

FY 2015 THIRD QUARTER CONSOLIDATED FINANCIAL RESULTS

〔 From April 1, 2015
To December 31, 2015 〕



FUNAI ELECTRIC CO., LTD.

Third Quarter (April-December) Consolidated Financial Summary
for the Period Ended March 2016

(Million yen)

	3rd Quarter FY2014 〔 From April 1, 2014 to December 31, 2014 〕		3rd Quarter FY2015 〔 From April 1, 2015 to December 31, 2015 〕		Year on Year (%)
	Amount	%	Amount	%	
Net Sales	173,569	100.0	133,087	100.0	(23.3)
Operating Income (Loss)	1,392	0.8	(7,947)	(6.0)	—
Ordinary Income (Loss)	4,298	2.5	(9,239)	(6.9)	—
Net Income (Loss) before Taxes and Other Adjustments	4,477	2.6	(8,875)	(6.7)	—
Net Income (Loss) attributable to owners of parent	3,940	2.3	(9,794)	(7.4)	—
Net Income (Loss) per Share (yen)	115.50		(287.08)		

Notes: Includes 23 consolidated subsidiaries, 1 non-consolidated subsidiary of equity method,



Consolidated Financial Results for the Third Quarter Ended December 31, 2015

February 8, 2016

Listed company name	Funai Electric Co., Ltd.		
Stock exchange listing	Tokyo First Section		
Securities code	6839	URL	http://www.funai.co.jp
Representative	President and CEO	Tomonori Hayashi	
Inquiries	General Manager	Keiichi Ikegami	TEL: (072) 870-4395
Scheduled date of Quarterly Report	February 10, 2016		
Scheduled date of Commencement of Annual Dividend Payment	—		
Quarterly Financial Results Supplementation	Yes		
Quarterly Financial Results Seminar	No		

1. Consolidated Financial Results for the Third Quarter Ended December 31, 2015 (April 1, 2015 – December 31, 2015)

(1) Consolidated Operating Results (% shows year on year rates)

	Net Sales		Operating Income(Loss)		Ordinary Income(Loss)		Net Income(Loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3 rd Quarter FY2015	133,087	(23.3)	(7,947)	—	(9,239)	—	(9,794)	—
3 rd Quarter FY2014	173,569	(6.4)	1,392	218.5	4,298	(10.5)	3,940	126.8

(Reference) Comprehensive Income 3rd Quarter FY 2015 ended December 31, 2015 (9,573) million yen (—%)
 3rd Quarter FY 2014 ended December 31, 2014 13,624 million yen(76.1%)

	Net Income(loss) Per Share		Net Income(loss) Per Share on a Fully Diluted Basis	
	Yen		Yen	
3 rd Quarter FY2015	(287.08)		—	
3 rd Quarter FY2014	115.50		—	

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity	Equity Ratio
	Million yen	Million yen	Million yen	%
As of December 31, 2015	182,081	117,007	115,874	63.6
As of March 31, 2014	189,695	127,881	126,677	66.8

2. Dividends

	Dividend per Share				
	1 st Quarter	2 nd Quarter	3 rd Quarter	Year-End	Annual
	yen	yen	yen	yen	yen
Fiscal Year 2014	—	0.00	—	35.00	35.00
Fiscal Year 2015	—	0.00			
Fiscal Year 2015 (Forecast)			—	—	—

(Note) Revision of Annual Dividends Forecast in this 3rd Quarter: No

The dividend for FY 2015 has been undecided. The company's dividend policy of DOE is unchanged. Because of the high impact stemmed from the recent fluctuations in exchange rates give to the consolidated net assets, the dividend is to be disclosed at the time disclosure has become possible to public.

3. Consolidated Financial Forecast for the Fiscal 2015 (April 1, 2015 - March 31, 2016)

(% shows year on year rates)

	Net Sales		Operating Income(loss)		Ordinary Income(loss)		Net Income(loss) Attributable to owners of parent		Net Income(loss) Per Share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
Full Year	187,900	(13.4)	(6,000)	—	(7,500)	—	(9,500)	—	(278.44)	

(Note) Revision to consolidated financial forecast: No

*Note

(1) Changes in Consolidated Subsidiaries (Changes in Scope of Consolidation): Yes

In (Company name: Funai North America, Inc.)

Out (Company name: —)

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

(3) Changes in accounting policies and estimates

1. Changes in accounting policies from revision of accounting standards: Yes

2. Changes in accounting policies from other reason: No

3. Changes in accounting estimates: No

4. Restatement: No

(4) Number of Shares Outstanding (Ordinary Shares)

1. Number of shares outstanding (including treasury stock)	As of December 31, 2015	36,130,796
	As of March 31, 2015	36,130,796
2. Number of shares of treasury stock	As of December 31, 2015	2,011,687
	As of March 31, 2015	2,011,665
3. The Average number of outstanding shares	On December 31, 2015	34,119,122
	On December 31, 2014	34,119,181

* The Recording of Implementation Conditions Regarding Quarterly Review Procedures

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

Disclaimer;

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

1. Qualitative Information

(1) Consolidated Financial Results

On the Third Quarter Ended December 31, 2015 the economy of the United States continued to grow steadily supported by a strong employment environment and housing market, although personal consumption was a little bit weak. In Europe, the economy showed moderate recovery because of the consumer spending and the improvement in unemployment rates. Chinese economy slowed down in the latter half of the fiscal year. In Japan, the certain things such as the production and the exports stayed in a standstill due to the economic slowdown in China, but the consumption remained firm, and the economy sustained a gradual recovery trend.

Under these conditions, Net sales amounted to ¥133,087million, down 23.3% compared to the same quarter of the last fiscal year (year on year). The orders on holiday sales decreased, Sales in regional retail stores were slow, the inventory reduction caused delay, and Mexican market got more competitive. As a result, operating loss amounted to ¥7,947 million (the same quarter of the last fiscal year: operating income of ¥1,392 million). Ordinary loss amounted to ¥9,239million due to foreign exchange losses in accounts receivable from the depreciation of the Mexican Peso against the U.S. dollar. (the same quarter of the last fiscal year: ordinary income of ¥4,298 million). Net loss attributable to owners of parent amounted to ¥9,794million (the same quarter of the last fiscal year: net income attributable to owners of parent of ¥3,940 million).

Funai Group's ("the Group") applied Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013) in the first quarter of this fiscal year has changed "net loss" to "net loss attributable to owners of the parent."

Results by region

i) Japan

LCD TVs increased, because the reaction to the rush demand of consumption tax hike has already passed through. However, printers, DVD, BD-related products, and electronic reception devices decreased. As a result, net sales amounted to ¥25,557million, down 25.2% year on year, and segment loss (operating loss) amounted to ¥1,582 million (the same quarter of the last fiscal year: segment loss of ¥521 million).

ii) Americas

DVD-related products and sound-bar increased year on year, but LCD TVs decreased due to the reduction of the orders on holiday sales in the U.S. The Group tried to make up for this decline by managing the regular business transactions, but we could not. Sales in regional retail stores were slow, the inventory reduction caused delay, Mexican market got more competitive, and Audio Accessories and Home Theater system decreased. As a result, net sales amounted to ¥104,091million, down 21.8% year on year, and segment loss amounted to ¥4,873 million (the same quarter of the last fiscal year: segment income of ¥2,136 million).

iii) Asia

Net sales amounted to ¥2,308 million, down 40.5% year on year due to decrease on ink cartridges. Segment income (operating income) amounted to ¥419 million, up 865.5% year on year.

iv) Europe

The Group lunched printers in UK, but weak sales of LCD TVs and DVD-related products continued. Net sales amounted ¥1,130 million, down 53.8% year on year, and segment loss (operating loss) amounted to ¥346 million, (the same quarter of the last fiscal year: segment loss of ¥75 million).

Results by product Segment

i) Audiovisual Equipment

DVD-related products increased year on year, but In addition to the decrease of BD-related products, LCD TVs decreased due to the reduction of the order on holiday sales in the U.S. Sales in regional retail stores were slow, the inventory reduction caused delay, and Mexican market got more competitive. Therefore net sales of audiovisual equipment amounted to ¥115,216 million, down 16.8% year on year.

ii) Information Equipment

The Group lunched in house development ink-jet printers, but we could not offset a shortage caused by the closure of OEM business, then Printer and Ink cartridges decreased year on year. As a result, net sales of

information Equipment amounted to ¥4,173 million, down 63.1% year on year.

iii) Other Products

Net sales of other products amounted to ¥13,697 million, down 42.3% year on year, due to the decrease of Audio accessories and Electronic reception devices.

(2) Consolidated Financial Position

Total assets decreased by ¥7,614 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥7,101 million in raw materials and supplies
- ✓ Decrease of ¥9,511 million in cash and deposits, ¥2,937 million in notes and accounts receivable – trade, ¥792 million in merchandise and finished goods, and ¥1,550 million in property, plant and equipment.

Total liabilities increased by ¥3,260 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Decrease of ¥13,072 million in note and accounts payable-trade
- ✓ Increase of ¥14,545 million in short-term loans payable and ¥1,735 million in accounts payable included in other.

Net assets decreased by ¥10,874 million compared to the end of the last fiscal year. The primary components of the change were decrease of ¥11,068 million in retained earnings and ¥399 million in the foreign currency translation adjustment.

(3) Consolidated Financial Forecast

At the time of disclosure of this report, operating loss was ¥7,947 million, ordinary loss was ¥9,239 million, net income attributable to owners of parent was ¥9,794 in the third quarter of this fiscal year. Each number has already exceeded the consolidated financial forecast announced on November 9, 2015. (Operating loss was ¥6,000 million, Ordinary loss was ¥7,500 million, and Net income attributable to owners of parent was ¥9,500 million.)

However, after examining the consolidated financial forecast based on information available at this time, the sales forecast during this fourth quarter in the U.S. market and the cost reduction by the consolidation of sales subsidiaries on October 2015, the performance is expected to change in this fourth quarter. As a result, the Group decided not to revise its consolidated financial forecast.

Actual results may differ from these forecasts due to various factors. Moreover, the forecasts and forward-looking statements recorded in this report are based on information available on the announcement and estimates based on reasonable assumptions.

If it is necessary to revise this consolidated financial forecast, the Group will disclose those revisions immediately in accordance with the disclosure standard.

2.Summary Information

(1) Change in important subsidiaries.

In the third quarter of this fiscal year, the Group has included Funai North America, Inc. in the scope of consolidation, as the result of its new establishment.

(2) Change in the scope of consolidation or equity method.

1) Change in the scope of consolidation

In the first quarter of this fiscal year, the Group has included DX ANTENNA PHILIPPINES, INC. in the scope of consolidation, because its importance has increased. In addition, the Group has excluded FUNAI CMET Optical Electronics Co., Ltd from the scope of consolidation in the second quarter of this fiscal year, as the result of its liquidation.

2) Change in the scope of equity method

The Group has excluded CMET FUNAI Optical Electronics Co., Ltd from the scope of consolidation, because of the sale of shares held by the Group In the second quarter of this fiscal year.

(3) Adoption of special accounting methods of Quarterly consolidated financial statements

Tax expenses are calculated by multiplying income before income taxes by a reasonably estimated effective tax rate

for income before income taxes after application of deferred tax accounting.

(4) Change in the accounting policy

(Application of "Accounting Standard for Business Combinations")

The Group has applied in the first quarter of this fiscal year:

- ✓ "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013),
- ✓ "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013),and
- ✓ "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013).

This change had no effect on the consolidated statements of income.

(5) Additional Information

(About anti-tax haven law)

The Group received a reassessment notice from the Osaka Regional Taxation Bureau on June 29, 2011. The Bureau determined that our Hong Kong subsidiary does not meet the requirements for exemption under the anti-tax haven rules. In addition, they imposed a tax on us adding up with the Hong Kong subsidiary's income for the three fiscal years ended March 31, 2008 through 2010, which deems as our income.

We objected to this reassessment of income taxes, and filed a request for examination to the Osaka National Tax Tribunal on August 25, 2011. However, we received written verdicts that reject our petition on July 18, 2012. The Group filed a suit for cancellation of reassessment to the Tokyo District Court on January 17, 2013.

The additional tax amount is totally ¥825 million including corporate, enterprise and residence taxes (¥935 million including incidental taxes). We recorded this additional tax as "prior year's taxes" in the fiscal year ended March 31, 2012. Also, the financial impact, when applying this tax rules has been recorded in the fiscal year ended March 31, 2011 when tax investigation was completed.

3. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Units : Million Yen)

	Fiscal year 2014 (As of March 31, 2015)	3rd Quarter FY2015 (As of December 31, 2015)
ASSETS;		
Current Assets		
Cash and deposits	66,820	57,308
Notes and accounts receivable - trade	38,183	35,246
Merchandise and finished goods	26,398	33,500
Work in process	1,455	1,404
Raw materials and supplies	14,708	13,916
Other	7,598	8,041
Allowance for doubtful accounts	(389)	(532)
Total current assets	154,775	148,884
Noncurrent Assets		
Property, plant and equipment	21,306	19,755
Intangible assets	6,117	5,635
Investments and other assets		
Net defined benefit asset	1,716	1,706
Other	6,055	6,658
Allowance for doubtful accounts	(276)	(289)
Total investments and other assets	7,496	8,075
Total noncurrent assets	34,920	33,196
TOTAL ASSETS	189,695	182,081
LIABILITIES;		
Current Liabilities		
Notes and accounts payable - trade	31,625	18,552
Short-term loans payable	4,012	18,557
Income taxes payable	485	829
Provision	1,459	1,059
Other	13,796	15,599
Total current liabilities	51,378	54,598
Noncurrent Liabilities		
Long-term loans payable	6,683	6,485
Provision	1,093	1,101
Net defined benefit liability	548	452
Other	2,110	2,436
Total noncurrent liabilities	10,435	10,475
TOTAL LIABILITIES	61,813	65,074

	Fiscal year 2014 (As of March 31, 2015)	3rd Quarter FY2015 (As of December 31, 2015)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,272	33,301
Retained earnings	93,840	82,771
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	134,079	123,039
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	421	226
Foreign currency translation adjustment	(8,188)	(7,788)
Remeasurements of defined benefit plans	365	397
Total accumulated other comprehensive income	(7,401)	(7,164)
Subscription rights to shares	142	144
Minority interests	1,061	988
Total net asset	127,881	117,007
TOTAL LIABILITIES AND NET ASSETS	189,695	182,081

(2) Consolidated Quarterly Statements of Income and Consolidated Quarterly Statement of Comprehensive Income
(Consolidated Quarterly Statements of Income)

(Units : Million Yen)

	3rd Quarter FY2014 (from April 1, 2014 to December 31, 2014)	3rd Quarter FY2015 (from April 1, 2015 to December 31, 2015)
Net sales	173,569	133,087
Cost of sales	143,307	111,504
Gross profit	30,262	21,582
Selling, general and administrative expenses	28,869	29,530
Operating income (loss)	1,392	(7,947)
Non-operating income		
Interest income	130	165
Dividends income	107	23
Foreign exchange gains	2,763	—
Rent income on non-current assets	156	164
Gain on investments in partnership	77	218
Other	175	26
Total non-operating income	3,410	599
Non-operating expenses		
Interest expenses	133	208
Equity in losses of affiliates	139	3
Foreign exchange loss	—	1,493
Other	231	184
Total non-operating expenses	504	1,890
Ordinary income (loss)	4,298	(9,239)
Extraordinary income		
Gain on disposal of noncurrent assets	49	—
Settlement received	—	Notes.1 902
Other	147	259
Total extraordinary income	196	1,161
Extraordinary loss		
Loss on disposal of noncurrent assets	18	349
Expenses incurred on business restructuring	—	Notes.2 434
Other	—	14
Total extraordinary loss	18	797
Income (loss) before income taxes	4,477	(8,875)
Income taxes	522	937
Income (loss) before minority interests	3,955	(9,812)
Minority interests in income (loss)	14	(17)
Net income (loss) attributable to owners of parent	3,940	(9,794)

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	3rd Quarter FY2014 (from April 1, 2014 to December 31, 2014)	3rd Quarter FY2015 (from April 1, 2015 to December 31, 2015)
Income (loss) before minority interest adjustment	3,955	(9,812)
Other comprehensive Income		
Valuation difference on available-for-sale securities	101	(195)
Foreign currency translation adjustment	9,541	420
Retirement benefits adjustment	26	34
Share of other comprehensive income of associates accounted for using equity method	0	(20)
Total other comprehensive Income	9,668	238
Comprehensive income	13,624	(9,573)
(Breakdown)		
Comprehensive income attributable to owners of parent	13,603	(9,558)
Comprehensive income attributable to minority interest:	21	(15)

(4) Consolidated Quarterly Statements of Income

(Notes for Continuing Enterprises)
Not Applicable

(Notes of remarkable changes in Shareholders Equity)
Not Applicable

(Consolidated balance sheets)

Third quarter of the this fiscal year (As of December 31, 2015)

Contingent liabilities

(Arbitration)

Funai Electric Co., Ltd. ("Funai") resolved to acquire all shares in a company taking over PHILIPS' Lifestyle Entertainment Business from Koninklijke PHILIPS N.V. ("PHILIPS"). Funai concluded the share purchase agreement on January 29, 2013. However, PHILIPS filed against Funai a petition for arbitration to recover damages caused by breach of agreement of Funai as of October 25, 2013. Subsequently, they served the request of arbitration from the International Chamber of Commerce on November 8, 2013.

With regard to this matter, Funai recognizes there has been no breach of agreement on its behalf. Therefore, Funai filed a counterclaim for damages caused by breach of the agreement and unlawful actions by PHILIPS to the International Chamber of Commerce on December 6, 2013.

On May 20, 2014, Funai received notice from PHILIPS of the amount of the claim for damages. Then Funai filed the statement including the amount of compensatory damages claimed against PHILIPS to the International Court of Arbitration on October 1, 2014.

After that, Funai received notice-revised amount of compensatory damages claimed by PHILIPS on December 24, 2014 and September 1, 2015.

The results of these arbitral proceedings may affect consolidated financial results, but it is difficult to make a reasonable estimate of this impact in this second quarter. Therefore, Funai cannot tell how this impact will affect the business performance and financial conditions of the Group.

Following is the outline of arbitration filed against Funai and counterclaim filed by Funai.

1. Outline of arbitration filed against Funai

(1) Institution and date of arbitration

- i) Institution: International Chamber of Commerce
- ii) Date: October 25, 2013

(2) Petitioner of arbitration

- i) Name: Koninklijke PHILIPS N.V.
- ii) Location: Eindhoven, The Netherlands
- iii) Title & name : Chief Executive Officer Frans van Houten

(3) Details of petition and claimed amount for damages

- i) Details of petition : A claim for damages on the grounds of breach of the agreement by Funai
- ii) Claimed amount : €183 million (based on the notice by PHILIPS on September 1,2015)

2. Outline of counterclaim filed by Funai

(1) Institution with which counterclaim filed and date of filing

- i) Institution: International Chamber of Commerce
- ii) Date: December 6, 2013

(2) Other party to counterclaim filing

- i) Name: Koninklijke PHILIPS N.V.
- ii) Location: Eindhoven, The Netherlands
- iii) Title & name: Chief Executive Officer Frans van Houten

(3) Details of petition and claimed amount for damages

- i) Details of petition : Claim for damages on the grounds of breach of the agreement and undue action by PHILIPS
- ii) Claimed amount: €312.3M tax payable, contractual interest and arbitration costs.

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

1. Name of other company and content of acquired businesses

(1) Name of other company: Koninklijke PHILIPS N.V.

(2) Content of acquired businesses: Lifestyle Entertainment Business

(Note) The Lifestyle Entertainment Business involves the development and design, sales and (partial) manufacture of the PHILIPS-brand Audio Video Multimedia products, Home Communication products and Accessories products.

2. Reasons for Acquiring the Shares

These transactions will enable the Group to expand the product portfolio and the sales network in Asia, South America, other emerging markets, and Europe. Funai decided to acquire shares in this new company, based on the belief that the acquisition would foster sustained growth of the Group.

3. Acquisition price and percentage of shares held after acquisition

(1) Acquisition price: €150 million

(2) Percentage of shares: 100%

(Consolidated quarterly statements of income)

*Notes.1 Settlement received

Third quarter of this fiscal year (April 1, 2015 to December 31, 2015)

The Group filed a lawsuit for a compensatory damage against Olympus Corporation due to Olympus's misstatements in its securities registration statement, etc. The Group recorded 902 million as settlement received after deducting necessary expenses from the settlement money in connection with this settlement.

*Notes.2 Expenses incurred on business restructuring

Third quarter of this fiscal year (April 1, 2015 to December 31, 2015)

The Group has recorded the estimated losses connected with the liquidation of Funai India Private Limited, a consolidated subsidiary of the Group.

(Information by Segment)

[Segment Information]

I. Third Quarter of the last fiscal year (April 1, 2014 to December 31, 2014)

Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	34,153	133,090	3,876	2,447	173,569	—	173,569
(2) Inter-segment sales	99,832	703	106,746	-	207,282	(207,282)	—
Total	133,986	133,794	110,623	2,447	380,852	(207,282)	173,569
Segment Income (Loss)	(521)	2,136	43	(75)	1,583	(190)	1,392

Note:

1. ¥-190 million adjustment amount under segment income includes items such as ¥ 5 million relating to the cancellation of inter-segment transactions, ¥ -556 million of overall Group expenses that are not apportioned to each reporting segment, and ¥ 371 million adjustment relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

II. Third Quarter of this fiscal year (April 1, 2015 to December 31, 2015)

Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	25,557	104,091	2,308	1,130	133,087	—	133,087
(2) Inter-segment sales	101,888	869	81,821	-	184,579	(184,579)	—
Total	127,446	104,960	84,129	1,130	317,666	(184,579)	133,087
Segment Income (Loss)	(1,582)	(4,873)	419	(346)	(6,382)	(1,564)	(7,947)

Note:

1. ¥-1,564 million adjustment amount under segment income includes items such as the ¥2 million relating to the cancellation of inter-segment transactions, ¥571 million of overall Group expenses that are not apportioned to each reporting segment, and the ¥995 million adjustments relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

(Business combination)

The Group established a regional head subsidiary "Funai North America, Inc." on October 1, 2015 in accordance with the resolution of the board of directors held on May 11, 2015. After that the Group executed contribution in kind of all shares of 2 consolidated subsidiaries held by the Group and acquired its shares.

1. Outline of business combination

(1) Name and business of combine company

Combine company

Name: Funai North America, Inc.

Business: Management of subsidiaries in the North America

Combined company

Name: FUNAI CORPORATION, INC.

Business: Sales of electrical equipment

Name: P&F USA, Inc.

Business: Sales of electrical equipment

(2) Date of business combination

November 5, 2015

(3) Legal form of business combination

The Group executed contribution in kind of all shares of its subsidiaries to Funai North America, Inc.

(4) Other information

The Group aimed the strengthening of sales system and the improvement of efficiency in the North America. The Group executed contribution in kind of all shares of FUNAI CORPORATION, INC. and P&F USA, Inc. held by the Group to Funai North America, Inc.

2. Outline of accounting policy

The Group treated this transaction as "a transaction under common control" in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, December 26, 2008).

(Appendix) FY2015 THIRD QUARTER CONSOLIDATED FINANCIAL RESULTS

(from 2015.4.1
to 2016.12.31)

	Page
1. Summary of 3Q (April to December) Financial Statements (Consolidated)	
(1) Operating Results, Financial Conditions	1
(2) Profitability and Per Share Data etc.	1
(3) Capital Expenditures, Depreciation, R&D Expenses	1
(4) Cash Flow	2
2. Operating Activities (Consolidated)	
(1) Sales by Equipment	2
(2) Sales by Area in Equipment	3
(3) Sales by Equipment in Areas	3
3. Summary of 3Q (October to December) Financial Statements (Consolidated)	
(1) Operating Results	4
(2) Sales by Equipment	4



FUNAI ELECTRIC CO., LTD.

1. Summary of 3Q (April to December) Financial Statements (Consolidated)

(1) Operating Results, Financial Conditions

(Units : 100 million yen, %)

	FY 2014						FY 2015					
	3Q (Apr. - Dec.)			Full-Year			3Q (Apr. - Dec.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Net Sales	1,735	100.0	(6.4)	2,170	100.0	(7.2)	1330	100.0	(23.3)	1879	100.0	(13.4)
Operating Income (Loss)	13	0.8	218.5	5	0.3	—	(79)	(6.0)	—	(60)	(3.2)	—
Ordinary Income (Loss)	42	2.5	(10.5)	19	0.9	—	(92)	(6.9)	—	(75)	(4.0)	—
Net Income (Loss) after Tax	39	2.3	126.8	13	0.6	—	(97)	(7.4)	—	(95)	(5.1)	—
Total Assets	1,869	—	—	1,896	—	—	1,820	—	—	—	—	—
Net Assets	1,305	—	—	1,278	—	—	1,170	—	—	—	—	—

(※) Yen-Dollars / Exchange rate

(Units : Yen / Dollars)

	FY 2014		FY 2015	
	3Q (Apr. - Dec.)	Full-Year	3Q (Apr. - Dec.)	Full-Year (Projections)
Average Rate in each Period	107.75	110.62	121.63	119.86

(2) Profitability and Per Share Data etc.

	FY 2014		FY 2015	
	3Q (Apr. - Dec.)	Full-Year	3Q (Apr. - Dec.)	Full-Year (Projections)
Gross Profit Ratio (%)	17.4	17.3	16.2	17.0
Operating Income Ratio (%)	0.8	0.3	(6.0)	(3.2)
Ordinary Income Ratio (%)	2.5	0.9	(6.9)	(4.0)
Shareholders' Equity Ratio (%)	69.2	66.8	63.6	—
Net Assets Per Share (yen)	3,792.64	3,712.81	3,396.19	—
Net Income Per Share (yen)	115.50	39.70	(287.08)	(278.44)
Return on Assets (%)	2.1	0.7	(5.3)	—
Return on Shareholders' Equity (%)	3.2	1.1	(8.1)	—

(3) Capital Expenditures, Depreciation, R&D Expenses

(Units : 100 million yen, %)

	FY 2014				FY 2015			
	3Q (Apr. - Dec.)		Full-Year		3Q (Apr. - Dec.)		Full-Year (Projections)	
	Amount	Change	Amount	Change	Amount	Change	Amount	Change
Capital Expenditures	28	(71.7)	32	(70.6)	16	(71.7)	28	(66.1)

	FY 2013						FY 2014					
	3Q (Apr. - Dec.)			Full-Year			3Q (Apr. - Dec.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Depreciation Expenses	35	2.0	(10.3)	47	2.2	(9.6)	25	1.9	(10.3)	42	2.2	(10.6)
R&D	57	3.3	(10.9)	74	3.4	(11.9)	58	4.4	(10.9)	91	4.8	23.0

(4) CashFlow

(Units : 100 million yen)

	FY 2014		FY 2015	
	3Q (Apr. - Dec.)	Full-Year	3Q (Apr. - Dec.)	Full-Year (Projections)
Cash flows provided by operating activities	93	168	(230)	—
Income Before Income Taxes	44	22	(88)	—
Depreciation Expenses	43	58	34	—
Others	6	88	(176)	—
Cash flows used in investing activities	(196)	(173)	(196)	—
Free cash flows	(103)	(5)	(103)	—
Cash flows provided by financing activities	(11)	(27)	(11)	—
Effect of exchange rate changes on cash and cash equivalents	29	25	13	—
Net increase in cash and cash equivalents	(85)	(6)	(85)	—

2. Operating Activities (Consolidated)

(1) Sales by Equipment

(Units : 100 million yen, %)

	FY 2014						FY 2015					
	3Q (Apr. - Dec.)			Full-Year			3Q (Apr. - Dec.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	1,385	79.8	(5)	1,724	79.4	(5.9)	1,152	86.6	(16.8)	1,660	88.3	(3.7)
DVD	95	5.5	(31)	124	5.7	(28.7)	106	7.9	11.6	131	7.0	5.6
BD	109	6.3	(8)	135	6.2	(20.1)	77	5.8	(29.4)	105	5.6	(22.2)
LCD TV	1,142	65.8	(2)	1,421	65.5	(1.1)	944	71.0	(17.3)	1,388	73.8	(2.3)
Others	39	2.2	5	44	2.0	(17.0)	25	1.9	(35.9)	36	1.9	(18.2)
Information Equipment	113	6.5	(24)	126	5.8	(33.1)	42	3.1	(63.1)	47	2.5	(62.7)
Others	237	13.7	(5)	320	14.8	0.1	136	10.3	(42.3)	172	9.2	(46.3)
Total	1,735	100.0	(6)	2,170	100.0	(7.2)	1,330	100.0	(23.3)	1,879	100.0	(13.4)

(2) Sales by Areas in Equipment

(Units : 100 million yen, %)

	FY 2014						FY 2015					
	3Q (Apr. - Dec.)			Full-Year			3Q (Apr. - Dec.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	1,385	79.8	(4.9)	1,724	79.4	(5.9)	1,152	86.6	(16.8)	1,660	88.3	(3.7)
Americas	1,222	70.4	(4.7)	1,506	69.4	(4.1)	1,008	75.7	(17.5)	1,469	78.1	(2.5)
Europe	23	1.3	(8.0)	35	1.6	9.4	6	0.5	(73.9)	7	0.4	(80.0)
Asia and Others	5	0.3	(50.0)	5	0.2	(58.3)	2	0.1	(60.0)	3	0.2	(40.0)
Japan	135	7.8	(3.6)	178	8.2	(18.0)	136	10.3	0.7	181	9.6	1.7
Information Equipment	113	6.5	(24)	126	5.8	(33.1)	42	3.1	(63.1)	47	2.5	(62.7)
Americas	82	4.7	(17)	92	4.2	(27.0)	32	2.4	(61.0)	35	1.9	(62.0)
Europe	24	1.4	(31)	26	1.2	(42.2)	8	0.5	(66.7)	10	0.5	(61.5)
Asia and Others	7	0.4	(42)	8	0.4	(50.0)	2	0.2	(71.4)	2	0.1	(75.0)
Japan	0	0.0	—	0	0.0	—	—	—	—	0	0.0	—
Others	237	13.7	(5)	320	14.8	0.1	136	10.3	(42.3)	172	9.2	(46.3)
Total	1,735	100.0	(6)	2,170	100.0	(7.2)	1,330	100.0	(23.3)	1,879	100.0	(13.4)

(3) Sales by Equipment in Areas

(Units : 100 million yen, %)

	FY 2014						FY 2015					
	3Q (Apr. - Dec.)			Full-Year			3Q (Apr. - Dec.)			Full-Year (Projections)		
	Amount	%	Change	Amount	%	Change	Amount	%	Change	Amount	%	Change
Americas	1,428	82.3	(5.1)	1,766	81.4	(4.5)	1,072	80.6	(24.9)	1,541	82.0	(12.7)
Audio Visual Equipment	1,222	70.4	(4.7)	1,506	69.4	(4.1)	1,008	75.7	(17.5)	1,469	78.1	(2.5)
Information Equipment	82	4.7	(17.2)	92	4.2	(27.0)	32	2.4	(61.0)	35	1.9	(62.0)
Others	124	7.2	0.0	168	7.8	9.1	32	2.5	(74.2)	37	2.0	(78.0)
Europe	47	2.7	(21.2)	61	2.8	(20.9)	14	1.0	(70.8)	17	0.9	(72.1)
Audio Visual Equipment	23	1.3	(8.0)	35	1.6	9.4	6	0.5	(73.9)	7	0.4	(80.0)
Information Equipment	24	1.4	(31.4)	26	1.2	(42.2)	8	0.5	(66.7)	10	0.5	(61.5)
Others	0	0.0	—	0	0.0	—	0	0.0	—	0	0.0	—
Asia and Others	17	1.0	(33.3)	21	1.0	(34.6)	9	0.7	(46.2)	8	0.4	(60.9)
Audio Visual Equipment	5	0.3	(50.0)	5	0.2	(58.3)	2	0.1	(60.0)	3	0.2	(40.0)
Information Equipment	7	0.4	(41.7)	8	0.4	(50.0)	2	0.2	(71.4)	2	0.1	(75.0)
Others	5	0.3	25.0	8	0.4	100.0	5	0.4	0.0	3	0.1	(62.5)
Japan	243	14.0	(7.9)	322	14.8	(15.5)	235	17.7	(3.3)	315	16.7	(2.7)
Audio Visual Equipment	135	7.8	(3.6)	178	8.2	(18.0)	136	10.3	0.7	181	9.6	1.7
Information Equipment	0	0.0	—	0	0.0	—	—	—	—	0	0.0	—
Others	108	6.2	(11.5)	144	6.6	(11.1)	99	7.4	(8.3)	132	7.1	(8.3)
Total	1,735	100.0	(6.4)	2,170	100.0	(7.2)	1,330	100.0	(23.3)	1,879	100.0	(13.4)

3. Summary of 3Q (October to December) Financial Statements (Consolidated)

(1) Operating Results

(Units : 100 million yen, %)

	FY 2014			FY 2015		
	3Q (Oct. - Dec.)			3Q (Oct. - Dec.)		
	Amount	%	Change	Amount	%	Change
Net Sales	577	100.0	(11.2)	462	100.0	100.0
Operating Income (Loss)	0	0.1	—	(25)	(5.4)	(5)
Ordinary Income (Loss)	15	2.6	(42.6)	(24)	(5.4)	(5)
Net Income (Loss) after Tax	13	2.3	17.0	(21)	(4.7)	(5)

(※) Yen-Dollars / Exchange rate

(Units : Yen / Dollars)

	FY 2014		FY 2015	
	3Q (Oct. - Dec.)		3Q (Oct. - Dec.)	
Average Rate in each Period		116.04		121.44

(2) Sales by Equipment

(Units : 100 million yen, %)

	FY 2014			FY 2015		
	3Q (Oct. - Dec.)			3Q (Oct. - Dec.)		
	Amount	%	Change	Amount	%	Change
Audio Visual Equipment	475	82.3	(8)	406	87.9	(14.5)
DVD	42	7.3	(25)	40	8.6	(4.8)
BD	40	6.9	(9)	29	6.3	(27.5)
LCD TV	378	65.5	(5)	327	70.8	(13.5)
Others	15	2.6	(29)	10	2.2	(33.3)
Information Equipment	17	3.0	(59)	12	2.6	(29.4)
Others	85	14.7	(7)	44	9.5	(48.2)
Total	577	100.0	(11)	462	100.0	(19.9)



FUNAI ELECTRIC CO., LTD.

(Company)

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