Member, Financial Accounting Standards Foundation

Consolidated Financial Results for the Third Quarter Ended December 31, 2018

February 12, 2019

Listed company name	Funai Electric Co., Ltd.		
Stock exchange listing	Tokyo First Section		
Securities code	6839	URL http://www2.funai.co.jp/en/index.html	
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Scheduled date of Quarterly Report February 13, 2019
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, 2018 (April 1, 2018 – December 31, 2018)

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

	Net Sales		Operating Income(Loss)		Ordinary Income(Loss)		Net Income(Loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3rd Quarter FY2018	81,021	(25.5)	(484)	—	(96)	—	702	—
3rd Quarter FY2017	108,763	5.2	(5,882)	—	(5,866)	—	(15,509)	—

(Reference) Comprehensive Income 3rd Quarter FY 2018 ended December 31, 2018 1,196 million yen (—%)
3rd Quarter FY 2017 ended December 31, 2017 (15,660) million yen(—%)

	Net Income(loss) Per Share	Net Income(loss) Per Share on a Fully Diluted Basis
	Yen	Yen
3rd Quarter FY2018	20.60	—
3rd Quarter FY2017	(454.57)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity	Equity Ratio
	Million yen	Million yen	Million yen	%
As of December 31,2018	82,539	51,923	51,895	62.9
As of March 31,2018	80,265	50,717	50,699	63.2

2. Dividends

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

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

The dividend for FY 2018 has been undecided. The company's dividend policy of DOE is unchanged. Because of the high impact stemmed from the recent fluctuations in exchange rates give to the consolidated net assets, the dividend is to be disclosed at the time disclosure has become possible to public.

3. Consolidated Financial Forecast for the Fiscal 2018 (April 1, 2018 - March 31, 2019)

(% shows year on year rates)

	Net Sales		Operating Income(loss)		Ordinary Income(loss)		Net Income(loss) Attributable to owners of parent		Net Income(loss) Per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	105,000	(19.3)	400	—	400	—	1,200	—	35.17

(Note) Revision to consolidated financial forecast: No

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

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

(3) Changes in accounting policies and estimates
1. Changes in accounting policies from revision of accounting standards: Yes
2. Changes in accounting policies from other reason: No
3. Changes in accounting estimates: No
4. Restatement: No

(4) Number of Shares Outstanding (Ordinary Shares)

1. Number of shares outstanding (including treasury stock)	As of December 31, 2018	36,130,796
	As of March 31, 2018	36,130,796
2. Number of shares of treasury stock	As of December 31, 2018	2,011,830
	As of March 31, 2018	2,011,829
3. The Average number of outstanding shares	On December 31, 2018	34,118,966
	On December 31, 2017	34,119,031

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

1.Qualitative Information

(1) Consolidated Financial Results

During the first nine months of the consolidated fiscal year under review (April 1, 2018 to December 31, 2018), the economy in the United States, the Group's mainstay market, continued recovering steadily, supported by an increase in private consumption and capital investment and improvement in employment environment including a fall in the unemployment rate. In Japan, the economy continued recovering gradually, buoyed by a pickup in consumer spending and improvement in corporate earnings and environment environments. However, risks rose that economic activity in Japan would slow down, with uncertainties increasing, such as the direction and impact of the trade war between the U.S. and China and the outlook for the economy in the Southeast Asia including China. In Europe, environment surrounding the economy deteriorated day by day due to concerns over the UK's exist from the EU ("BREXIT") and the slowdown in the economic growth rate in Italy.

Under these circumstance, the Group reported net sales of ¥81,021 million (down 25.5% year on year) in the first nine months of the current consolidated fiscal year. This was attributable to moves by retailers in North America, the Group's mainstay market, to reduce inventories in the distribution channels in the first quarter of the year ended June 30, 2018. Retailers, mainly large mass merchandisers, focused on the sales of excessive inventories instead of new products, leading to a fall in the Group's net sales.

With regard to operating income, the Group saw earnings improve compared to the previous consolidated fiscal year. This was due to the following reasons: component prices, such as LCD panels for LCD TVs, declined from the previous fiscal year; it reviewed sales of unprofitable products; and its efforts to reduce manufacturing costs and selling, general and administrative expenses paid off to some extent.

However, the Group reported operating loss of ¥484 million (an operating loss of ¥5,882 million in the corresponding period of the previous year). This was due to an increase in the inventory of LCD TVs, its mainstay product, and a factor related to consolidated adjustment, such as a squeeze in operating income caused by a rise in unrealized gains due to the improvement of earnings.

The Group reported ordinary loss of ¥96 million (an ordinary loss of ¥5,866 million in the corresponding period of the previous year) due to the posting of foreign exchange gains and an increase in interest received. The Group's profit attributable to owners of the parent amounted to ¥702 million (a loss attributable to owners of the parent of ¥15,509 million in the corresponding period of the previous year), because it posted income taxes - deferred (profit) associated with the merger of sales companies in North America.

Results by region

i) Japan

Following the previous fiscal year, the Company began marketing its high-end products, such as FUNAI brand new products including organic electroluminescent display (OELD) TVs, through Yamada Denki from July 14, 2018. However, as it delayed the launching date by around one month compared to the previous fiscal year (the launching date was June 2), the Company saw net sales decrease from the previous year in the third quarter ended December 31, 2018. As a result, net sales amounted to ¥27,391 million, down 6.3% year on year, and segment loss (operating loss) was ¥68 million (a segment loss of ¥2,588 million in the same quarter of the previous fiscal year).

ii) Americas

In the current fiscal year, the Company struggled to expand sales of LCD TVs, since large mass merchandisers gave priority to the disposal of inventories because excessive inventories continued remaining in the North America market from the previous fiscal year. Furthermore, demand of DVD and BD related equipment decreased owing to the impact of moving video distribution services via the Internet, resulting in a fall in the Company's net sales. Consequently, net sales amounted to ¥52,803 million, down 33.3% year on year, and segment profit (operating profit) was ¥78 million (a segment loss of ¥1,072 million in the same quarter of the previous fiscal year).

iii) Asia

Although the Company terminated sales of LCD TVs after reviewing sales of unprofitable products, sales of components increased. As a result, net sales amounted to ¥803 million, up 159.0% year on year, and segment profit (operating profit) was ¥605 million (a segment loss of ¥2,688 million in the same quarter of the previous fiscal year).

iv) Europe

Sales of ink-cartridge decreased. Consequently, net sales amounted to ¥23 million, down 76.0% year on year, and segment loss (operating loss) was ¥18 million (a segment loss of ¥58 million in the same quarter of the previous fiscal year).

Results by product Segment

i) Audiovisual Equipment

In the audiovisual equipment segment, sales decreased from the previous year, particularly due to a fall in sales of LCD TVs and DVD and BD related products caused by the reduction of unwanted inventory in the distribution channel in the North America market. As a result, net sales amounted to ¥74,424 million, down 28.1% year on year.

ii) Information Equipment

In the information equipment segment, sales increased from the previous year, since the Company continued marketing ink cartridges for ink jet printers (despite it reduced sales of unprofitable ink jet printers) and started marketing coupon printers, nail art printers, and sales of commercial-use ink cartridges grew. Consequently, net sales amounted to ¥2,624 million, up 0.8% year on year.

iii) Other Products

In other equipment segment, sales of medical and healthcare-related products, such as automotive backlight unit, CT for dental clinics and bed modules for the nursing care field, increased from the previous year. As a result, net sales amounted to ¥3,972 million, up 51.2% year on year.

(2) Consolidated Financial Position

Total assets increased by ¥2,274 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥1,060 million in cash and deposits, and ¥907 million in merchandise and finished goods.
- ✓ Decrease of ¥998 million in raw materials and inventory goods.

Total liabilities increased by ¥1,068 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥3,984 million in notes and accounts payable-trade.
- ✓ Decrease of ¥1,152 million in accounts payable-other.

Net assets increased by ¥1,206 million compared to the end of the last fiscal year. The primary components of the change were increase of ¥702 million in retained earnings and increase of ¥504 million in the foreign currency translation adjustment.

Also, the company apply to Partial Amendments etc. to "Accounting standard for tax effect accounting" (Corporate Accounting Standards No. 28, 16 February 2018) since beginning of the year of the first quarter consolidated accounting period. As for the financial condition, we compare by the retroactive processed numerical value at the end of the previous consolidated fiscal year.

(3) Consolidated Financial Forecast

There is no change in the consolidated financial results forecast for first half consolidated fiscal year and full year forecasts announced in "FY2018 Financial Report" on November 5, 2018.

Note: The above forecasts are based on information currently available to the Group and contain risk and uncertainty. Actual results may differ from these forecasts due to various factors including changes in the economic conditions of overseas markets such as the United States, and significant fluctuations in product prices and foreign exchange.

2. Consolidated Financial Statements and Notes

(1) Consolidated Statement of Financial Position

(Units : Million Yen)

	Fiscal year 2017 (As of March 31, 2018)	3rd Quarter FY2018 (As of December 31, 2018)
ASSETS;		
Current Assets		
Cash and deposits	32,390	33,450
Notes and accounts receivable - trade	9,953	10,270
Merchandise and finished goods	13,251	14,158
Work in process	516	818
Raw materials and supplies	9,841	8,843
Other	2,379	2,165
Allowance for doubtful accounts	(1,021)	(749)
Total current assets	67,310	68,958
Noncurrent Assets		
Property, plant and equipment	8,193	8,491
Intangible assets	93	75
Investments and other assets		
Net defined benefit asset	1,840	1,822
Other	3,065	3,416
Allowance for doubtful accounts	(239)	(224)
Total investments and other assets	4,667	5,014
Total noncurrent assets	12,954	13,581
TOTAL ASSETS	80,265	82,539
LIABILITIES;		
Current Liabilities		
Notes and accounts payable - trade	11,808	15,793
Accounts payable included in other	10,372	9,219
Income taxes payable	664	205
Provision	990	1,064
Other	3,007	3,098
Total current liabilities	26,842	29,380
Noncurrent Liabilities		
Provision	1,025	25
Net defined benefit liability	3	13
Other	1,676	1,197
Total noncurrent liabilities	2,705	1,236
TOTAL LIABILITIES	29,548	30,616

	Fiscal year 2017 (As of March 31, 2018)	3rd Quarter FY2018 (As of December 31, 2018)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,603	33,603
Retained earnings	21,970	22,673
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	62,539	63,242
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13	0
Foreign currency translation adjustment	(12,305)	(11,801)
Remeasurements of defined benefit plans	451	453
Total accumulated other comprehensive income	(11,840)	(11,347)
Subscription rights to shares	17	27
Total net asset	50,717	51,923
TOTAL LIABILITIES AND NET ASSETS	80,265	82,539

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

(Consolidated Quarterly Statements of Income)

(Units : Million Yen)

		3rd Quarter FY2017 (from April 1, 2017 to December 31, 2017)	3rd Quarter FY2018 (from April 1, 2018 to December 31, 2018)
Net sales		108,763	81,021
Cost of sales		98,808	70,955
Gross profit		9,954	10,066
Selling, general and administrative expenses		15,836	10,550
Operating income (loss)		(5,882)	(484)
Non-operating income			
Interest income		183	307
Dividends income		2	7
Foreign exchange gains		-	280
Other		177	177
Total non-operating income		363	772
Non-operating expenses			
Interest expenses		56	16
Compensation expenses		225	247
Other		65	120
Total non-operating expenses		347	385
Ordinary income (loss)		(5,866)	(96)
Extraordinary income			
Gain on sales of non-current assets		6	35
Gain on reversal of subscription rights to shares		145	3
Other		9	-
Total extraordinary income		161	39
Extraordinary loss			
Loss on disposal of noncurrent assets		11	43
Impairment loss	Notes.1	10,009	-
Total extraordinary loss		10,020	43
Income (loss) before income taxes		(15,725)	(101)
Income taxes		(216)	(804)
Income (loss) before minority interests		(15,509)	702
Net income (loss) attributable to owners of parent		(15,509)	702

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	3rd Quarter FY2017 (from April 1, 2017 to December 31, 2017)	3rd Quarter FY2018 (from April 1, 2018 to December 31, 2018)
Income (loss) before minority interest adjustment	(15,509)	702
Other comprehensive Income		
Valuation difference on avaiable-for-sale securities	1	(13)
Foreign currency translation adjustment	(232)	504
Remeasurements of defined benefit plans, net of tax	79	2
Total other comprehensive Income	(151)	493
Comprehensive income	(15,660)	1,196
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(15,660)	1,196

(4) Consolidated Quarterly Statements of Income

(Notes for Continuing Enterprises)
Not Applicable

(Notes of remarkable changes in Shareholders Equity)
Not Applicable

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

(Adoption of special accounting methods of Quarterly consolidated financial statements)
[Calculate tax expense]
Tax expenses are calculated by multiplying income before income taxes by a reasonably estimated effective tax rate for income before income taxes after application of deferred tax accounting.

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

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

(Consolidated quarterly statements of income)

*Notes.1 Impairment loss

The Group recorded losses on impairment in the following asset groups for third quarter of last fiscal year.

3rd Quarter of last Fiscal year 2017 (April 1, 2017 to December 31, 2017)

Use	Location	Type	Impairment loss (million yen)
Business Assets	Funai Electric Co., Ltd.	Tools, furniture and fixtures	130
		Lease assets (fixed)	4
		Patent right	2,451
		Software	75
		Long-term prepaid expenses	2,918
Business Assets	FUNAI ELECTRIC (H.K.), LTD.	Buildings and structures	19
		Machinery, equipment and vehicles	29
		Tools, furniture and fixtures	468
Business Assets	FUNAI (THAILAND) CO., LTD.	Buildings and structures	568
		Machinery, equipment and vehicles	136
		Tools, furniture and fixtures	198
		Land	56
		Software	1
Business Assets	Funai Electric Philippines Inc.	Buildings and structures	473
		Machinery, equipment and vehicles	333
		Tools, furniture and fixtures	207
		Software	34
Business Assets	Funai Electric Cebu, Inc.	Buildings and structures	540
		Machinery, equipment and vehicles	599
		Tools, furniture and fixtures	67
		Software	33
Business Assets	FEP REAL ESTATE, INC.	Land	42

Use	Location	Type	Impairment loss (million yen)
Business Assets	FUNAI CORPORATION, INC.	Buildings and structures	0
		Machinery, equipment and vehicles	2
		Tools, furniture and fixtures	1
		Lease assets (tangible)	296
Business Assets	Funai Trading Corp.	Buildings and structures	4
		Machinery, equipment and vehicles	27
		Tools, furniture and fixtures	33
		Software	55
Business Assets	Funai Lexington Technology Corporation	Machinery, equipment and vehicles	136
		Tools, furniture and fixtures	5
		Software	3
Business Assets	Funai Manufacturing, S.A. DE C.V.	Buildings and structures	11
		Machinery, equipment and vehicles	4
		Tools, furniture and fixtures	4
		Software	8
Business Assets	P&F MEXICANA, SA. DE. C.V.	Machinery, equipment and vehicles	3
		Tools, furniture and fixtures	1
		Software	13
Total			10,009

The Group group's business assets on the basis in management accounting, the idle assets are grouped by individual asset.

The Group reduced the carrying amount to the recoverable value of business assets whose profitability has markedly decreased, and recorded such reduction (10,009 million yen) as impairment loss for the First half of this fiscal year.

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

(Segment Information)

I. 3rd Quarter of the last fiscal year (April 1, 2017 to December 31, 2017)
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	29,245	79,111	310	96	108,763	—	108,763
(2) Inter-segment sales	74,470	1,578	85,569	-	161,618	(161,618)	—
Total	103,716	80,689	85,879	96	270,381	(161,618)	108,763
Segment Income (Loss)	(2,588)	(1,072)	(2,688)	(58)	(6,407)	525	(5,882)

Note:

1. ¥ 525 million adjustment amount under segment income includes items such as ¥ -23 million relating to the cancellation of inter-segment transactions, ¥ -592 million of overall Group expenses that are not apportioned to each reporting segment, and ¥ 1,141 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. 3rd Quarter of this fiscal year (April 1, 2018 to December 31, 2018)
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	27,391	52,803	803	23	81,021	—	81,021
(2) Inter-segment sales	48,187	3,063	47,378	—	98,630	(98,630)	—
Total	75,579	55,867	48,181	23	179,651	(98,630)	81,021
Segment Income (Loss)	(68)	78	605	(18)	597	(1,081)	(484)

Note:

1. ¥ -1,081 million adjustment amount under segment income includes items such as the ¥ 7 million relating to the cancellation of inter-segment transactions, ¥ 52 million of overall Group expenses that are not apportioned to each reporting segment, and the ¥ -1,140 million adjustments relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

3. Others

(Important Information about Going Concern Assumption)

Since the Group recorded a significant operating loss, ordinary loss, and negative operating cash flow in the previous consolidated fiscal year and the third quarter of this fiscal year, events or circumstances that cast significant doubt on the going concern assumption exist now.

Since the Group's balance of cash and deposits is sufficient to cover working capital for some time, there is no significant concern about fundraising.

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

① Display Business (LCD-TV business)

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

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

② Digital Media Business (DVD, BD business)

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

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

③ Office Solution Business (information equipment-related business)

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

・Development of derivative business utilizing of microfluidic control technology.

④ New Business

・Increase sales by developing and launching new products related to health care, medical, and the automotive market.

Accordingly, Funai judges that there is no significant uncertainty related to the going concern assumption as of the end of the third quarter consolidated accounting period and has omitted the Notes on Going Concern Assumption from the consolidated financial statements.