips' Lifestyle Entertainment Business and concluded a share purchase agreement on January 29, 2013. However, Philips filed against the Company a petition as of October 25, 2013, for arbitration to claim compensation for damages on the grounds of breach of the agreement by the Company and the petition was served on the Company by the International Chamber of Commerce on November 8, 2013.

With regard to this matter, the Company recognizes that there was no breach of the agreement on its part. Consequently, on December 6, 2013, the Company filed with the International Chamber of Commerce a counterclaim for claiming compensation for damages on the grounds of breach of the agreement and undue action by Philips.

On May 20, 2014, the Company was given notice of a compensation for damages Philips brought forward against the Company in the amount of €171.8 million, as well as statutory interest thereon and arbitration expenses.

The results of these arbitration proceedings may have an effect on the operating results of the Group. However, it is not possible to make a reasonable estimate of the effect of the arbitration proceedings as of the end of the fiscal year and the effect thereof, if any, on the operating results, and the financial position of the Group remains unclear.

The following is an outline of the petition for arbitration filed against the Company and the counterclaim filed by the Company:

(1) Outline of the petition for arbitration filed against the Company
- (a) Institution and date of the petition for arbitration:
  - (i) Institution with which the petition for arbitration was filed: International Chamber of Commerce
  - (ii) Date of the petition for arbitration: October 25, 2013
- (b) Petitioner for arbitration:
  - (i) Name: Koninklijke Philips N.V.
  - (ii) Location: Eindhoven, The Netherlands
  - (iii) Title and name of representative: Chief Executive Officer, Frans van Houten
- (c) Details of the petition and claimed amount for damages:
  - (i) Details of the petition: A claim for damages on the grounds of breach of the agreement by the Company
  - (ii) Claimed amount: €171.8 million, statutory interest thereon and arbitration expenses

(2) Outline of the counterclaim filed by the Company
- (a) Institution with which the counterclaim was filed and the date thereof:
  - (i) Institution with which the counterclaim was filed: International Chamber of Commerce
  - (ii) Date of the counterclaim: December 6, 2013
- (b) Party to the counterclaim filed:
  - (i) Name: Koninklijke Philips N.V.
  - (ii) Location: Eindhoven, The Netherlands
  - (iii) Title and name of representative: Chief Executive Officer, Frans van Houten
- (c) Details of the counterclaim and claimed amount for damages:
  - (i) Details of the counterclaim:
    Claim for damages on the grounds of breach of the agreement and undue action by Philips
  - (ii) Claimed amount:
    A specific claimed amount has not been stipulated. The Company was instructed by the arbitration court to calculate the amount of damages incurred by the Company and bring forward a claimed amount against Philips no later than October 2014.

An overview of the above-mentioned share purchase agreement is as follows:

1. Name of the other party and the content of the business to be acquired
   (1) Name of the other party: Koninklijke Philips N.V.
   (2) Content of the business to be acquired: Lifestyle Entertainment Business
   (Note) The Lifestyle Entertainment Business involves the development, design, sales and (partial) manufacture of the Philips-brand Audio, Video, and Multimedia products; Home Communication products; and Accessories products.
2. Reasons for acquiring the shares
   In September 2008, the Company entered into a brand licensing agreement maintaining responsibility for the sourcing, distribution, marketing, and sales activities of Philips consumer televisions in the United States and Canada. Following this, in July 2012, the Company entered into an agreement with Philips involving the sale in the United States, Canada, and Mexico of products that Philips designed and developed through the Lifestyle Entertainment Business.
   The Company has positioned "strengthening and expanding existing businesses," "making forays into new markets," and "developing new businesses" as the three pillars of its growth strategy. To achieve this growth strategy, in addition to reinforcing its existing management resources, the Company has searched for growth opportunities through business alliances

and merger and acquisition activities with other companies, such as those outlined above.

The transaction to assume the Lifestyle Entertainment Business from Philips will enable the Group to expand the lineup of products that it handles and expand its sales region to include Asia, South America, and other emerging markets, as well as advanced countries in Europe. The Company decided to acquire the shares, based on the belief that the acquisition would foster sustained growth of the Group's business.

3. Acquisition price and the percentage of shares held after the acquisition
   Acquisition price: €150 million
   Percentage of shares held after the acquisition: 100%

(Financial covenants)

With regard to bank loans, a syndicated loan agreement (balance as of the end of the fiscal year: ¥5,146 million) includes financial covenants; if the Company breaches any of the following clauses, it shall forfeit the benefit of time in relation to the entire obligation under the agreement and immediately pay the principal of and interest on the loan:

(Clauses)

(1) The Company shall maintain the amount of the equity section in the consolidated balance sheet as of the end of each fiscal year at no less than ¥100 billion.

(2) The Company shall, for two consecutive fiscal years, not report an operating loss in the consolidated statement of operations for the fiscal year ending March 31, 2015, and for each fiscal year thereafter.

(3) The Company shall, for two consecutive fiscal years, not report an ordinary loss in the consolidated statement of operations for the fiscal year ending March 31, 2015, and for each fiscal year thereafter.

23. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group is engaged in the manufacture and sale of consumer electronics products. The reportable segments of the Group are composed of four segments: "Japan," "North America," "Asia" and "Europe," which consist of geographic segments based on the manufacturing and sales operations.

Those areas, Japan, North America, Asia and Europe, are mainly covered by the Company and DX ANTENNA CO., LTD., FUNAI CORPORATION, INC. and P&F USA, INC., FUNAI ELECTRIC (H.K.) LTD. and FUNAI ELECTRIC EUROPE Sp.zo.o., respectively. Each local entity sets up and carries out its own strategy as a single business unit.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Intersegment sales are based on arm's-length price.

(3) Information about Sales, Profit (Loss), Assets and Other Items

	Japan	North America	Asia	Europe	Total	Reconciliations (Note 1)	Consolidated
	(Millions of Japanese yen)						
	2014						
Sales:							
Sales to external customers	¥ 56,494	¥169,699	¥ 4,563	¥3,287	¥234,043	¥	¥234,043
Intersegment sales or transfers	135,566	0	148,674	1	284,241	(284,241)	
Total	¥192,060	¥169,699	¥153,237	¥3,288	¥518,284	¥(284,241)	¥234,043
Segment (loss) profit (Note 2)	¥ (1,328)	¥ (3,786)	¥ 408	¥ (425)	¥ (5,131)	¥ (335)	¥ (5,466)
Segment assets	¥129,870	¥ 61,922	¥ 70,795	¥3,392	¥265,979	¥ (84,638)	¥181,341
Other							
Depreciation	¥ 2,033	¥ 47	¥ 4,318	¥ 83	¥ 6,481	¥ (1)	¥ 6,480
Amortization of goodwill	3				3		3
Investment in equity method affiliate	30		196		226		226
Increase in property, plant and equipment and intangible assets	5,466	254	4,178	16	9,914	(54)	9,860
Impairment losses of assets			660		660		660

	Japan	North America	Asia	Europe	Total	Reconciliations (Note 1)	Consolidated
	(Millions of Japanese yen)						
	2013						
Sales:							
Sales to external customers	¥ 51,678	¥136,165	¥ 812	¥3,353	¥192,008	¥	¥192,008
Intersegment sales or transfers	120,863	0	133,492	0	254,355	(254,355)	
Total	¥172,541	¥136,165	¥134,304	¥3,353	¥446,363	¥(254,355)	¥192,008
Segment (loss) profit (Note 2)	¥ (4,295)	¥ 1,529	¥ (491)	¥ (390)	¥ (3,647)	¥ (1,626)	¥ (5,273)
Segment assets	¥108,875	¥ 55,362	¥ 66,697	¥4,382	¥235,316	¥ (40,792)	¥194,524
Other							
Depreciation	¥ 1,797	¥ 87	¥ 3,320	¥ 61	¥ 5,265		¥ 5,265
Amortization of goodwill	9				9		9
Investment in equity method affiliate	71		222		293		293
Increase in property, plant and equipment and intangible assets	1,318	38	4,373	5	5,734	(5)	5,729
Impairment losses of assets	1,614				1,614		1,614

	(Thousands of U.S. dollars)						
	2014						
	Japan	North America	Asia	Europe	Total	Reconciliations (Note 1)	Consolidated
Sales:							
Sales to external customers	$ 548,485	$1,647,563	$ 44,301	$31,913	$2,272,262	$	$2,272,262
Intersegment sales or transfers	1,316,175	0	1,443,437	9	2,759,621	(2,759,621)	
Total	$1,864,660	$1,647,563	$1,487,738	$31,922	$5,031,883	$(2,759,621)	$2,272,262
Segment (loss) profit (Note 2)	$ (12,893)	$ (36,757)	$ 3,961	$ (4,126)	$ (49,815)	$ (3,253)	$ (53,068)
Segment assets	$1,260,874	$ 601,184	$ 687,330	$32,932	$2,582,320	$ (821,728)	$1,760,592
Other							
Depreciation	$ 19,738	$ 456	$ 41,922	$ 806	$ 62,922	$ (9)	$ 62,913
Amortization of goodwill	29				29		29
Investment in equity method affiliate	291		1,903		2,194		2,194
Increase in property, plant and equipment and intangible assets	53,068	2,466	40,563	155	96,252	(524)	95,728
Impairment losses of assets			6,408		6,408		6,408

Note 1 Components of reconciliation are as follows:

Note 1

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
Segment profit (loss)	**2014**	2013	**2014**
Elimination of intersegment transactions	**¥1,071**	¥ (1)	**$10,398**
Company-wide expenses(*1)	**(839)**	(886)	**(8,146)**
Adjustment of inventory	**(567)**	(739)	**(5,505)**
Total	**¥ (335)**	¥(1,626)	**$ (3,253)**

	(Millions of Japanese yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
Segment assets	**2014**	2013	**2014**
Company-wide assets(*2)	**¥ 21,077**	¥ 37,615	**$ 204,631**
Adjustment of inventory	**(2,265)**	(1,698)	**(21,990)**
Assets for retirement benefits	**315**		**3,058**
Elimination of intersegment assets and liabilities, etc.	**(103,765)**	(76,709)	**(1,007,427)**
Total	**¥ (84,638)**	¥(40,792)	**$ (821,728)**

(*1) Company-wide expenses are mainly general and administrative expenses not attributable to any reportable segments.
(*2) Company-wide assets mainly consist of cash surpluses (cash and deposits) and long-term investments (investment securities, etc.) that are not attributable to any reportable segment.

Note 2 Segment profit (loss) is adjusted to operating income in the consolidated statement of operations.

(4) Related Information

1. Information about products and services

Information about each product and service

	(Millions of Japanese yen)			
	2014			
	Audiovisual equipment	Information equipment	Other	Total
Sales to external customers	**¥183,108**	**¥18,876**	**¥32,059**	**¥234,043**

	(Millions of Japanese yen)			
	2013			
	Audiovisual equipment	Information equipment	Other	Total
Sales to external customers	¥155,686	¥11,966	¥24,356	¥192,008

	(Thousands of U.S. dollars)			
	2014			
	Audiovisual equipment	Information equipment	Other	Total
Sales to external customers	**$1,777,748**	**$183,262**	**$311,252**	**$2,272,262**

2. Information about geographical areas

a. Sales

Note: Sales are classified by country or region based on the location of customers.

(Millions of Japanese yen)						
2014						
	North America					
Japan	USA	Other	Asia	Europe	Other	Total
¥38,110	**¥154,737**	**¥6,505**	**¥2,635**	**¥7,736**	**¥24,320**	**¥234,043**

(Millions of Japanese yen)						
2013						
	North America					
Japan	USA	Other	Asia	Europe	Other	Total
¥35,865	¥127,327	¥5,982	¥3,542	¥6,201	¥13,091	¥192,008

(Thousands of U.S. dollars)						
2014						
	North America					
Japan	USA	Other	Asia	Europe	Other	Total
$370,000	**$1,502,301**	**$63,155**	**$25,583**	**$75,107**	**$236,116**	**$2,272,262**

b. Property, plant and equipment

(Millions of Japanese yen)						
2014						
		Asia				
Japan	North America	Philippines	Thailand	Other	Europe	Total
¥9,787	**¥116**	**¥6,668**	**¥2,664**	**¥1,076**	**¥1,594**	**¥21,905**

(Millions of Japanese yen)						
2013						
		Asia				
Japan	North America	Philippines	Thailand	Other	Europe	Total
¥9,694	¥96	¥1,028	¥2,439	¥1,971	¥1,448	¥16,676

(Thousands of U.S. dollars)						
2014						
		Asia				
Japan	North America	Philippines	Thailand	Other	Europe	Total
$95,019	**$1,126**	**$64,738**	**$25,864**	**$10,447**	**$15,476**	**$212,670**

3. Information about major customer

	Sales			
	(Millions of Japanese yen)		(Thousands of U.S. dollars)	
Name of Customer	2014	2013	2014	Related segment name
WAL-MART STORES, INC.	**¥121,530**	¥93,918	**$1,179,903**	North America

(5) Goodwill by reportable segment

	(Millions of Japanese yen)					
	2014					
	Japan	North America	Asia	Europe	Elimination	Total
Amortization of goodwill	**¥3**					**¥3**
Goodwill at March 31, 2014	**1**					**1**

	(Millions of Japanese yen)					
	2013					
	Japan	North America	Asia	Europe	Elimination	Total
Amortization of goodwill	¥9					¥9
Goodwill at March 31, 2013	4					4

	(Thousands of U.S. dollars)					
	2014					
	Japan	North America	Asia	Europe	Elimination	Total
Amortization of goodwill	**$29**					**$29**
Goodwill at March 31, 2014	**10**					**10**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Funai Electric Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in the "Notes to Consolidated Financial Statements: 22. Contingent Liabilities, (Arbitration)," Koninklijke Philips N.V. filed against Funai Electric Co., Ltd. a petition for arbitration to claim compensation for damages, and the petition was served on Funai Electric Co., Ltd. by the International Chamber of Commerce. With regard to this matter, Funai Electric Co., Ltd. filed with the International Chamber of Commerce a counterclaim for claiming compensation for damages against Koninklijke Philips N.V. The petition and counterclaim may have an effect on the operating results of the Funai Electric Co., Ltd. However, it is not possible to make a reasonable estimate of the effect of the arbitration proceedings, and the effect thereof, if any, on the operating results and the financial position of Funai Electric Co., Ltd. remains unclear.

Our opinion is not qualified in respect of this matter.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 17, 2014

History

1961
- FUNAI ELECTRIC CO., LTD. established in Osaka, capitalized at ¥20 million.

1962
- Representative office established in Chicago,United States.

1964
- CHUGOKU FUNAI ELECTRIC CO., LTD. established as a production subsidiary in Hiroshima Prefecture.

1968
- FUNAI ELECTRIC COMPANY OF TAIWAN established as a production subsidiary in Taiwan.

1969
- Construction of new headquarters building completed in the city of Daito, Osaka.

1970
- FUNAI AMERICA ELECTRIC SERVICE CORP. established in the United States as a sales subsidiary.

1977
- Training started which formed the basis for establishing the Funai Production System (FPS).

1980
- FUNAI ELECTRIC TRADING (EUROPE) GmbH established in Germany as a sales subsidiary.

1983
- Tokyo Branch Office opened.

1987
- FUNAI AMSTRAD LIMITED established as a production joint venture in U.K.

1989
- FUNAI ELECTRIC (MALAYSIA) SDN. BHD. established as a production subsidiary in Malaysia.

1991
- FUNAI CORPORATION, INC. established as a sales subsidiary in the United States.

1992
- HIGHSONIC INDUSTRIAL LTD. (now FUNAI ELECTRIC (H.K.), LTD.) established in Hong Kong.

1996
- FUNAI SERVICE CO., LTD. established as a domestic service subsidiary.

1999
- Listed on the Second Section of the Osaka Securities Exchange.

2000
- Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange.

2001
- Acquired stocks of DX ANTENNA CO., LTD.

2003
- FUNAI (THAILAND) CO., LTD. established as a production subsidiary in Thailand.
- Huang Jiang Plant started operation as a consignment production plant in China.

2004
- FUNAI ELECTRIC ADVANCED APPLIED TECHNOLOGY RESEARCH INSTITUTE INC. established.

2006
- FUNAI ELECTRIC (POLSKA) Sp. z o.o. (now a sales subsidiary, FUNAI ELECTRIC EUROPE Sp. z o.o.) established as a production subsidiary in Poland.

2007
- FUNAI SERVICE CORPORATION established as a service subsidiary in the United States.

2008
- P&F USA, Inc. established in the United States as a sales subsidiary for Philips-brand products.
- Founder Tetsuro Funai assumed post of chairman, Tomonori Hayashi became President and CEO.

2009
- P&F MEXICANA, S.A. DE C.V. established in Mexico as a sales subsidiary for Philips-brand products.

2012
- Funai India Private Limited established as a sales subsidiary in India.
- Zhong Shan Funai Electron Co. established as a production subsidiary in China.

2013
- FUNAI ELECTRIC CEBU, INC. (formerly, Lexmark International (Philippines), Inc.) acquired from Lexmark.

2014
- Yoshikazu Uemura became President and CEO.

Name	FUNAI ELECTRIC CO., LTD.
Established	August 1961
Head Office	7-7-1 Nakagaito, Daito, Osaka 574-0013
TEL	+81-72-870-4303
FAX	+81-72-871-1112
URL	http//www.funai.jp/en/
Capital	¥31,307 million (as of March 31, 2014)
Employees (non-consolidated)	953 (as of March 31, 2014)
Business Category	Electrical Equipment

Head Office

Principal Businesses

Display Business
LCD TVs

Digital Media Business
DVD Players/Recorders
Blu-ray Disc Players/Recorders

Office Solutions Business
Printers
Ink Cartridges

Other Businesses
Audio Accessories
Antennas

Executives

Members of the Board

Chairman ·················· Tetsuro Funai
Vice Chairman ·············· Tomonori Hayashi
President and CEO ·········· Yoshikazu Uemura
Director and Officer ·········· Jyoji Okada
Director and Officer ·········· Tetsuhiro Maeda
Outside Director ············· Mitsuo Yonemoto
Outside Director ············· Yoshiaki Bannai

Officers

Officer ············· Hideaki Funakoshi
Officer ············· Kazuo Uga
Officer ············· Takeshi Ito
Officer ············· Kiyoshi Chinzei

Corporate Auditors

Full-Time Corporate Auditor··· Hiromu Ishizaki
Outside Corporate Auditor···· Shinichi Komeda
Outside Corporate Auditor···· Masahide Morimoto

Important Contracts

*1: Exclusive licensee for Philips consumer TVs in North America, Mexico and select LATAM countries. Exclusive licensee for Philips hospitality TVs in North America. Exclusive licensee for Philips DVD/BD-related products and home theater in North America and Mexico.
P&F USA Inc. is the distributor for Philips-branded audio and video consumer products, including home and portable audio products, headphones, portable DVD and other accessories.

*2: Exclusive licensee for Magnavox consumer TVs, DVD/BD-related products and home theater in North America

FUNAI ELECTRIC CO., LTD.

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