Press Release

October 17, 2016

To Whom It May Concern:

Funai Electric Co., Ltd.
Representative Director
President and CEO: Tetsuhiro Maeda
(Code No.: 6839 First Section of TSE)

Notice Regarding the Receipt of the Investigation Report by the In-house Investigation Committee

As reported in the Aug. 4, 2016 "Notice of the Discovery of Inappropriate Accounting Practices from Past Years and the Postponement of First Quarter Results from the Fiscal Year Ending March 2017" and the Sept. 9, 2016 "Notice Regarding the Approval Application of Submission for the Discovery of Inappropriate Accounting Practices from Past Years and Deadline Extension for First Quarter Results from the Fiscal Year Ending March 2017 (Second Extension)", an In-house committee (below, "the Committee") composed of executives from this company with no involvement in the inappropriate accounting practices that took place at overseas subsidiaries was formed and conducted an investigation.

Today, the Committee submitted its "Investigation Report" (below, "the Report") and the below is a notification of the Report's summary and schedule for accounting corrections related to previous years.

1. Summary of the Report

(1) The Composition of the Committee

The composition of the Committee is as shown below.

Chairman	Hiroyuki Makiura	(Company Director/ Board of Directors)
Committee Member	Hiroshi Ishizaki	(Company Director / Audits Chairman)
Committee Member	Yoshiko Yamaguchi	(Audit Department)

During the Committee's investigation of the subjects of the Report's investigation, at the initial stage of investigation of accounting problems at the Company's overseas subsidiary P&F USA, Inc. (below, "PFU"), it was determined that there was a possibility that cost and amount of time involved could expand (for details see the Sept. 9, 2016 "Notice Regarding the Approval Application of Submission for the Discovery of Inappropriate Accounting Practices from Past Years and Deadline Extension for First Quarter Results from the Fiscal Year Ending March 2017 (Second Extension)"), and the Committee employed A, a US law firm and data forensics expert, to assist in the investigation as an outside expert for the purpose of comprehensiveness and objectivity.

(2) Investigation Methods and Procedure

Refer to pages 4-9 of the Report (Public Version)'s "3. Investigation methods and Procedure" regarding the investigations methods and procedures.

(3) Summary of the Investigation Results

The Committee certified the below inappropriate accounting practices. For further details, see "The Report (Public Version)"'s page 9-15, "II. Investigation Results."

① PFU Accounting Practices for Unpaid Taxes in Canada
② PFU Accounting Practices for Transportation Costs
③ Sales Commission Accounting Omissions at PFU
④ Delinquent Tax Records Accompanying Unpaid PFU Sales tax
⑤ Refurbished Inventory Valuation Method at PFU
⑥ Sales Commission Accounting Oversights at P&F MEXICANA S.A. DE C.V. (to be referred to as "PFM")

(4) Impact Estimates on Sales Figures and Each Stage of Profits (From the Fiscal Year Ending March 2012 to Fiscal Year Ending March 2016)

(Unit : 1 Million Yen)

	Net sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of parent
Fiscal year ending March 2012	—	△567	△632	△632
Fiscal year ending March 2013	△925	△1,294	△1,326	△1,326
Fiscal year ending March 2014	△240	△606	△654	△654
Fiscal year ending March 2015	△534	△1,223	△1,323	△1,323
Fiscal year ending March 2016	1,925	2,521	2,492	2,381
Total Figures	224	△1,169	△1,444	△1,555

※ Figures are from the time of the Report's submission. For accurate figures, subsequent examination is necessary.

(5) Recommendations for Preventative Measures

Regarding the inappropriate accounting related to this matter, PFU and PFM have already voluntarily implemented the countermeasures listed in "The Reports (Public Version)"'s "1. Preventative Measures Already Implemented and Planned for Implementation." In addition, this Company will quickly implement the below suggestions for Preventative Measures by the Committee in order to regain the trust of those concerned.

① Improved Corporate Culture and Awareness Reform
② Clarify the Division of Duties and Administrative Authority

③ Reinforce Internal Audit System

④ Implementation of Auditing by Auditing Committee

⑤ Reinforce Governance Regarding Subsidiaries

⑥ Training for Resident Executive Officers and Accounting Employees of the Company and Subsidiaries

For details regarding the Preventative Measures proposed by the Committee, refer to "The Report (Public Version)"'s "2. Preventative Measures Proposed by the Committee" on pages 20-21.

2. Dealing with Responsible Parties

Based on the results of the Committee's report and the audit, the responsible parties for these incidents shall be dealt with in accordance to company bylaws. If matters requiring disclosures occur, they shall be immediately disclosed.

3. Past Years Accounting Corrections and the Release First Quarter Results from the Fiscal Year Ending March 2017

As a response to receiving the Committee's Investigation results, the corrected financial statements for past years, first quarter results from the fiscal year ending March 2017 and corrections of other financial statements are scheduled to be released on Oct. 17, 2016.

To all shareholders, business partners, and concerned parties, we deeply apologize for the inconvenience and concerns that this has caused.

For further information, please contact
Investors and Public Relations
E-mail: investor_relations@funai.co.jp

Investigation Report
(Public Version)

Oct. 13, 2016

FUNAI ELECTRIC CO., LTD.　Internal Investigation Committee

10/13/16

Funai Electric Co., Ltd.
President and CEO Tetsuhiro Maeda

Funai Electric Co., Ltd. In-house Investigation Committee

Chairman Hiroyuki Makiura
Committee Member Hiroshi Ishizaki
Committee Member Yoshiko Yamaguchi

Investigation Report

The results of the investigation into inappropriate accounting practices, etc. of the consolidated subsidiaries of the Funai Electric Co., Ltd. (to be referred to as "the Company") conducted by the In-house Investigative Committee (to be referred to as "this Investigation") are as reported below.

I. Investigation Summary

1. Background, Purpose and System of this Investigation

While closing financial statements for the first quarter of the fiscal year ending March 2017 at the Company, inappropriate accounting was discovered at the consolidated subsidiary P&F USA, Inc., (To referred to as "PFU") in which a portion of expenses which should have been recorded during the original fiscal year were omitted. Due to this, the Company formed an In-house Investigative Committee (to be referred to as "the Committee") with the members listed below. This Investigation was made for the purpose of investigating inappropriate accounting practices and proposing measures for preventing further incidents.

Chairman Hiroyuki Makiura (Company Director/ Board of Directors)

Committee Member Hiroshi Ishizaki (Company Director / Audits Chairman)
Committee Member Yoshito Yamaguchi (Audit Department)

The members of the Committee had no prior direct involvement with PFU, the main subject of this Investigation securing the independence of this Investigation.

The purpose of the Committee's investigation were to: ① Investigate inappropriate accounting practices and proposing measures to prevent further incidents ② Additionally, investigate other matters regarding the Subjects of Investigation recognized as necessary by the In-house Committee.

Originally this Investigation was to be produced internally primarily by the Company and by the Committee members. However, with the above mentioned ①, the Committee recognized at the beginning stage of investigating PFU's accounting that there was the possibility for the cost and amount of time involved to expand due to the problems uncovered and so it was decided that a more comprehensive, objective and accurate inspection was necessary. As a result, external experts were appointed from a US law firm A and a US data forensics firm (digital data investigations and analysis) and B and its Japanese corporation C. (To be collectively referred to as "B").

This Investigation's primary subject PFU is the Company's wholly owned subsidiary. It is located in Alpharetta, in the state of Georgia of the US. It is mainly a sales company for selling AV equipment (crystal televisions, DVD related products) manufactured by the company to regional volume retailers. (PFU's sales figures amounted to 7% of the Company's consolidated net sales for the fiscal year ending in March 2016).

Below is a summary of PFU.

Company Name	P&F USA, Inc.
Date Est.	June 13, 2008
Headquarters Address	2555 Marconi Drive, Suite 300 Alpharetta, GA 30005, USA
Capital	55 million US$
The Company's shares	100.0%
Sales	113 million US$ (Fiscal year ending March 2016)
Main business	Sale of the Company's products
No. of Employees	35 full time employees (including 5 dispatched from the Company)

2. Inappropriate Accounting Practices Subject to Investigation

The subjects of the Committee's investigation are the below (1) to (4).

(1) PFU Accounting Practices for Unpaid Taxes in Canada (to be referred to as "Subject of Investigation 1")

The Company received notice from the Canadian tax authority (to be referred to as "CRA") that PFU's Canadian foreign trade purchase tax credits would be denied regarding PFU's handling of taxes for sales to retailers in Canada, specifically the Goods and Services Tax (to be referred to as "GST") and Harmonized Sales Tax (to be referred to as "HST")[1], in November 2013. Following this, the company received notice from the CRA that through an audit it found that despite a revision to the GST and HST, the tax payments were based on the pre-revision rate.

At the time of receiving this notice, PFU had not accounted for the unpaid taxes in their accounting. In the first quarter for the fiscal year ending in March 2017, they received another letter containing an opinion about the amount of taxes to be paid. In the beginning, the company began looking into calculating the amount of taxes to be paid that same period. However, ultimately, during the closing of financial statement, it was decided that the amount should be expensed to previous years.

Therefore, the Committee decided to investigate period attribution for the costs and the amount.

(2) PFU Accounting Practices for Transportation Costs (to be referred to as "Subject of Investigation 2")

Company D and the warehouse Company E had previously entered into a warehouse contract in where Company D's inventory would be stored in Company E's warehouses.

From September 2012, PFU began selling D brand products and as a result PFU was added into the above mentioned contract between Company D and Company E. As a result, between the 3 parties PFU would send instructions to Company E to deliver products to retailers while Company E would combine the product transportation costs for Company D and PFU and bill Company D. Company D would then

[1] GST is a federal tax that was integrated into state tax due to institutional changes in July 2010, after which it became HST.

calculate the costs for the PFU products and bill PFU accordingly which was a nonstandard business arrangement.

The above business relationship had mostly been concluded by 2015. However, in July of that year, PFU received an invoice for approximately 5.1 million dollars for billing omissions.

PFU did not immediately approve the amount invoiced and did not record them to amounts payables, but instead after examining the content of the invoice and coming to an agreement with Company D, they sequentially paid and recorded the expense. Regarding the remaining unpaid amount, initially we considered only to record the unpaid amount of the first quarter of fiscal 2015 ending March that we decided there was enough evidence that the unpaid amount could be accrued. However, in the end, in the process of closing financial statements for that quarter it was determined that the expenses should be attributed to the previous year.

Therefore, the Committee decided to investigate the period attribution for the costs and the amount.

(3) The Presence of Other Inappropriate Accounting Practices at PFU (to be referred to as "Subject of Investigation 3")

After the discovering of the issues of the Subjects of Investigation 1 & 2 in PFU, the Committee decided to perform a comprehensive investigation of PFU in order to determine whether there were other expensed costs or period attribution was appropriate.

In closing the financial statement for the fiscal year ending March 2016, although recording of delinquent tax omissions accompanying sales commission omissions and sales tax payment omissions were discovered that should have been recognized before the end of the fiscal year ending March 2015, the Company decided that retroactive adjustments to prior years were not significant and obtained an audit certification with expensed consolidated financial statement for the fiscal year ending March 2016 for total amount collectively. However at PFU, in regards to the subjects of investigation 1 & 2, it was determined that retroactively corrections should be done for these together in the case where additional prior year adjustments are conducted for fiscal year ending March 2017. Therefore, the Committee decided to investigate the period attribution for the costs and the amount.

(4) The Presence of Inappropriate Accounting Practices at Primary Sales Subsidiaries and Manufacturing Subsidiaries besides PFU (to be referred to as "Subject of Investigation 4")

With the realization of inappropriate accounting practices at PFU, one of the Company's overseas subsidiaries, the Committee decided to confirm whether the same or similar types of accounting issues were occurring in primary sales subsidiaries and manufacturing subsidiaries.[2]

At P&F MEXICANA S.A. DE C.V. (to be referred to as "PFM"), in closing the financial statements for the fiscal year ending March 2016 it was discovered that in the same manner as PFU, sales commission omissions that should have been recorded prior to fiscal year ending March 2015 were discovered however, the Company decided that retroactive adjustments to prior years were not significant and obtained an audit certification with expensed consolidated financial statement for the fiscal year ending March 2016 for total amount collectively. However at PFM, in regards to the subjects of investigation 1 & 2, it was determined that retroactively corrections should be done for these together in the case where additional prior year adjustments are conducted for fiscal year ending March 2017. Therefore, the Committee decided to investigate the period attribution for the costs and the amount.

3. The Investigation's Methods and Procedures

(1) Subject of Investigation 1

Regarding this Investigation of Subject of Investigation 1, the below interviews and data forensics were performed.

A. Interviews

a. Interviews Conducted by Committee Members

In regards to Subject of Investigation 1, the Committee chose the period after July 2010 for the subject of investigation after the tax rate change problem occurred and focus was placed on interviewing the PFU president, PFU accounting managers and related personnel or those who were thought to have information during the concerning period regarding Subject of Investigation 1. The

[2] With sales of 10 billion yen as the criteria, FUNAI CORPORATION, INC., and P & F MEXICANA, S.A. DE C.V. were selected.

[3] With sales of 10 billion yen as the criteria, FUNAI ELECTRIC (H.K.), LTD and FUNAI (THAILAND) CO., LTD. were selected. Also, although with sales below 10 billion yen, in light of their future importance to the Company, FUNAI ELECTRIC CEBU, INC. and FUNAI ELECTRIC PHILIPPINES INC. were also included.

[4] Titles in parentheses refer to time of tenure at PFU unless otherwise specified.

selected personnel for interviews are listed below.

① A (Former president, current EVP) [3]
② B (Former Treasurer and Secretary, Current Accountant)
③ C (Current SVP / Treasurer and Secretary)
④ D (Former CFO)
⑤ E (Current Accounting Manager)
⑥ F (Current President, Originally Division Manager at the Company)
⑦ G (Currently Division Deputy General Manager at this Company, Former EVP)
⑧ H (Currently the Company's Accounting Dept. Director, Former Assistant Treasurer)
⑨ I (Current Board of Directors Executive Officer、Former President)
⑩ J (Current CFO)
⑪ K (Former EVP)
⑫ L (Former Accounting Manager)

The members of the Committee conducted interviews with the above individuals related to PFU at the company and PFU on August 10th, 18th and 19th and on September 14th, 15th and 16th of 2016. However, ⑪K (Former EVP) and ⑫L (Former Accounting Manager) were not able to be interviewed even though they were employees during the period under investigation and there was a possibility that they were relevant to Subject of Investigation 1 because they had already left PFU. Therefore only data forensics was carried out on them as described in the subsequent (b.).

After appointment of the Law Firm A, the Committee shared the interview results with Law Firm A. However, in regards to Law Firm A, they were requested to conduct their own interviews of parties they felt necessary regarding items they determined to be necessary as outside specialists without the concerned interview as a precondition.

(b.) Interviews Conducted by Law Firm A.

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[5] Interviews by the Committee members for Subject of Investigations 1 & 2 were held at the same opportunity. Accordingly, among the people being interviewed there were mainly those who were exclusively interviewed in regards to Subject of Investigations 1 & 2. Note that for J, a supplementary interview was conducted on September 2 utilizing a telephone conference system.

[6] Interviews by Law Firm A regarding Subject of Investigations 1 & 2 were performed at the same opportunity. Accordingly, among the people being interviewed there were mainly those who were exclusively interviewed in regards to Subject of Investigations 1 & 2.

From Sept. 9th to 26th, 2016, Law Firm A conducted the following interviews with employees related to PFU.[4]

① A (Former President, Current EVP)
② B (Former Treasurer, Current Accountant)
③ C (Current SVP / Treasurer)
④ D (Former CFO)
⑤ E (Current Accounting Manager)

⑥ F (Current President, Former DP Division General Manager at this Company)
⑦ G (Former EVP, Current DM Division Deputy General Manager at this Company)
⑧ H (Former Assistant Treasurer, Current Accounting Director at this Company)
⑨ J (Current CFO)
⑩ M (Current Logistics Director)
⑪ N (Current Credit and Receivables Manager)
⑫ O (Current Canada Office Accounting Manager)
⑬ P (Current Sales and Marketing EVP)
⑭ Q (Current Credit and Collections Director)
⑮ R (Current Funai Corporation, VP)
⑯ S (Current Accounting Manager at this Company)
⑰ T (Current Corporate Planning Director at this Company)

B. Data Forensics

The Committee hired Company B for assistance due to their expertise in data forensics and having staff in the US where PFU is located and in Japan. The electronic mail data of the relevant parties was comprehensively preserved and by reviewing emails extracted using keywords references, data forensics was conducted. The details are as shown below.[5]

(a.) Data Preservation

The electronic mail data of the relevant parties were comprehensively acquired from the Company's

[7] Regarding data forensics, after Law Firm A. was appointed to the investigation, because the target range, key words, etc. were expanded, this Investigation Report lists the final data preservation, subjects and search techniques.

email servers, backup data and the local folders on personal PCs of the concerning parties, then Company B was requested to upload it to the email review platform provided by the same company.

(b.) Parties Subject to Forensics

① A (Former President, Current EVP)
② D (Former CFO)
③ L (Former Accounting Manager)
④ B (Former Treasurer、Current Accountant)
⑤ E (Current Accounting Manager)
⑥ K (Former EVP)
⑦ G (Former EVP, Current Division Manager at this Company Deputy Director-General)
⑧ M (Current Logistics Director)
⑨ J (Current CFO)
⑩ F (Current President , Former Division Manager at this Company)
⑪ U (Former President at this Company)
⑫ V (Current AV Director of Operations at this Company)

(b.) Data Viewing System

Regarding the extracted data, in the beginning the reviewers used by Company B. (all possessing lawyer credentials for Japanese law) performed an initial review then on the narrowed down group of emails underwent an investigation with a confirmation system by the Committee. However, after Law A was appointed to assist, they conducted a review with a total of 21 specialist lawyers (nine of who could understand Japanese) at its offices.

(c.) Confirming Related Documentation

In addition to the above (a.) and (b.), the Committee received PFU's internal regulations, contact documents with CRA, documents from external tax consultants, etc., which were used to confirm the integrity of interview results.

(2) Subject of Investigation 2

Regarding this Investigation of Subject of Investigation 2, interviews and data forensics were also performed as shown below.

A. Interviews

(a.) Interviews Conducted by Committee Members

The Committee determined that the applicable period regarding Subject of Investigation 2 was from March 1, 2014 because that was when the invoice was received from Company D. The Committee selected from this period the PFU president and employees and managers working in accounting and logistics who were believed to have information regarding Subject of Investigation 2 and other relevant matters. As a result, in addition to the people interviewed mentioned above in A.(a.), for the Subject of Investigation 1, M. (Logistics Director) was interviewed.

During the interviewing period, it was attempted to interview K (former EVP) and L (former Accounting Manager) however, it was unsuccessful since they had left the company. Only data forensics was performed and as described in (1)(A)(a.), and after Law Firm A had been hired to aid in this Investigation they were requested to conduct their own interviews of parties they felt necessary regarding items they determined to be necessary as outside specialists without the interviews of the committee as a precondition the same as mentioned above in A.(a.),

(b.) Interviews Conducted by A.

From Sep. 19th to Sep. 26th, 2016 Law Firm A conducted additional interviews with parties related to PFU. The people interviewed were the same as those listed previously in (1)(A)(a.).

b. Data Forensics

As with Subject of Investigation 1, the Committee hired the data forensics specialist Company B to conduct data forensics.

c. Confirmation of Related Documentation

In addition to a. and b., the Committee acquired PFU's internal regulations, contracts and correspondence, etc. between D. and E., which were used to confirm the integrity of interview results.

(3) Subject of Investigation 3

At the same time as it performed interviews, data forensics, as well as assessment of related materials regarding Subject of Investigations 1 & 2, the Committee also performed an investigation of whether there were other inappropriate accounting practices, particularly from the perspective of whether cost accounting was comprehensive and if period attribution were appropriate. It was decided to also include verification of period attribution of delinquent taxes accompanying unmodified sales commissions and sales tax omissions for the fiscal year ending in March 2016. Law Firm A was asked to investigate from the same perspective.

Furthermore, in addition to the above investigations, they requested written oaths and confirmations from department managers at PFU based on voluntary investigations and this Investigation in order to confirm the presence of inappropriate accounting practices.

Also, as stated in the subsequent 2.2, during this Investigation process for Subject of Investigations 1 & 2, doubts surfaced regarding the PFU's former CFO D. In order to investigate whether there was anything else that was inappropriate during D's tenure including period attribution, the basis of amounts recorded, and accounting methods, the Committee reviewed D's five year tenure as well as all the matters he was involved in. Also, all documents and important matters involving more than 100 thousand dollars over the last six years in terms of appropriate processing and whether there were any problems with accuracy or the period attributable were reviewed.

(4) Subject of Investigation 4

Unlike the previous Subject of Investigations 1-3, there were no concrete reasons to suspect inappropriate accounting practices when the scope of this Investigation was expanded to include the primary sales subsidiary companies or manufacturing subsidiary companies. As with the previous Subject of Investigation 3, department managers were requested to submit written oaths and confirmations based on voluntary investigations and this Investigation in order to determine the presence of inappropriate accounting practices.

Also, in addition to the normal confirmations above, the important sales subsidiaries FUNAI CORPORATION, INC. and PFM and important manufacturing subsidiaries FUNAI ELECTRIC (H.K.), LTD., FUNAI (THAILAND) CO., LTD., FUNAI ELECTRIC CEBU, INC. and FUNAI ELECTRIC PHILIPPINES INC. were examined to determine whether items from Subject of Investigations 1 & 2 and similar types of problems had occurred, as well as whether accounting procedures were correct. In order to do so, reports were requested on the results of voluntary investigations and their confirmations.

II. Investigation Results

The results of the Committee's Investigation are the following.

1. Subject of Investigation 1

(1) Actual Situation

As previously described in 1.2.(1), when a transaction is made with a retailer in Canada, PFU is considered by the CRA as an importer and subject to GST taxes and when delivering products to Canadian customers GST is collected from Canadian retailers proportional to the amount of sales.

PFU received notice in Nov. 2013 from the CRA that on the tax returns for the three tax years from April 1, 2010 to the end of March 2013 for GST and HST the Investment Tax Credit (to be referred to as "ITC") applied by PFU would be denied. The reason for denial was that PFU filed taxes as a supplier of major retailers and an importer in Canada and because it received products from outside of Canada it was actually an importer and therefore ITC could not be applied to PFU.

Afterward, while the CRA was in the process of performing an audit, it pointed out that despite GST becoming integrated into state taxes as HST in July 2010 with a change of the tax rate from 5% to 13%, the new rate was overlooked and company continued paying the former rate.

(2) Accounting Issues

After receiving each notice described in the above (1), in response to the denial of ITC, PFU continued to provide materials and negotiate reductions in the amount owed with the CRA. Regarding the incorrect application of the former tax rate, it performed corrective measures to account for the new tax rate. After taking these steps, PFU received a tax reassessment notice from CRA and determined it could reasonably calculate the total amount of tax liabilities and at the point it was determined that recording the unpaid tax was the appropriate accounting process and in July 2016, based on contact form received from CRA, it began to consider recording the tax liabilities in the first quarter of the fiscal year ending March 2017.

During closing of financial statements of the same quarter, PFU, in accordance with the principle of accrual, ultimately decided to record each tax liability to the year (past year) when it occurred.[6]

[8] During the Committee's investigation, PFU continued to negotiate with CRA by submitting a rebuttal statement on Aug. 25, 2016 regarding the listed tax liability amount on the CRA's Sept. 2016 contact form. Also, regarding HST, it continued to collect funds from customers due to the application of the incorrect tax rate which led to collection

The Committee in the past received notice regarding the ITC from the CRA. Also, it could not deny that the tax rate was objectively correct and therefore rather than accrue the costs for the first quarter of the fiscal year ending March 2017, it was decided that they should be accrued back to the target year for the inquiry from the fiscal year ending in March 2012 for each period in which the liability occurred.

Regarding the specific corrected amounts, from August 2016, in relation to the results of the confirmation of the above described contact letters from CRA, in the beginning for the target period from March 2014 to March 2016, there was estimated 2 million Canadian dollars and interest, etc. However, ultimately, ① The confirmed ITC was 5 million Canadian dollars, ② Non-payment due to the error in applicable tax rate was 5 million Canadian dollars, for a total of 10 million Canadian dollars. For this reason, as specified above, PFU made a correction for each year in which there was an occurrence from March 2012, and the Committee determined the required processing was appropriate.

2. Subject of Investigation 2

(1) Factual Situation

As described in the previous 1.2.(2), PFU had an unusual business relationship with Company D and Company E after it became a third party to them and when it began sale of D brand products and stored its products in Company E's warehouse facilities. PFU would send shipping instructions and the products would be delivered to the retailers. Company E would request the total shipping costs from Company D for both Company D and PFU. Company D would then request payment from PFU, which was calculated from its share of products.

The above business relationship was for the most part concluded by the end of March 2015. However, PFU was notified on July 17 of the same year that there was a billing omission. PFU was requested to pay approximately $5,100,000 for costs from March 2014 to July 2015. Because a voucher to verify the amount was not attached to the invoice, PFU requested relevant documentation as evidence from Company D. [7]

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shortage.

[9] In the US, when a transaction is concluded and the other party in the transaction finds an oversight in the billing through internal review, it is common for that new amount to be re-requested (Post Audit / Royalty Audit). In such cases, the party that receives the invoice commonly pays the agreed upon amount after it assesses that the amount is correct and it negotiates with the other party.

Afterward, from the end of March 2016 to the beginning of April of the same year, they received the evidence they had requested. Therefore, PFU was able to confirm that the requested amount was for PFU's products and that the amount was not confused with Company D's products, and that the amount being invoiced was correct.

(2) Accounting Issues

At PFU during the fiscal year ending March 2015, the logistics manager communicated to the then Account Manager L. and CFO D. that they had not received the originally expected transportation expense invoices from D. Also, the Logistics Manager communicated to L. the estimated monthly transportation costs from Company D. However, the result was that in the 2015 March period and the same period for the following year, the applicable sum was not recorded.[8]

PFU began immediately its process of review after receiving the evidence document from Company D. regarding its 5.1 million dollar billing from the end of March 2016 to the first week of April of the same year. However, it was decided that the review process would take an enormous amount of time and after it had finished the review and agreed with Company D regarding the content, it would pay and record the amount as a cost. Also, for other unpaid amounts, it would set reasonable assumptions, and look into recording estimates in the first quarter of the fiscal year ending March 2017. In the meantime, in January of 2016, the then CFO D. was being replaced by his successor J. as accounting officer. However, during the transition, outgoing CFO D. did not mention the importance of the recording of the debt and only said that it was "a pending claim" and did not provide sufficient materials or explanation regarding the importance of the accrued debt. J. was not aware of the importance of recording the debt at the time of March 2016.

However, the applicable transportation costs were rendered in relation to shipments and even if the invoices were not sent, it was possible to attach each period's recorded shipments to estimates. For this reason, PFU decided to record each unpaid amount to the corresponding period of the shipment, which the Committee determined to be appropriate processing.

3. Subject of Investigation 3

(1) Sales Commissions Accounting Omissions

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[10] The Committee questioned D. regarding the reason why he did not record the estimated amount, but was not able to receive a clear answer from him. Also, an attempt to contact L. for the purpose of an interview was made, but was unsuccessful.

In order to respond to decreases, etc. in the market price for products or to promote the sale of PFU's inventory on the part of retailers, a variety of sales cooperation are requested from retailers by PFU.

At PFU the requirements regarding sales commissions are an agreement between the sales manager based on the approval of the manager's superior. The price settlement for sales commission is often deducted from accounts receivable by the retailer. For this reason, with the settlement, it is important to have a provision for reasonable estimates for future liable amounts from sales commissions as they occur.

However, before the fiscal year ending March 2016, there was no comprehensive sharing of information regarding sales commissions agreed upon with retail customers between the accounts receivable recovery department and the sales department. Therefore, accurate estimates for sales commissions were not recorded, and sales were excessively recorded. [9]

Through the closing of financial statements for fiscal year ending March 2016, it was discovered that sales commissions that the company should have been aware of from previous years (approximately $5 million) were omitted in accounting. However, with the Company's communication basis and PFU's non-consolidated basis, both decided that it was not significant and that the amounts from previous years would be comprehensively processed in the fiscal year ending March 2017.

At PFU, in addition to the above Subject of Investigations 1 & 2 and the retroactive corrections to accounting from previous years, sales deposits were retroactively corrected to be marked as past expenses in the fiscal year ending March 2016, which the Committee determined to be the appropriate processing required.

Also, at PFU, together with the above retroactive accounting, the following confirmation procedures were followed in order to determine if other sales deposits account omissions were present.

① In order to ensure completeness, a list of contract inventories was produced.
② Within ①, suppliers with a special contract form were selected and individually inspected.
③ In addition to ②, the presences of promotions, etc. in which it was possible that future claims could arise through post audits, etc. were verified. Also, regarding deposits from past years where sales deposits had a high potential for reduced accounts receivable through payments, the reserve amount from the promotion at that time and inventory rotation period were considered, and

[11] The accounting was to make sales commissions into an adjustment of sales items.

recorded costs oversights and the validity of period attribution were confirmed.

The result of the above confirmation procedures was that besides the above incident which was found in the fiscal year ending March 2016, approximately $1 million of sales deposits had accounting omissions, and from the second quarter of the fiscal year ending 2013 March to the third quarter of the fiscal year ending March 2016, there were sales commissions that were not attributed to the correct period and also in regards to this, PFU retroactively corrected these errors. Regarding this, the Committee determined the process was appropriate.

(2) Delinquent Tax Record Omissions Accompanying Unpaid PFU Sales Tax

In the US, sales tax is the tax at the time when the end user makes a purchase.

PFU's transaction with its main customers, who were retailers, was generally not subject to sales tax. However, at the end of the fiscal year ending March 2015 with G., it sold products to customers like hotels, conference centers, etc., and sales tax applied to these customers as end users.

Unlike with traditional customers, PFU made an error when processing the tax because of lack of recognition about its unusual form of distribution with the result that with G. there was omission of payment for sales tax, and delinquent tax and payment omission occurred.

PFU began paying this sales tax and related delinquent taxes in the fiscal year ending March 2016. Also, regarding the accounting of the delinquent tax (approximately $14 million), originally the tax payment obligation was for before the fiscal year ending March 2015. However, with PFU's non-consolidated basis it was decided it was not necessary and the amount was comprehensively processed in the fiscal year ending March 2016.

As with the retroactive corrections of past years' financial closing for Subject of Investigation 1 & 2, PFU also retroactively corrected the delinquent tax in the fiscal year ending in March 2016. Regarding this, the Committee determined the process was appropriate.

(3) Other

The below dealings in which former CFO D. was involved at PFU were examined in the following ways.

① The past five years of D.'s tenure and journal entries for accounting he participated in were reviewed through a. to f. below.

a. Warehouse Renovation Valuation: Appropriateness of Valuation Method, Verifying Spreadsheets.

b. New Inventory Valuation: Appropriateness of Valuation Method, Verifying Spreadsheets.

c. Tax Liabilities: Appropriateness of Calculation Logic, Verifying Spreadsheets.

d. Allowance for Doubtful Accounts: Appropriateness of Calculation Logic, Verification of Actual Rates, Verifying Spreadsheets.

e. Warranties: Appropriateness of Calculation Logic, Verifying Spreadsheets

f. Recording of Royalties: Verifying Appropriateness of Attributed Period and Comprehensiveness Based on Contracts.

② Over the past six years vouchers exceeding 100 thousand dollars and were important transactions were subject to review regarding the appropriateness of its processing, accuracy, and problems with its period of attribution.

The result was when the above ①a. was reviewed in the fiscal year ending March 2016, it was discovered that the refurbished inventory valuation estimation method which was verified by comparing past years' financial closings led to an error in the accounting period for the estimated amount of write downs and it was decided there should have been a change to the period of the estimation method to before the fiscal year ending in March 2016. The period was changed to when the transaction occurred. Besides this item, no items that needed correction were found. Regarding this, the Committee determined the process was appropriate.

Furthermore, the result of the Committee's request for an oath based on voluntary investigation and this Investigation for PFU's 13 corporate officers, as well as A.'s investigation, was that no other accounting problems were discovered.

4. Subject of Investigation 4

(1) PFM Sales Deposit Accounting Oversights

Like the previous 3.(1), in Mexico in order to respond falling market prices after a product is sold, PFM burdens its retails customers with sales commissions. It is a common commercial practice to respond to ex-post price cuts.

Also, as shown in the previous 3.(1), the conditions for sales commissions are an agreement with the retailer based on the store manager's receiving approval from his superior. With the price settlement of sales deposits, it is common for the retailer to later make payments to accounts receivable through deductions; therefore, in financial closing operations it is important to make reasonable estimates regarding the future burden of sales deposits.

However prior to the fiscal year ending in March 2016, the sales department did not comprehensively share information with the account receivable recovery department regarding agreed upon sales deposits with retailers. Also, on the part of retailers, there was no appropriate business system made for excessive deduction claims. The result was a situation in which unconfirmed deductions could be made and therefore appropriate sales deposits accounting; and estimates were not implemented and excessive sales were recorded.

In the financial statement closing operations for fiscal year ending March 2016, an accounting omission for sales deposits (a total of approximately 25 million Mexican pesos) was discovered. It was determined that it was not significant in PMF's non-consolidated basis and the entire amount from past years was processed in the fiscal year ending in March 2016.

With the retroactive correction of past years' financial closings for Subject of Investigations 1 & 2, at PMF sales deposits for past years were also retroactively corrected for the fiscal year ending March 2016, which the Committee determined to be appropriate.

(2) Other

The Committee, based on the request of written oaths based on voluntary investigations and this Investigation aimed at a total of 77 corporate officers from the company's overseas subsidiaries, did not find any accounting problems other than those described above. In addition, for primary sales subsidiaries and manufacturing subsidiaries no problems similar to those in Subject of Investigation 1 & 3 or other problems were discovered. No problems besides the above mentioned were discovered.

5. Impact Estimates

The summary of the effects of the Committee's findings from this Investigation of the above items of past years' financial closing are as stated below. Figures are estimated amounts made at the time this Investigation Report was submitted and accurate figures must receive continued scrutiny.

(Unit: 1 million yen; △ means negative impact on profit)

		PFU						PFM
		Tax liabilities	Transport Costs	Sales Deposits	Delinqu-ent taxes, etc.	Stock valuation loss	※③ Impairment of fixed assets	Sales deposits
60th Period (2012/March)	1st quarter	※①△ 428	-	-	※②△ 10	-	-	-
	2nd quarter	※①△ 452	-	-	※②△ 14	-	-	-
	3rd quarter	※①△ 576	-	-	※②△ 19	-	-	-
	Full year	※①△ 608	-	-	※②△ 23	-	-	-
61st Period (2013/March)	1st quarter	△75	-	△2	△3	△300	-	-
	2nd quarter	△135	-	△418	△7	△318	-	-
	3rd quarter	△242	-	△863	△11	△2	-	-
	Full year	△284	△0	△925	△16	△24	-	-
62nd Period (2014/March)	1st quarter	△49	△0	△64	△4	△145	-	-
	2nd quarter	△96	△0	△1,057	△10	△385	-	-
	3rd quarter	△86	△1	△923	△15	△231	-	-
	Full year	△63	△70	△240	△20	△196	-	-
63rd Period (2015/March)	1st quarter	△44	△124	45	△5	△2	-	-
	2nd quarter	△8	△212	△6	△12	△141	-	-
	3rd quarter	12	△328	△676	△18	△169	-	-
	Full year	100	△407	△362	△25	△248	-	△201
64th Period	1st quarter	△44	△40	110	△6	17	-	-

(2016/March)	2nd quarter	35	△63	△527	△13	18	-	199
	3rd quarter	61	△63	238	△21	364	-	194
	Full year	△37	△62	1,760	93	538	△110	191

※① Because the importance was low, the 59th period's impact of △357 million yen was included in the 60th period.
※② Because the importance was low, the 59th period's impact of 6 million yen was included in the 60th period.

※③ Impairment of fixed costs: At PFU the processing of Subject of Investigations 1 to 3 for the period in which they occurred, regarding the business assets responsible for the remarkable drop in profitability, values were carried to past years and written down.

III. Causes of Inappropriate Accounting Practices

1. Common Factors Causing Inappropriate Accounting Practices at PFU

① For new business areas like G. and H., there was not sufficient prior assessment of attendant management issues and concomitant countermeasures were not sufficiently implemented.
② The business scope of accounting personnel dispatched by the parent company (the Company) extended to external business that was beyond internal regulations, which led to their workload becoming extremely busy, and attention to original accounting duties was insufficient.
③ There were insufficient personnel who could decide on accurate accounting practices in the case of the occurrence of special circumstances.
④ The insufficient instruction ability and control at the top of the subsidiary (PFU) and insufficient governance by the parent company (the Company) on the subsidiary led to the proper reporting of the subsidiary to the parent company not taking place and the parent company's grasp of the issues and improvements was insufficient.

2. Particular Factors Leading to the Occurrence of the Subject of Investigations

(1) Subject of Investigation 1 (Accounting Practices for Tax Liabilities in Canada)

① Despite CRA's indication of its denial and beginning an audit, the assessment of the presence of tax risks and independent reporting, etc. was late. Specifically, within PFU there was no specialist for Canadian taxes and an outside specialist regarding Canadian taxes was not consulted with and an accounting firm was not engaged for the Canadian corporate tax return.

② With the management's reporting to the headquarters, regarding mainly the record of sales and profits and losses, there was no route for reporting items that were currently or had the potential to have a major influence on business operations; as a result PFU's management did not report to headquarters regarding the final tax liability's risk assessment when the tax investigation reached the final stage.

③ Because the CRA audit was not finished, the responsible accounting manager decided a reasonable estimate of taxes was not possible or simple, and accounting did not occur.

④ Assessments were limited to individuals and there was no committee to respond to these types of incidents with reports or assessments.

⑤ The tax law had changed prior to the start of the tax assessment. However, the work of responding to the new tax law did not take place. Specifically, the manager in charge at the time was not familiar with the Canadian system, and was not able to adequately obtain the confirmation and information regarding the changes regarding GST/HST in July 2011.

(2) Subject of Investigation 2 (Accounting Practices for Transportation Costs)

① When the shipping contract with D. was entered, there was insufficient attention paid such things as the analysis of risks that could occur due to the special nature of the agreement, and improving the sharing of information between related parties.

② In cases where there was no total invoice or if there was a total invoice and there were doubts about its contents the accounting manager felt it was not necessary to record them, there was no process for checking from an accounting perspective whether this was correct or if payments were insufficient, even if there was no report from the logistics manager.

③ When an invoice was sent from D. in the beginning, afterward, when information was exchanged with D. regarding the incident the situational awareness of the person in charge was limited. Not only was the superior not notified in a timely and proper manner, but PFU did not assess the risk of occurring debt. Also, there was no system for securing an assessment. Furthermore, within PFU the results of assessments were not shared with the head office, and no system was in place for an assessment of the presence of impact on consolidated financial statements

(3) Subject of Investigation 3

A. Sales Commissions Accounting Omissions at PFU

① At PFU there was a sales Commission management system called I-system; despite this, due to the enormous amount of data and insufficient administrators, sales deposits were simply recorded and it was not possible to determine the accrued period. The records were not consistent with accounting principles.

② The sales commission approval process employed the I-system; however, within PFU, because the use method and its purpose were not known to all, there were many input oversights and input mistakes.

③ With sales commissions it was normal to deduct PFU's billing amounts from customer pay. However, because the I-system did not actually function, the reason for sales commissions and approval could not be verified. Therefore, the removal work was delayed and past payments of sales deposits were placed in the balance of accounts receivable.

④ Deductions from past sales deposits accumulated, which went beyond the knowledge of the person in charge, and the person in charge, despite recognizing that there was a possibility that there were many sums deducted from accounts receivable, did not perform an assessment of this.

⑤ After opening an additional account to manage the business H., because I-system was not functioning, the age classification management for accounts receivable (recovery situation of accounts receivable/understanding of residence status) did not actually function, and the management system of accounts receivable was insufficient.

⑥ The accounts receivable management department's scope of operations was not clear and the management of accounts receivable was neglected.

B. Delinquent Tax Accounting Omissions Accompanying Sales Tax Payment Omission at PFU

① Because the necessary knowledge for the accounting manager related to the payment of sales tax was insufficient, the importance of paying sales tax was not assessed even for unusual types of customers and commercial distribution transactions. Also, there was no process for identifying unusual items within assets and liabilities and in the accounting process there was insufficient communication with the operations department, so that the accounting manager did not realize on occasion that there were payment oversights for sales tax.

② The accounting manager did not have the fundamental accounting knowledge to record accruals for accompanying delinquent taxes and the payment of sales tax.

(4) Subject of Investigation 4 (Inappropriate Accounting Practices at Primary Sales Subsidiaries and Manufacturing Subsidiaries besides PFM)

① Although sales deposits were settled after agreement between operations managers and retail store managers, within PFM there was insufficient communication between operations managers and accounts receivable personnel resulting in that appropriate sales commissions and estimates were not performed.

② Deductions from customers' accounts receivable and that content, as well as the state of important sums for those deductions were not accurately understood within PFM, etc., with the result that internal management was insufficient.

③ There was no integrated tool for managing sales deposits, and each person in charge could not grasp the latest contents for each customer's sales deposit.

IV. Preventative Measures

Regarding these incidents of inappropriate accounting, at PFU has already independently implemented 1 below. The Committee proposes 2 below, based on these incidents of inappropriate accounting and their causes.

1. Preventative Measures Already Implemented and Planned for Implementation

(1) Review of Personnel and Organization

As of January 2016, the PFU CFO was already replaced by someone with American CPA qualifications. Also, in April of the same year, the PFU president was replaced. Furthermore on June of the same year, someone with Japanese certified public accountant qualifications was dispatched from the Japanese corporate headquarters to PFU. The previous head of accounting remained as a full-time accountant, and the management setup was revised and strengthened.

(2) Preventative Measures for Subject of Investigation 1 (Accounting Practices for Tax Liabilities in Canada)

① An accounting manager with knowledge of Canadian taxes was appointed in order to acquire information about the Canadian taxation system and respond appropriately to it (preventative measures implemented in June 2015). Also, a system was created to have the ability to respond appropriately by, for example, contracting an outside tax specialist and consultant (preventative measures implemented in Oct. 2015).

② For reporting from sales companies to corporate headquarters, there was a disconnect from monthly business reports with strong elements focused on weekly, monthly, quarterly, and closing sales figures, profits and losses; instead, a meeting group for financial reporting was set up and local financial accountants do the reporting. Also, the provision of internal authority at PFU was reviewed.

③ Daily monitoring by superiors were increased, there is a general meeting between accounting divisions, management divisions and other related departments on a monthly basis. Checks from related divisions and improved information sharing, as well as multidirectional management occur. Also, the provision of internal authority is revised and PFU's CFO and president are scheduled to receive reports, including all types of items related to tax assessments.

(3) Preventative Measures for Subject of Investigation 2 (Accounting Practices for Transportation Costs)

① PFU relies on the Company's largest American sales subsidiary FUNAI CORPORATION, INC. (to be referred to as "FC") for transportation operations and related management. FC receives estimates from transporters and has had a system in place since April 2015 that can detect when actual costs vary greatly from estimates. In addition, in the case of accounts payable at FC, it does accounting for the transaction and notifies PFU and then PFU records the transaction.

② The FC logistics departments, which subcontracts for PFU, calculates unclaimed amounts at the end of each month and contacts PFU's accounting department, and the transaction are recorded. At FC transporters' claims are confirmed, as well as unclaimed amounts. Also, shipping list estimates and actual amounts are compared and it is confirmed whether there is a noticeable divergence in the claims and that there are no oversights, which is then communicated to PFU (countermeasures implemented in January 2016).

③ Even if the invoice has not been received, each person is made fully aware in order to recognize expenses that have occurred. At PFU monthly closing of accounts, each department receives confirmation of the real debts and credits, even if there are no invoices.

(4) Subject of Investigation 3

A. Preventative Measures for Sales Commission Accounting Omissions at PFU

① From April 2016 at PFU there was a change of procedure for I-system. It became possible to see a program list and there is now approval management. When sales items are entered, rules specify that the occurrence goes to accounting B/S at the time of recorded sales in terms of customer and completed confirmation.

② In order to actually apply I-system, FC changed to the same program and began to utilize it in April 2016. After entering information, sales deposits managers confirm the content. After input is completed, accounting is notified of the operation and I-system's figures are recorded. It is confirmed that accounting's balance and I-systems balance sheet match.

③ If I-system has details regarding sales promotion expenses, it is possible to compare them with deductions and proceed with deletion. However, if there is an unclear deduction, it is verified with management and that month or next month the collation is completed; and it is either deleted or processed as an expense. (Preventative measures implemented in April 2016.)

④ FC's sales deposit management is used concurrently by PFU, which means management cooperation with FC can be strengthened. I-system's specifications were changed and remote operations have become possible, which means PFU's accounting management can enter and confirm information.

⑤ FC's Director of the Credit Department assumed the concurrent post of at PFU (appointed Jan. 2016) so that he is in charge of PFU account receivable accounting.

B. Preventative Measures Regarding Delinquent Tax Accounting Omissions Accompanying Sales Tax Payment Omissions at PFU

① Henceforth, when there is a new proposal, the accounting and management divisions and other related departments will hold a general conference. The related departments will provide confirmation, strengthen information sharing, and make management multidirectional. Regarding internal investigations of risks and problem points, external specialists will provide legal, accounting, and review the effects on taxes beforehand. Also, a procedure will be implemented at each fiscal quarter to confirm the details of whether recorded assets and liabilities are appropriate.

② In order to improve the level of work of accounting personnel it was determined that training and replacement of management was necessary, and plans were made to make personnel changes and raise the level of training. Also, the supervisor will provide continued monitoring.

(5) Preventative Measures for Subject of Investigation 4 (PFM Sales Deposit Accounting Oversights)

① Since Oct. 2015 the I-system used by FC was introduced and it became possible to grasp the details of each client and entry. In accounting it is possible for the record of each occurrence of a sales promotion expense to be immediately updated after implementation is settled; and customers' deduction details are compared and the provision of necessary sums are matched with remaining reserves.

② The accounting division and related personnel now hold meetings, and the balance for each accounts receivable and customer are reviewed, and progress is confirmed regarding recovery and deletion. By subdividing the information within accounts receivable, customer deductions are made clear to the audit department. Deletions of sales deposits registered in the I-system are quickly and accurately performed.

③ From Jan. 2016 the sale organization came under direct supervision of Japanese personnel, and focus was placed on sales prices and the approval of sales deposits. The sales department has become more responsive regarding pending matters.

2. Preventative Measures Proposed by the Committee

(1)Improved Corporate Culture and Awareness Reform

Utilize to the greatest extent possible all company meetings and opportunities for on-site visits by management from company headquarters, etc., and have management speak about compliance with accounting rules and work to raise awareness of compliance and cultivate corporate culture through leading by example.

Also, implement training to deepen understanding regarding fundamental accounting rules and training for the purpose of raising awareness of the mistakes that occurred in these incidents and recognition of fraud risks for executive officers.

(2) Clarify the Division of Duties and Administrative Authority

At PFU have decision-making authority divided by position level, and also have reporting rules for superiors, and have a system of checking with compound eyes.

(3) Reinforce the Internal Audit System

The Internal Audit Department is a necessary component for internal risk management. Because its role in preventing misconduct and early detection, etc., is incredibly large, it should work hard to increase the sensitivity of its awareness of risk ("antennae"), and build a system that can more effectively and accurately perform internal audits.

With audits, when it is important, there should be a method for enlisting those from other departments with knowledge in financial accounting, management, law, etc., or outside specialists.

(4) Implementation of Audits by Auditing Committee

Perform routine audits done by an auditing committee at subsidiaries which experienced problems; and confirm that policies for improvement and the items reported on to the headquarters and board of directors are being properly implemented.

(5) Reinforce Governance Regarding Subsidiaries

Executive officers from the Company headquarters should reflect on their management role in relation to subsidiaries. Also, the board of directors should confirm the progress of the improvement policies for this incident every three months with the PFU president and executive officers.

Furthermore, regarding accounting and taxes, the Company accounting department and planning department should improve regular monitoring and management of overseas subsidiaries; and should report immediately to management when they sense an internal control is not functioning. They should work hard to have a system for investigating and sound corporate culture in which suspicious matters are not allowed to stand. There should be a system for accounting employees stationed overseas that allows them to quickly report, contact, and discuss problems with the business process related to accounting to the corporate headquarters and corporate planning division.

(6) Training of Resident Executive Officers and Accounting Employees of the Company and Subsidiaries

Executive officers at the Company and Subsidiaries and accounting personnel should reaffirm the importance of accurate accounting through educational activities for acquiring knowledge of accounting fundamentals.