

(Translation)

Securities Code: 6839  
June 9, 2017

NOTICE OF THE 65TH ORDINARY GENERAL MEETING  
OF SHAREHOLDERS

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Dear Shareholders:

We would like to express our appreciation for your continued good offices.

You are hereby notified that the 65th Ordinary General Meeting of Shareholders of Funai Electric Co., Ltd. (the “Company”) will be held as described below, and you are cordially invited to attend the meeting.

Since voting rights can be exercised in writing, even if you are unable to attend the meeting, please review the attached Reference Document for the General Meeting of Shareholders set forth below and send to us by return mail the enclosed voting form indicating your approval or disapproval of the propositions no later than 5:00 p.m. on June 27 (Tuesday) in Japan time, 2017.

Yours very truly,

Hideaki Funakoshi  
Representative Director, President, and  
Chief Executive Officer

Funai Electric Co., Ltd.  
7-1, Nakagaito 7-chome,  
Daito City, Osaka

Description

1. Date and hour:

June 28 (Wednesday), 2017, 10:00 a.m.

2. Place:

5F, Multipurpose Hall, Technology Bldg. of the Company  
7-1, Nakagaito 7-chome, Daito City, Osaka

3. Matters forming the objects of the meeting:

Matters to be reported:

1. The business report, the consolidated financial statements and the audit reports on the consolidated financial statements by the independent auditors and the Audit and Supervisory Committee for the 65th fiscal year (from April 1, 2016 to March 31, 2017)
2. The nonconsolidated financial statements for the 65th fiscal year (from April 1, 2016 to March 31, 2017)

Matters to be resolved:

- |                    |  |
|--------------------|--|
| Proposition No. 1: | Election of five (5) Directors (excluding Directors who are Audit and Supervisory Committee Members) |
| Proposition No. 2: | Election of three (3) Directors who are Audit and Supervisory Committee Members                      |
| Proposition No. 3: | Election of one (1) Substitute Director who is an Audit and Supervisory Committee Member             |
| Proposition No. 4: | Issuance of stock acquisition rights as stock options  |

- END -

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- In attending the meeting, please submit the enclosed voting form to a receptionist at the place of the meeting.
  - Of the documents to be provided upon giving notice of this Ordinary General Meeting of Shareholders, “Notes to the consolidated financial statements” and “Notes to the nonconsolidated financial statements”, which are posted on our website (<http://www2.funai.co.jp/en/investors/>) in accordance with and as provided for in the applicable laws and ordinances and Article 14 of the Articles of Incorporation of the Company, are not attached with this notice of the Ordinary General Meeting of Shareholders. Therefore, the attached documents to this notice of the Ordinary General Meeting of Shareholders are a part of the consolidated financial statements and nonconsolidated financial statements that have been audited by the independent auditors to express their audit opinions.
  - In the event of the revision to any matters in the Reference Document for the General Meeting of Shareholders, the business report, the consolidated financial statements and the nonconsolidated financial statements, it will be posted on our website stated above.

(Attached documents)

## BUSINESS REPORT

(April 1, 2016 to March 31, 2017)

### **1. Current state of the Funai Group (the “Group”)**

#### **(1) Development and results of business activities:**

In the United States, which is the Group’s mainstay market, the economy has been expanding at a moderate pace as seen in the recovery of corporate investing activities despite a temporary decline in consumer spending. Meanwhile, Europe has seen an accelerated economic recovery as consumer spending has continued to improve. In China, the economic slowdown appears to have come to a pause in some areas as fixed asset investment and exports seemed to have bottomed out.

In Japan, moderate recovery of exports and industrial production has continued and there have been signs of improvement in consumer spending, reflecting solid employment and income conditions.

Under these circumstances, the Group reported net sales of ¥133,838 million, a 21.3% decrease from the previous fiscal year. Operating loss was ¥6,775 million (operating loss for the previous fiscal year was ¥10,539 million), due to a drop in sales as well as liquid crystal panel prices remaining high until the fiscal year-end, inventory adjustment of old models of LCD-TVs in the first half of the year, and a decline in gross profit margin due to intensified price competition in Mexico. Ordinary loss was ¥7,726 million (ordinary loss for the previous fiscal year was ¥13,653 million), mainly due to foreign exchange losses generated by Mexican Peso-denominated accounts receivable resulting from the Mexican Peso being weak against the Japanese yen. Net loss attributable to owners of parent ended at ¥6,745 million (a net loss attributable to owners of parent of ¥33,839 million in the previous fiscal year).

Net sales by product sector were as follows:

#### **Audiovisual Equipment**

Sales of BD players increased because of strong sales. However, sales of LCD-TVs declined as the expansion of sales to regional mass merchandisers in the North American market did not progress as planned and the Mexican market became more competitive. As a result, net sales of this sector were ¥115,262 million, a decrease of 22.0% from the previous fiscal year.

#### **Information Equipment**

Sales of the new in-house developed ink-jet cartridges contributed to an increase in overall sales. As a result, net sales of this sector were ¥5,075 million, an increase of 1.5% from the previous fiscal year.

## Other

Net sales of other were ¥13,500 million, a decrease of 22.0% from the previous fiscal year, due to the end of sales of audio accessories, whose contract terminated during the last fiscal year.

<Consolidated net sales by product group>

Group	Net sales (millions of yen)	Component rate (%)
Audiovisual equipment	115,262	86.1
Information equipment	5,075	3.8
Other	13,500	10.1
Total	133,838	100.0

(2) Investment in property, plant and equipment:

Investment in property, plant and equipment during the fiscal year under review totaled ¥3,070 million, which comprised of ¥2,758 million by its manufacturing companies and ¥312 million by its sales companies. Such investments were mainly for the improvement of the manufacturing facilities.

(3) Finance:

Nothing to be reported.

(4) Status of major organizational restructuring, etc.

The Company transferred all of its shares held in DX ANTENNA Co., Ltd., a subsidiary of the Company, to ELECOM Co., Ltd. on March 30, 2017.

(5) Issues to be addressed:

In the consumer electronics industry, the demand for LCD-TVs expanded because of demand shift to higher resolutions, such as 4K, and larger screens. However, the consumer electronics industry continued to face a challenging environment because of an ongoing downturn in the market for DVD/BD-related products, among other factors.

Under these circumstances, the issues and the measures to be taken are as follows:

(i) Increase of net sales and recovery of profitability

The Group's top priority is to increase net sales and recover profitability.

To increase net sales of audiovisual equipment, the Group aims to increase sales of LCD-TVs by offering 4K models and multiple models developed for individual customers in the North American market. In the Japanese market, the Group strives to secure market share through exclusive sales of "FUNAI" brand products by YAMADA DENKI Co., Ltd.

Regarding information equipment, the Group has been working to improve profitability through concentration on sales of high-value-added model printers and ink cartridges for business use.

To implement the above-mentioned strategies steadily, the Group is working towards the business improvements to provide products that meet market needs in a timely manner by minimizing time lags in product planning, development, material procurement, production and sales.

(ii) Reinforcement of the manufacturing systems

The Group has production sites in China, Thailand, the Philippines and Mexico. By concentrating production activities in the most optimal regions, the Group makes concerted efforts to enhance the local content ratio, improve production efficiency and reduce costs throughout all processes up to the delivery of end products.

(iii) Training and appointment of human resources

The Group recognizes that it is important to bolster the Group's capabilities by improving each employee's capabilities and more effectively leveraging its skills to win out against the global competition in the new era and implementing the Group's medium- to long-term business strategy. Therefore, the Group is actively training and assigning employees, regardless of their age and career, by strengthening and expanding its internal and external training systems, such as language training.

(iv) Inappropriate accounting

During the fiscal year under review, it was discovered that there was inappropriate accounting in prior results at the Group's subsidiaries. As a result, the Group submitted amended securities reports for the past five years and subsequently amended its financial reports.

Under these circumstances, the Group investigated and analyzed the causes of such inappropriate accounting and thereby considered, formulated and implemented improvement measures in order to prevent the recurrence of similar cases

The Group has taken the situation seriously and is determined to raise the awareness of its officers and employees and further strengthen the Group's governance with the aim of ensuring that such incidents will never be repeated in the future.

The Group has taken the following improvement measures to prevent the recurrence of similar cases.

(A) Strengthen management system for overseas subsidiaries

- Strengthen organization of the Group's management division
- Reinforce monitoring of sales subsidiaries
- Change reporting lines for expatriates in charge of accounting
- Newly establish financial reporting meetings and enhance monthly reporting operations
- Review relevant regulations and ensure thorough compliance

- Conduct progress reporting of improvement measures at the Board of Directors' meeting
  - Implement periodical audits by Audit and Supervisory Committee Members
  - (B) Strengthen operational capabilities of overseas subsidiaries
    - Review human resources system and organizations
    - Review management systems
    - Clarify authorities by reviewing the regulations on administrative authorities
    - Promote collaboration between accounting departments among sales subsidiaries
    - Thoroughly implement risk management of new businesses
  - (C) Restructure internal audit system
    - Strengthen internal audit system
    - Enhance audit contents
  - (D) Implement educational activities for officers and employees
    - Set out a commitment by the President to prevent the recurrence of similar cases
    - Conduct training for officers
    - Provide compliance lectures for divisional managers
- (v) Significant events concerning the assumptions of the going concern

Since the Group recorded a significant operating loss, ordinary loss, net loss attributable to owners of the parent and negative operating cash flow during the fiscal year under review, there have been events or circumstances that raise material doubts about the assumptions of the going concern.

However, there are no material financial concerns as the balance of cash and deposits currently held by the Group are sufficient to cover operating capital for the time being.

Moreover, the Group is confident that the matter in question can be resolved in light of the fact that the Group has formulated a medium-term management policy which sets the fiscal year under review as the first year and the following measures have been gradually implemented based on its basic policy.

- (A) Display business (LCD-TV business)
  - Expand sales in the North American market: Increase sales to existing customers and cultivate new customers through the introduction of multiple 4K models with large screens
  - Achieve entry into the Japanese market: Expand shares in the Japanese market through exclusive sales by YAMADA DENKI Co., Ltd.
- (B) Digital media business (DVD and BD business)
  - Expand sales of 4K BD players in the North American market
  - Achieve entry into the Japanese market: Expand shares in the Japanese market through exclusive sales by YAMADA DENKI Co., Ltd.
- (C) Office solution business (information equipment-related business)
  - Improve profitability through expansion of sales of high-value-added printer products
  - Reconsider investment in the development of Microfluidic technology
- (D) New businesses
  - Expand sales by developing and releasing new products related to healthcare, medical and in-vehicle devices

As a result of the foregoing, it has been determined that significant uncertainty concerning the assumptions of the going concern is not deemed to exist as of the end of the fiscal year under review.

(6) Property and income/loss:

Fiscal year Item	62nd (April 1, 2013 to March 31, 2014)	63rd (April 1, 2014 to March 31, 2015)	64th (April 1, 2015 to March 31, 2016)	65th (April 1, 2016 to March 31, 2017)
Net sales (millions of yen)	233,802	216,553	170,041	133,838
Ordinary income (loss) (millions of yen)	(2,908)	600	(13,653)	(7,726)
Net income (loss) attributable to owners of the parent (millions of yen)	(7,400)	31	(33,839)	(6,745)
Net income (loss) per share (yen)	(216.89)	0.92	(991.81)	(197.70)
Total assets (millions of yen)	180,729	188,902	154,191	108,685
Equity (millions of yen)	114,743	123,218	84,439	76,656
Equity per share (yen)	3,328.58	3,576.14	2,442.28	2,242.38

(Note) Net income (loss) per share is calculated based on the average of the total number of shares issued and outstanding during the fiscal year. Equity per share is calculated based on the total number of shares issued and outstanding as of the end of the fiscal year. Each such number of shares does not include the shares of treasury stock.

(7) Major subsidiaries:

Trade name	Capital stock	Ratio of equity participation of the Company (%)	Main business
FUNAI CORPORATION, INC.	US\$68.5 million	100.00	Sale of the Company's products
Funai Electric (HK) Ltd.	HK\$115 million	100.00	Manufacture of the Company's products
FUNAI (THAILAND) CO., LTD.	THB1,568 million	100.00	Manufacture of the Company's products

(Note) With regard to DX ANTENNA Co., Ltd., the Company transferred all of its shares held therein to ELECOM Co., Ltd. on March 30, 2017.

(8) Major businesses of the Group:

Division	Principal products
Audiovisual equipment	LCD-TVs, DVD players, DVD recorders, BD players and BD recorders
Information equipment	Printers and ink cartridges
Other	Other equipment

(9) Major business sites of the Group:

Category	Name	Location
Funai Electric Co., Ltd.	Head Office	Daito City, Osaka
	Tokyo Branch	Chiyoda-ku, Tokyo
Sales subsidiaries	FUNAI CORPORATION, INC.	U.S.A.
	P&F USA, Inc.	U.S.A.
	P&F MEXICANA. S.A. DE C.V.	Mexico
Production subsidiaries	Funai Electric (HK) Ltd.	Hong Kong
	FUNAI (THAILAND) CO., LTD.	Thailand

(10) Employees of the Group:

Number of employees (persons)	Change from the end of the previous fiscal year (+ or -) (persons)
3,287	-31

(Note) The above number of employees represents those actively at work.

(11) Major lenders:

Nothing to be reported.



(12) Other important matters concerning the current state of the Group:

The Company changed Representative Director, President and Chief Executive Officer (CEO) on May 15, 2017 as follows with the aim of developing a system with a focus on the AV Business and achieving earnings improvement and further growth.

Name	New position	Previous position
Hideaki Funakoshi	Representative Director President and CEO	Director
Tetsuhiro Maeda	Director	Representative Director President and CEO

## 2. Matters concerning the shares of the Company

- (1) Total number of shares authorized: 80,000,000 shares
- (2) Total number of shares issued: 36,130,796 shares  
(Including 2,011,765 shares of treasury stock)
- (3) Number of shareholders: 8,215 persons
- (4) Principal shareholders (top 11):

Name	Number of shares held (thousands of share)	Shareholding ratio (%)
Tetsuro Funai	12,359	36.22
Funai Information Science Promotion Foundation	1,740	5.10
State Street Bank and Trust Company 505223	1,640	4.81
State Street Bank and Trust Company	1,106	3.24
Tetsuo Funai	1,079	3.16
The Bank of New York 133522	708	2.08
Japan Trustee Services Bank, Ltd. (Trust account 9)	604	1.77
The Master Trust Bank of Japan, Ltd. (Trust account)	555	1.63
EFUTSU Co., Ltd.	470	1.38
T&N Co., Ltd.	470	1.38
Funai Kosan Co., Ltd.	470	1.38

(Notes) 1. The Company, which holds 2,011 thousand shares of treasury stock, is not included in the above-listed principal shareholders.

2. Each shareholding ratio is obtained by deducting shares of treasury stock of the Company and calculating down to the third decimal place and thereafter rounding upward or downward to the nearest second decimal place, as the case may be.

- (5) Other important matters concerning shares:

Nothing to be reported.

### 3. Matters concerning stock acquisition rights:

(1) Stock acquisition rights issued and outstanding at the end of the fiscal year under review:

(i) Number of stock acquisition rights: 4,290 rights

(Note) The number of stock acquisition rights is shown by reducing from the number of stock acquisition rights granted, the number of stock acquisition rights exercised, and the number of stock acquisition rights that the persons entitled thereto ceased to have due to retirement or other terms of exercise of the rights.

(ii) Class and number of shares to be issued or transferred upon exercise of the stock acquisition rights: 429,000 shares of common stock (100 shares per stock acquisition right)

(iii) Stock acquisition rights held by Directors by category:

Issue	Category	Number of rights	Holder	Exercise price per share	Exercise period
The first stock acquisition rights for the year ended March 31, 2009	Director (other than Audit and Supervisory Committee Member) (other than Outside Director)	116	3	¥1,609	August 1, 2010 to July 31, 2017
The first stock acquisition rights for the year ended March 31, 2015	Director (other than Audit and Supervisory Committee Member) (other than Outside Director)	136	3	¥1,296	September 1, 2016 to August 31, 2023
The first stock acquisition rights for the year ended March 31, 2017	Director (other than Audit and Supervisory Committee Member) (other than Outside Director)	230	4	¥1,019	September 1, 2018 to August 31, 2023

(2) Stock acquisition rights allotted during the fiscal year under review:

Stock acquisition rights issued on January 30, 2017:

(i) Number of stock acquisition rights: 1,740 rights

(ii) Class and number of shares to be issued or transferred upon exercise of the stock acquisition rights: 174,000 shares of common stock (100 shares per stock acquisition right)

(iii) Amount of property to be paid in upon exercise of the stock acquisition rights: ¥101,900 per right (¥1,019 per share)

(iv) Exercise period of stock acquisition rights: September 1, 2018 to August 31, 2023

(v) Stock acquisition rights allotted:

Category	Number of rights	Number of shares to be issued or transferred	Number of holders
Directors of the Company	230	23,000	4
Employees of the Company	1,310	131,000	51
Employees of the subsidiaries	200	20,000	2

(3) Other important matters concerning stock acquisition rights, etc.:

Nothing to be reported.

#### 4. Matters concerning Officers of the Company:

##### (1) Directors (as of March 31, 2017)

Title	Name	Business in charge and important concurrent office
Representative Director, President and Chief Executive Officer (CEO)	Tetsuhiro Maeda	
Director and Executive Advisor	Tetsuro Funai	Chairman of Funai Information Science Promotion Foundation; and Chairman of Funai Scholarship Foundation
Director and Officer	Joji Okada	General Manager of Legal and Intellectual Property Rights Headquarters and General Manager of New Business Div.
Director and Officer	Hideaki Funakoshi	General Manager of AV System Business Headquarters and General Manager of Display Business Div.
Director and Officer	Takeshi Ito	General Manager of Materials Headquarters
Director and Officer	Hiroyuki Makiura	Operating Officer sales
Outside Director	Mitsuo Yonemoto	Vice President and Director of T.P.S. Laboratory Co., Ltd. and Outside Audit & Supervisory Board Member of Oriental Chain Mfg. Co., Ltd.
Director (Audit and Supervisory Committee Member)	Hiroshi Ishizaki	Full-time Audit and Supervisory Committee Member Chairman of Audit and Supervisory Committee
Outside Director (Audit and Supervisory Committee Member)	Masahide Morimoto	
Outside Director (Audit and Supervisory Committee Member)	Yoshiaki Bannai	President and Representative Director of Be.com corporation

- (Notes)
1. Director (Audit and Supervisory Committee Member) Shinichi Komeda resigned from office on June 28, 2016, and accordingly, Substitute Director (Audit and Supervisory Committee Member) Hiroshi Ishizaki assumed the office of Director (Audit and Supervisory Committee Member) as of the same date.
  2. The Company has selected Hiroshi Ishizaki as Full-time Audit and Supervisory Committee Member with the aim of enhancing the effectiveness of audits through reinforcement of information gathering capability and collaboration with internal audit unit, etc. and further strengthening audit and supervisory functions.
  3. The Company has designated Outside Director Mitsuo Yonemoto as an Independent Officer in accordance with the rules of Tokyo Stock Exchange, Inc. and registered him with the exchange.
  4. The Company has established a Nomination Committee and a Compensation Committee (both of which are voluntary committees). The composition of each of the committees is as follows:

- Nomination Committee: Joji Okada (Chairman), Tetsuro Funai, Tetsuhiro Maeda, Hideaki Funakoshi and Takeshi Ito
- Compensation Committee: Tetsuhiro Maeda (Chairman), Tetsuro Funai, Joji Okada, Hideaki Funakoshi, Takeshi Ito and Mitsuo Yonemoto

(2) Directors who retired during the fiscal year under review:

Name	Retirement date	Reason	Title, business in charge and important concurrent office upon retirement
Tomonori Hayashi	June 28, 2016	Expiration of term of office	Representative Director, President and Chief Executive Officer (CEO)
Shinichi Komeda	June 28, 2016	Resignation	Outside Director (Audit and Supervisory Committee Member)

(For reference)

The Company has adopted a “System of Officers” and the Officers as of March 31, 2017 who did not concurrently hold the offices of Directors were as follows:

Officer	Motomi Adachi
Officer	Tsuneki Yoshida
Officer	Kazuo Uga

(3) Outline of liability limitation agreements:

In accordance with Article 427, paragraph 1 of the Companies Act of Japan, the Company has entered into an agreement with Non-executive Directors Tetsuro Funai, Mitsuo Yonemoto, Hiroshi Ishizaki, Masahide Morimoto and Yoshiaki Bannai to limit their liability for any damage as provided for in Article 423, paragraph 1 of said act within the aggregate of the amounts listed in the items of Article 425, paragraph 1 of said act.

(4) Total amount of remuneration, etc. for Directors

Total amount of remuneration, etc. for the fiscal year under review:

Category	Number of recipients (persons)	Amount of payments (thousand yen)
Director (other than Director being Audit and Supervisory Committee Member) (Outside Director)	8 (1)	70,556 (3,250)
Director (Audit and Supervisory Committee Member) (Outside Director)	4 (3)	14,037 (7,700)
Total (Outside Director)	12 (4)	84,594 (10,950)

- (Notes)
1. The above-listed amounts of payments include payments to the Directors who retired during the fiscal year under review.
  2. The above-listed amount of payments includes the following amount of allowance for Officers' retirement benefits recorded as expenses for the fiscal year under review:
    - ¥5,647 thousand for seven Directors (other than Directors being Audit and Supervisory Committee Members) (including ¥250 thousand for one outside Director)
    - ¥987 thousand for three Directors (Audit and Supervisory Committee Members) (including ¥500 thousand for two outside Directors)
  3. The above-listed amount of payments includes the following amount of remuneration in stock options recorded as expenses for the fiscal year under review:
    - ¥1,339 thousand for four Directors (other than Audit and Supervisory Committee Members)

(5) Other important matters concerning Officers:

Nothing to be reported.

(6) Matters concerning Outside Officers:

- (i) Concurrent holding of important offices of Executive Officers of other corporations and their relationships with the Company:
  - Director Mitsuo Yonemoto is Vice President and Director of T.P.S. Laboratory Co., Ltd. The Company has no special relationship with T.P.S. Laboratory Co., Ltd.
  - Director Yoshiaki Bannai is President and Representative Director of Be.com corporation. The Company has no special relationship with Be.com

corporation.

(ii) Concurrent holding of important offices of Outside Officers of other corporations and their relationships with the Company:

- Director Mitsuo Yonemoto is an Outside Audit & Supervisory Board Member of Oriental Chain Mfg. Co., Ltd. The Company has no special relationship with Oriental Chain Mfg. Co., Ltd.

(iii) Kinship among Executive Officers of the Company and its specified related enterprises:

Nothing to be reported.

(iv) Major activities during the fiscal year under review:

- Attendance and speeches at the meetings of the Board of Directors and the Audit and Supervisory Committee:

Name	Attendance and Speeches
Director  Mitsuo Yonemoto	He attended 21 of the 23 meetings (attendance rate: 91%) of the Board of Directors held during the fiscal year under review and expressed opinions principally from the standpoint of a management consultant, as well as from an objective standpoint as an Independent Officer.
Director (Audit and Supervisory Committee Member)  Masahide Morimoto	He attended 22 of the 23 meetings (attendance rate: 96%) of the Board of Directors and 13 of 13 meetings (attendance rate: 100%) of the Audit and Supervisory Committee held during the fiscal year under review. He expressed opinions at the meetings of the Board of Directors and the Audit and Supervisory Committee principally from the standpoint of a veteran top executive, as well as from a technical standpoint of finance and securities.
Director (Audit and Supervisory Committee Member)  Yoshiaki Bannai	He attended 20 of the 23 meetings (attendance rate: 87%) of the Board of Directors and 12 of 13 meetings (attendance rate: 92%) of the Audit and Supervisory Committee held during the fiscal year under review. He expressed opinions at the meetings of the Board of Directors and the Audit and Supervisory Committee principally from the standpoint of a veteran top executive.

(Note) In addition to the number of meetings of the Board of Directors above, written resolutions, which shall be deemed to have been adopted pursuant to the provisions of Article 370 of the Companies Act and Article 23 of the Articles of Incorporation of the Company, were adopted on five occasions.



**5. Matters concerning independent auditors:**

(1) Names of the independent auditors:

Deloitte Touche Tohmatsu LLC

(2) Amount of remuneration, etc., of the independent auditors for the fiscal year under review:

(i) Remuneration, etc., of the independent auditors for the fiscal year under review: ¥141 million

(ii) Total amount of cash and other proprietary benefits payable to the independent auditors by the Company and its subsidiaries: ¥158 million

(Notes) 1. The amount of remuneration, etc., for audits under the Companies Act of Japan and the amount of remuneration, etc., for audits under the Financial Instruments and Exchange Act of Japan are not separated in the audit agreement between the Company and the independent auditors and cannot actually be separated. Hence, the amount in item (i) above includes both amounts.

2. Amounts in items (i) and (ii) above include remuneration of ¥50 million for audit certification services concerning amendment of the Company's past financial results.

3. Three major subsidiaries of the Company are subject to audits by audit firms (including persons having qualifications in foreign countries equivalent to those of independent auditors of the Company) other than the independent auditors of the Company.

(3) Content of non-auditing services:

Nothing to be reported.

(4) Reasons for the Audit and Supervisory Committee to consent to the remuneration, etc., of the independent auditors:

The Audit and Supervisory Committee, based on the "Practical Guidance on Cooperation with Independent Auditors" issued by the Japan Audit & Supervisory Board Members Association, verified the changes in audit hours and audit remuneration by audit item and the status of audit plans and audit results for the previous fiscal year and investigated whether the estimates of audit hours and remuneration for the fiscal year under review were appropriate. As a result, the Audit and Supervisory Committee consented to the remuneration, etc. of the independent auditors pursuant to Article 399, paragraph 1 of the Companies Act.

(5) Policy on the determination of dismissal or non-reappointment of the independent auditors:

In the event that the independent auditors are found to fall under any event of dismissal under the items of Article 340, paragraph 1 of the Companies Act and are

considered appropriate to be dismissed, the Audit and Supervisory Committee shall, upon unanimous consent of the Audit and Supervisory Committee Members, dismiss the independent auditors. In addition, in the event that any problem is found to arise with the performance by the independent auditors of their proper audits, the Audit and Supervisory Committee shall determine the content of a proposition for the dismissal or non-reappointment of the independent auditors to be submitted to a General Meeting of Shareholders.

(6) Outline of liability limitation agreements:

Nothing to be reported.

## 6. Systems and policies of the Company

### (1) Systems to secure the propriety of business activities:

- (i) Systems to ensure that the Directors and employees perform their duties in compliance with laws, ordinances and the Articles of Incorporation

In the “Funai Group Charter of Conduct”, the “Regulations of Officers’ Compliance” and “Regulations of Compliance”, the Company shall specify the acts to be taken by the Directors, Officers and employees to comply with laws and ordinances and ensure that the Directors, Officers and employees perform their duties in compliance with laws, ordinances and the Articles of Incorporation. The Company has also formulated the “Whistleblower Protection Regulations” to prohibit unfavorable treatment of whistleblowers.

- (ii) Systems for the storage and management of information concerning the performance of the Directors’ duties

With regard to the storage and management of information concerning the performance of the Directors’ duties, the minutes of meetings of the Board of Directors and other important meetings that the Directors shall attend, circular decision documents and other necessary documents and information to ensure that the Directors perform their duties appropriately are stored and managed in compliance with laws, ordinances and the “Document Management Regulations”.

- (iii) Regulations and other system for management of risk of loss

The Company has instituted “Risk Management Regulations” for management of risk of loss and appointed Officers responsible for risk management to properly grasp and evaluate risks to the Company and manage risks related to their respective operations in charge.

- (iv) Systems to ensure that the Directors perform their duties effectively

To ensure that the management performs decision-making swiftly and effectively, the Company has introduced a “System of Officers”, and place Officers under the control of the Executive Directors to ensure that the operations determined by the Executive Directors are performed swiftly. In addition, to enhance the transparency of the Board of Directors and strengthen its supervisory functions, the Company has appointed outside Directors and instituted an Audit and Supervisory Committee.

- (v) Systems to secure the propriety of business activities of the corporate group composed of the Company and its subsidiaries

- (a) Systems of reports to the Company on the matters concerning the performance by Directors, etc. of its subsidiaries of their duties

To grasp the management of the subsidiaries appropriately, the Company has instituted the “Affiliated Companies Management Regulations” to set the materiality thresholds and the matters to be reported for the subsidiaries. Accordingly, the Company requires the subsidiaries to submit operating results and financial reports on a monthly basis.

(b) Regulations and other system to manage the subsidiaries’ risks of loss

To control and manage the operations and administration of its subsidiaries, the Company has instituted the “Affiliated Companies Management Regulations” and with regard to the matters that may affect the finance and administration of the subsidiaries through the relationships of funding, technology, personnel, transactions, etc., set required matters to consult with the Company, and establish a system of consultation between the Company and its subsidiaries.

(c) Systems to ensure that the Directors, etc. of the subsidiaries perform their duties effectively

To ensure that the subsidiaries manage business effectively, the Company has instituted corporate regulations and established a system in accordance with the “Affiliated Companies Management Regulations” that allow the subsidiaries to manage business in respect of their managerial autonomy and independence.

(d) Systems to ensure that the Directors, employees, etc. perform their duties in compliance with laws, ordinances and the Articles of Incorporation

The Company has instituted the “Funai Group Charter of Conduct” as a code of conduct for all Officers and employees of the Funai Group, as well as the “Funai Group Procurement Policies” and “Regulations of Compliance” based on the Charter of Conduct, and clarified the acts to be taken by the Directors, employees, etc. of the subsidiaries to comply with law, thereby ensuring that the performance of their duties complies with laws, ordinances and the Articles of Incorporation.

(vi) Matters concerning the employees assisting the Audit and Supervisory Committee to perform its duties

To allow the Audit and Supervisory Committee to properly perform its duties, the Company shall institute a Secretariat to the Audit and Supervisory Committee and assign employees to assist the Audit and Supervisory Committee.

(vii) Matters concerning the independence of the employees to assist the duties of the Audit and Supervisory Committee, from the other Directors (other than Directors being Audit and Supervisory Committee Members)

When the employees to assist the duties of the Audit and Supervisory Committee are transferred to the Secretariat to the Audit and Supervisory Committee, the Company shall assign employees who shall not be subjected to direct instructions and orders from other Directors (other than Directors being Audit and Supervisory Committee Members) to secure their independence from other Directors. The Company shall respect the opinions of the Audit and Supervisory Committee with regard to their transfer and personnel evaluations.

- (viii) Matters concerning the securing of the propriety of directions by the Audit and Supervisory Committee to employees assisting the Audit and Supervisory Committee

The Audit and Supervisory Committee shall directly give instructions and orders to, and receive reports from, the employees to assist the Audit and Supervisory Committee to secure the propriety of directions.

- (ix) Matters concerning reports to the Audit and Supervisory Committee
  - (a) System of reporting by the Directors (other than Directors being Audit and Supervisory Committee Members), Officers and employees of the Company to the Audit and Supervisory Committee

If the Directors (other than Directors being Audit and Supervisory Committee Members), Officers and employees of the Company find any fact that has inflicted or may inflict material damage on the Company, they shall immediately report the fact to the Audit and Supervisory Committee.

- (b) System of reporting by the Directors, Audit & Supervisory Board Members, Officers and employees of the subsidiaries to the Audit and Supervisory Committee of the Company

In the event that the Directors, Officers and employees of the subsidiaries are requested to give reports on business by the Director being Audit and Supervisory Committee Member appointed by the Audit and Supervisory Committee of the Company, they shall immediately do so unless there is any justifiable reason to the contrary. If the Directors, Audit & Supervisory Board Members, Officers and employees of the subsidiaries find any violation of law or any fact that has inflicted or may inflict material damage on the Company, they shall report the fact to the Audit and Supervisory Committee of the Company.

- (x) Systems to ensure that any party who has given a report to the Audit and Supervisory Committee will not suffer unfavorable treatment because of giving such report

By instituting the “Regulations of Compliance” and the “Whistleblower Protection Regulations”, the Company prohibits unfavorable treatment of whistleblowers. The Company shall also ensure that any party who has

given a report to the Audit and Supervisory Committee will not suffer unfavorable treatment because of giving such report.

- (xi) Matters concerning policies on the treatment of expenses to be incurred in the performance by Audit and Supervisory Committee Members of their duties

In the event that Audit and Supervisory Committee Members request payments for expenses in performing their duties, the Company shall make such payments unless such expenses are not necessary for the performance of their duties.

- (xii) Other systems to ensure that the Audit and Supervisory Committee performs its audits effectively

To ensure that the Audit and Supervisory Committee performs its audits effectively, the Audit and Supervisory Committee shall closely cooperate with the independent auditors, and regularly meet the Representative Directors, Directors of the subsidiaries, etc. to confirm the management policy and exchange opinions on the risks and issues surrounding the Company.

- (xiii) System to ensure the reliability of financial reporting

The Company shall establish a “Basic Policy for Internal Control over Financial Reporting” to ensure the reliability of financial reporting and the effective and appropriate disclosure of “Internal Control Reports”. In accordance with the Basic Policy, the Company shall establish an “Internal Control Committee”, which shall be chaired by the Representative Director, President, and CEO, and shall be responsible for continuous improvement, administration and evaluation of internal control over financial reporting and promptly implement a correction when any defect is found.

- (xiv) System for the exclusion of antisocial forces

The Company shall have a fundamental policy of having no relation with any antisocial force and refusing any unjust claim.

In the event that a client is found to be an entity, enterprise, individual, etc. having any relation with such antisocial force, the Company shall promptly terminate a business relationship with it.

The Company shall designate its Personnel and General Affairs Department as a principal division in charge of dealing with antisocial forces and control the information centrally. To make its Officers and employees comply with its fundamental policy, the Company shall also define it clearly in its related rules and regulations and establish an education system therefor. In addition, the Company shall prepare countermeasures to prevent damages from antisocial forces, if necessary.

In the event that any unjust claim is requested by an antisocial force, the

Company shall work closely with external specialized agencies, including the police and its legal counsel, and establish a cooperative system for emergency situations.

(2) Summary of the operation status of the systems to secure the propriety of business activities:

(i) Compliance

By instituting the “Funai Group Charter of Conduct” as a code of conduct, as well as the “Regulations of Compliance” and keeping all Officers and employees informed about compliance, the Company has clarified the fundamental policy on compliance with law and ensured their performance of duties conducted in compliance with laws, ordinances and the Articles of Incorporation. The Company has also established a whistleblower system to prevent violations of law and swiftly detect problems.

During the fiscal year under review, the Company conducted a study session on accounting standards for officers and a compliance lecture for division managers as part of educational activities to raise the awareness of the Company’s officers and employees.

(ii) Risk management

To minimize losses and disadvantages in business activities, the Company has made continuous risk management by instituting the “Risk Management Regulations”, developing the system for risk management and monitoring periodically.

(iii) Directors’ performance of duties

The Board of Directors, which consists of 10 Directors (three of whom are Directors being Audit and Supervisory Committee Members), including three outside Directors, makes decisions on the matters required by laws or ordinances and important matters concerning management, and supervises the execution of business. During the fiscal year under review, the Board of Directors held 23 meetings. In addition, the Investment and Loan Committee held five sessions, the Nomination Committee held one session and the Compensation Committee held three sessions.

(iv) The Audit and Supervisory Committee Members’ performance of duties

The Audit and Supervisory Committee Members attend meetings of the Board of Directors, as well as monthly financial reporting meetings. During the fiscal year under review, 13 meetings of the Audit and Supervisory Committee were held.

(3) Policies for the determination of Directors’ remuneration, etc.:

Remuneration for Directors (other than Directors being Audit and Supervisory Committee Members) and Directors being Audit and Supervisory Committee Members shall be determined within the range of their respective maximum total amounts of remuneration determined by resolution of the General Meeting of Shareholders.

The amount of monthly remuneration for Directors (other than Directors being Audit and Supervisory Committee Members) shall be determined by the Compensation Committee upon authorization by the Board of Directors based on the Company's rules. The amount of monthly remuneration of Directors being Audit and Supervisory Committee Members shall be determined upon consultation among the Directors being Audit and Supervisory Committee Members.

Bonuses for Directors (other than Directors being Audit and Supervisory Committee Members) shall be determined by the Compensation Committee upon authorization by the Board of Directors based on the Company's rules. Bonuses for Directors serving as Audit and Supervisory Committee Members shall be determined upon consultation among the Directors being Audit and Supervisory Committee Members.

Regarding the retirement benefits for Directors, upon the approval of granting such benefits to Directors (other than Directors serving as Audit and Supervisory Committee Members) and Directors being Audit and Supervisory Committee Members by resolution of the General Meeting of Shareholders and based on the Company's rules, the benefits for Directors (other than Directors serving as Audit and Supervisory Committee Members) shall be determined by the Compensation Committee upon authorization by the Board of Directors, and the benefits for Directors serving as Audit and Supervisory Committee Members shall be determined by consultation among the Directors being Audit and Supervisory Committee Members.

- (4) Policy for the determination of distribution of retained earnings, etc., by the Board of Directors:

The Company recognizes the return of earnings to its shareholders as one of the most important missions of management and strives to maintain a steady dividend as well as reinforcement of its management base.

In specific indexes, the Company plans to pay a dividend with a dividend on equity ratio of 1.0% on a consolidated basis, considering business conditions and other factors.

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(Note) In this business report, all figures and the number of shares are shown by discarding any fractions of the indicated units, and rates are shown by rounding fractions of a half or more of the indicated unit upward and the rest downward unless otherwise indicated. Net income per share, net loss per share and equity per share are shown by rounding off to two decimal places.



## CONSOLIDATED BALANCE SHEET

(As of March 31, 2017)

(millions of yen)

### ASSETS:

<b>Current assets:</b>	<b>85,503</b>
Cash and deposits .....	40,136
Notes and accounts receivable-trade .....	15,571
Merchandise and finished goods .....	15,459
Work in process .....	1,149
Raw materials and supplies .....	9,644
Deferred tax assets .....	489
Other .....	3,900
Allowance for doubtful accounts .....	(847)
<b>Fixed assets:</b>	<b>23,181</b>
<b>Property, plant and equipment:</b>	<b>12,963</b>
Buildings and structures .....	6,140
Machinery, equipment, and motor vehicles .....	1,394
Tools, furniture, and fixtures .....	1,281
Land .....	3,592
Lease assets .....	367
Other .....	187
<b>Intangible assets:</b>	<b>3,342</b>
Patents .....	2,576
Other .....	765
<b>Investments and other assets:</b>	<b>6,875</b>
Investment securities .....	1,425
Deferred tax assets .....	454
Assets for retirement benefits .....	1,543
Other .....	3,703
Allowance for doubtful accounts .....	(252)
<b>TOTAL ASSETS</b>	<b>108,685</b>

(millions of yen)

LIABILITIES:

<b>Current liabilities:</b>	<b>29,575</b>
Notes and accounts payable-trade .....	18,603
Accounts payable-other .....	7,280
Current portion of long-term lease obligations.....	242
Income taxes payable.....	813
Accrued bonuses.....	9
Reserve for product warranty .....	481
Other .....	2,144
<b>Long-term liabilities:</b>	<b>2,453</b>
Long-term lease obligations .....	514
Deferred tax liabilities .....	595
Liabilities for Directors' and Audit & Supervisory Board Members' retirement benefits .....	1,047
Liabilities for retirement benefits .....	15
Other .....	281
<b>TOTAL LIABILITIES</b>	<b>32,028</b>

EQUITY:

<b>Shareholders' equity:</b>	<b>87,590</b>
<b>Common stock</b> .....	<b>31,307</b>
<b>Capital surplus</b> .....	<b>33,603</b>
<b>Retained earnings</b> .....	<b>47,020</b>
<b>Treasury stock</b> .....	<b>(24,341)</b>
<b>Accumulated other comprehensive income (loss):</b>	<b>(11,082)</b>
<b>Unrealized gain on available-for-sale securities</b> .....	<b>11</b>
<b>Foreign currency translation adjustments</b> .....	<b>(11,206)</b>
<b>Defined retirement benefit plans</b> .....	<b>111</b>
<b>Stock acquisition rights:</b>	<b>149</b>
<b>TOTAL EQUITY</b>	<b>76,656</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>108,685</b>

**CONSOLIDATED STATEMENT OF OPERATIONS**

(from April 1, 2016 to March 31, 2017)

(millions of yen)

<b>Net sales</b>		<b>133,838</b>
<b>Cost of sales</b>		<b>114,795</b>
<b>Gross profit</b>		<b>19,043</b>
<b>Selling, general, and administrative expenses</b>		<b>25,818</b>
<b>Operating loss</b>		<b>6,775</b>
<b>Non-operating income:</b>		
Interest and dividend income	253	
Rental income on fixed assets	119	
Other	146	519
<b>Non-operating expenses:</b>		
Interest expense	152	
Foreign exchange losses	1,122	
Other	195	1,470
<b>Ordinary loss</b>		<b>7,726</b>
<b>Extraordinary income:</b>		
Gain on sales of fixed assets	1,436	
Other	141	1,578
<b>Extraordinary loss:</b>		
Loss on disposal of fixed assets	57	
Impairment loss on fixed assets	339	
Loss on sales of investment in nonconsolidated subsidiaries and associated companies	704	
Other	57	1,158
<b>Loss before income taxes</b>		<b>7,307</b>
Income taxes – current	67	
Income taxes – deferred	(632)	(565)
<b>Net loss</b>		<b>6,742</b>
Net income attributable to non-controlling interests		3
<b>Net loss attributable to owners of the parent</b>		<b>6,745</b>

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(from April 1, 2016 to March 31, 2017)

(millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	31,307	33,301	54,789	(24,341)	95,058
Changes of items during the period					
Dividends from surplus			(1,023)		(1,023)
Loss attributable to owners of the parent			(6,745)		(6,745)
Purchase of treasury stock				(0)	(0)
Change in treasury shares of parent arising from transactions with non-controlling interests		301			301
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	-	301	(7,768)	(0)	(7,467)
Balance as of March 31, 2017	31,307	33,603	47,020	(24,341)	87,590

	Accumulated other comprehensive income (loss)				Stock acquisition rights	Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income (loss)			
Balance as of April 1, 2016	160	(12,204)	314	(11,729)	145	965	84,439
Changes of items during the period							
Dividends from surplus							(1,023)
Loss attributable to owners of the parent							(6,745)
Purchase of treasury stock							(0)
Change in treasury shares of parent arising from transactions with non-controlling interests							301
Net changes of items other than shareholders' equity	(149)	998	(202)	647	3	(965)	(314)
Total changes of items during the fiscal year	(149)	998	(202)	647	3	(965)	(7,782)
Balance as of March 31, 2017	11	(11,206)	111	(11,082)	149	-	76,656

(Note) In the consolidated balance sheet and the consolidated statements of operations and changes in equity, all figures are shown by discarding any fractions of the relevant units.

## NONCONSOLIDATED BALANCE SHEET

(As of March 31, 2017)

(millions of yen)

### ASSETS:

<b>Current assets:</b>	<b>45,881</b>
Cash and deposits .....	21,328
Accounts receivable-trade .....	26,723
Merchandise and finished goods .....	281
Raw materials and supplies .....	1,035
Prepaid expenses .....	611
Accrued income.....	1,122
Other.....	401
Allowance for doubtful accounts .....	(5,623)
<b>Fixed assets:</b>	<b>46,112</b>
<b>Property, plant and equipment:</b>	<b>4,535</b>
Buildings .....	1,728
Structures.....	27
Machinery and equipment .....	2
Motor vehicles.....	0
Tools, furniture, and fixtures.....	49
Land.....	2,249
Lease assets .....	367
Construction in progress.....	109
<b>Intangible assets:</b>	<b>2,806</b>
Patents .....	2,576
Software .....	200
Other.....	29
<b>Investments and other assets:</b>	<b>38,770</b>
Investment securities .....	132
Investment in subsidiaries and associated companies.....	25,613
Long-term loans receivable .....	21,014
Long-term prepaid expenses .....	2,137
Prepaid pension cost.....	1,519
Other.....	157
Allowance for doubtful accounts .....	(11,803)
<b>TOTAL ASSETS</b>	<b>91,994</b>

(millions of yen)

LIABILITIES:

<b>Current liabilities:</b>	<b>18,601</b>
Accounts payable-trade .....	11,362
Current portion of long-term lease obligations.....	123
Accounts payable-other .....	4,236
Accrued expenses .....	2,040
Income taxes payable.....	178
Deposits received.....	350
Reserve for product warranty .....	277
Other .....	33
<b>Long-term liabilities:</b>	<b>2,123</b>
Long-term lease obligations .....	273
Deferred tax liabilities .....	522
Liabilities for Directors' retirement benefits .....	1,047
Other .....	281
<b>TOTAL LIABILITIES</b>	<b>20,725</b>

EQUITY

<b>Shareholders' equity</b>	<b>71,107</b>
<b>Common stock</b>	<b>31,307</b>
<b>Capital surplus:</b>	<b>33,272</b>
Capital reserve .....	32,833
Other capital surplus .....	438
<b>Retained earnings:</b>	<b>30,869</b>
Legal reserve.....	209
Other retained earnings.....	30,659
Reserve for advanced depreciation of fixed assets.....	128
General reserve.....	23,400
Retained earnings brought forward .....	7,131
<b>Treasury stock</b>	<b>(24,341)</b>
<b>Valuation and translation adjustments:</b>	<b>11</b>
<b>Unrealized gain on available-for-sale securities</b>	<b>11</b>
<b>Stock acquisition rights</b>	<b>149</b>
<b>TOTAL EQUITY</b>	<b>71,269</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>91,994</b>

**NONCONSOLIDATED STATEMENT OF OPERATIONS**

(from April 1, 2016 to March 31, 2017)

(millions of yen)

<b>Net sales</b>		<b>103,982</b>
<b>Cost of sales</b>		<b>95,109</b>
<b>Gross profit</b>		<b>8,873</b>
<b>Selling, general, and administrative expenses</b>		<b>17,957</b>
<b>Operating loss</b>		<b>9,084</b>
<b>Non-operating income:</b>		
Interest and dividend income	4,582	
Other	147	4,730
<b>Non-operating expenses:</b>		
Interest expense	87	
Foreign exchange loss	700	
Other	173	960
<b>Ordinary loss</b>		<b>5,315</b>
<b>Extraordinary income:</b>		
Gain on sales of fixed assets	1,216	
Gain on sales of investment in nonconsolidated subsidiaries and associated companies	5,908	
Other	110	7,235
<b>Extraordinary loss:</b>		
Loss on disposal of fixed assets	9	9
<b>Income before income taxes</b>		<b>1,909</b>
Income taxes – current	11	
Income taxes – deferred	(240)	(228)
<b>Net income</b>		<b>2,138</b>

**NONCONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(from April 1, 2016 to March 31, 2017)

(millions of yen)

	Shareholders' equity										
	Common stock	Capital surplus			Legal reserve	Retained earnings				Treasury stock	Total shareholders' equity
		Capital reserve	Other capital surplus	Total capital surplus		Other retained earnings			Total retained earnings		
						Reserve for advanced depreciation of fixed assets	General reserve	Retained earnings brought forward			
Balance as of April 1, 2016	31,307	32,833	438	33,272	209	518	23,400	5,626	29,753	(24,341)	69,992
Changes of items during the fiscal year											
Reversal of reserve for advanced depreciation of fixed assets						(389)		389	-		-
Cash dividends								(1,023)	(1,023)		(1,023)
Net income								2,138	2,138		2,138
Acquisition of treasury stock										(0)	(0)
Net changes of items other than shareholders' equity											
Total changes of items during the fiscal year	-	-	-	-	-	(389)	-	1,504	1,115	(0)	1,115
Balance as of March 31, 2017	31,307	32,833	438	33,272	209	128	23,400	7,131	30,869	(24,341)	71,107



(millions of yen)

	Valuation and translation adjustments		Stock acquisition rights	Total equity
	Unrealized gain on available-for-sale securities	Total valuation and translation adjustments		
Balance as of April 1, 2016	59	59	145	70,197
Changes of items during the fiscal year				
Reversal of reserve for advanced depreciation of fixed assets				-
Cash dividends				(1,023)
Net income				2,138
Acquisition of treasury stock				(0)
Net changes of items other than shareholders' equity	(47)	(47)	3	(44)
Total changes of items during the fiscal year	(47)	(47)	3	1,071
Balance as of March 31, 2017	11	11	149	71,269

(Note) In the nonconsolidated balance sheet and the nonconsolidated statements of operations and changes in equity, all figures are shown by discarding any fractions of the relevant units.

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

May 19, 2017

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Akira Nakata

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Akihiro Okada

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2017 of Funai Electric Co., Ltd. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of operations and changes in equity for the fiscal year from April 1, 2016 to March 31, 2017, and the related notes.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

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

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

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

### **Audit Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Interest**

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

-END-

Copy of Independent Auditor's Report on Nonconsolidated Financial Statements

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

May 19, 2017

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Akira Nakata

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

Akihiro Okada

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2017 of Funai Electric Co., Ltd. (the "Company"), and the related statements of operations and changes in equity for the 65th fiscal year from April 1, 2016 to March 31, 2017, and the related notes and the accompanying supplemental schedules.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that

we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accompanying supplemental schedules are free from material misstatement.

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

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

### **Audit Opinion**

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of Funai Electric Co., Ltd. as of March 31, 2017, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Interest**

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

-END-

Copy of Audit Report of the Audit and Supervisory Committee

AUDIT REPORT

We, the Audit and Supervisory Committee of Funai Electric Co., Ltd. (the “Company”), have performed our audits on the execution by Directors of their duties during the 64th fiscal year from April 1, 2015, through March 31, 2016. We hereby report the audit method and results as follows.

1. Methods of audits and the particulars thereof:

With regard to the details of the resolutions of the Board of Directors on the matters provided in Article 399-13, paragraph 1, item 1 (b) and (c) of the Companies Act of Japan and the systems established pursuant to such resolutions (internal control systems), we periodically received reports from the Directors and employees, etc., demanded their explanations as necessary, and expressed our opinions, on the state of formulation and operation thereof and conducted our audits in the following methods.

- (i) Working in collaboration with the internal audit division, we attended important meetings, received the execution of duties from the Directors and employees, etc., demanded their explanations as necessary, inspected important decision-making documents, etc., and investigated the state of business operations and property at the head office and principal business offices of the Company, pursuant to the audit policy, task allocation, etc. determined by us. With regard to its subsidiaries, we maintained constant communication and exchanged information with the directors, Audit & Supervisory Board Members, etc. and required the subsidiaries to report on their business operations as necessary.
- (ii) In addition to monitoring and verifying whether the independent auditors had maintained an independent position and conducted adequate audits, we received reports on the state of execution of duties from the independent auditors and demanded their explanations, as necessary. Moreover, we received from the independent auditors a notice that a “system to secure adequate execution of duties” (as listed in the items of Article 131 of the Ordinance on Accounting of Companies) has been established in accordance with the “Quality Control Standards Concerning Audits” (the Accounting Standards Board of Japan, October 28, 2005) and demanded their explanations, as necessary.

In accordance with such methods, we investigated the business report and its accompanying supplemental schedules, the nonconsolidated financial statements (the nonconsolidated balance sheet, the nonconsolidated statements of operations and changes in equity, and the related notes) and their accompanying supplemental schedules, as well as the consolidated financial statements (the consolidated balance sheet, the consolidated statements of operations and changes in equity, and the related notes), for the fiscal year under review.

2. Results of audit:

(1) Results of audit of the business report, etc.:

- (i) We confirm that the business report and its accompanying supplemental schedules present fairly the state of the Company in accordance with laws and ordinances and the Articles of Incorporation.
- (ii) We confirm that in connection with the execution of duties of the Directors, no misconduct or material fact of violation of laws or ordinances or the Articles of Incorporation was found.
- (iii) We confirm that the details of the resolutions of the Board of Directors on internal control systems are proper. We did not find anything that should be mentioned with respect to the information in the business report and the execution of duties of the Directors concerning such internal control systems. As described in the business report, in light of the discovery of inappropriate accounting at the Company's consolidated subsidiaries, the Company has been considering, formulating and implementing improvement measures including the strengthening of governance system for overseas subsidiaries, redevelopment of an internal audit system, etc. in order to prevent the recurrence of similar cases based on suggestions by an internal investigation committee. The Audit and Supervisory Committee will also monitor speedy implementation of the aforementioned preventive measures while conducting appropriate audits including regular audits on overseas subsidiaries.

(2) Results of audit of the nonconsolidated financial statements and their accompanying supplemental schedules:

We confirm that the audit method and results performed by the independent auditors, Deloitte Touche Tohmatsu LLC, are proper.

(3) Results of audit of the consolidated financial statements:

We confirm that the audit method and results performed by the independent auditors, Deloitte Touche Tohmatsu LLC, are proper.

May 22, 2017

Funai Electric Co., Ltd.  
The Audit and Supervisory Committee

Hiromu Ishizaki (seal)  
Outside Audit and Supervisory Committee Member

Masahide Morimoto (seal)  
Outside Audit and Supervisory Committee Member

Yoshiaki Bannai (seal)  
Outside Audit and Supervisory Committee Member

- END -



## Reference Document for the General Meeting of Shareholders

### Propositions and reference information

**Proposition No. 1:** Election of five (5) Directors (excluding Directors who are Audit and Supervisory Committee Members)

The term of office of all seven (7) Directors (excluding Directors who are Audit and Supervisory Committee Members; the same applies hereinafter in this proposition) currently in office will expire at the close of this Ordinary General Meeting of Shareholders.

Hence, it is hereby proposed that five (5) Directors, including one (1) outside Director, be elected in order to accelerate decision-making and increase management efficiencies.

The candidates for Director are as follows:

Candi- date No.	Name (Date of birth)	Brief history, post in the Company and business in charge (and important concurrent office)	Number of shares of the Company held by Candidate
1	Tetsuro Funai (January 24, 1927)	April 1951    Established Funai Sewing Machine Company Dec. 1952    Representative Director of Funai Sewing Machine Co., Ltd. August 1961    Founding President and Representative Director of Funai Electric Co., Ltd. (the "Company") June 2005    Director of the Company; President and CEO of the Company June 2008    Director of the Company; Chairman and Officer of the Company June 2010    Chairman and Officer of the Company June 2012    Chairman of the Company October 2014    Chairman and Representative Director of the Company June 2016    Executive Advisor of the Company (To date) (Chairman of Funai Information Science Promotion Foundation) (Chairman of Funai Scholarship Foundation)	12,359,288 shares

Candi- date No.	Name (Date of birth)	Brief history, post in the Company and business in charge (and important concurrent office)	Number of shares of the Company held by Candidate
2	Hideaki Funakoshi (September 30, 1965)	<p>April 1984      Joined Mitsubishi Electric Engineering Company, Limited</p> <p>January 1993    Joined the Company</p> <p>April 2006      General Manager of DVD Project of the Company</p> <p>February 2008   Executive General Manager of DVD Business Div. of the Company</p> <p>June 2010      Director of the Company Officer and General Manager of DVD Business Div. of the Company</p> <p>July 2011      Officer and Deputy General Manager of AV Business Headquarters of the Company</p> <p>May 2012      Officer, Deputy General Manager of AV System Business Headquarters and General Manager of Digital Media Business Div. of the Company</p> <p>April 2013      Officer, General Manager of AV System Business Headquarters and General Manager of Display Business Div. of the Company</p> <p>November 2014   Officer and General Manager of AV System Business Headquarters of the Company</p> <p>April 2016      Officer, General Manager of AV System Business Headquarters and General Manager of Display Business Div. of the Company</p> <p>June 2016      Director of the Company</p> <p>May 2017      Representative Director and President and CEO, General Manager of AV System Business Headquarters and General Manager of Display Business Div. (To date)</p>	800 shares

Candidate No.	Name (Date of birth)	Brief history, post in the Company and business in charge (and important concurrent office)	Number of shares of the Company held by Candidate
3	Takeshi Ito (September 10, 1960)	<p>April 1982      Joined the Company</p> <p>April 2003      Assumed the position of General Manager of the Company President of FUNAI CORPORATION, INC.</p> <p>April 2005      Executive General Manager of the Company</p> <p>August 2008     President of P&amp;F USA, Inc.</p> <p>October 2009    Officer of the Company</p> <p>April 2012       President of Funai India Private Limited</p> <p>October 2014    Officer and General Manager of Materials Headquarters of the Company (To date)</p> <p>June 2016       Director of the Company (To date)</p>	1,000 shares
4	Hiroyuki Makiura (June 1, 1947)	<p>April 1970      Joined Nichimen Co., Ltd. (now Sojitz Corporation)</p> <p>July 1981       General Manager of Machine Dept., Los Angeles Branch of Nichimen U.S.A.</p> <p>August 1988     General Manager of Car Electronics Dept., Chicago Branch of Nichimen U.S.A.</p> <p>April 1990       General Manager of Detroit Branch of Nichimen U.S.A.</p> <p>November 1994   General Manager of Dept. II of Electronic Information Division, Nichimen Corporation (now Sojitz Corporation)</p> <p>July 1999       Senior Trade Advisor (JETRO) to the State of Ohio, U.S.A.</p> <p>June 2004       Director of Foster Electric Company, Limited</p> <p>April 2008       Officer of Foster Electric Company, Limited and President of Fostex Company</p> <p>April 2010       Vice President of Foster Electric (Europe) GmbH</p> <p>June 2015       Outside Director (Audit and Supervisory Committee Member) of the Company</p> <p>February 2016   Senior Officer of the Company</p> <p>June 2016       Director and Officer of the Company (To date)</p>	- share

Candidate No.	Name (Date of birth)	Brief history, post in the Company and business in charge (and important concurrent office)	Number of shares of the Company held by Candidate
5	Candidate for Outside Director  Mitsuo Yonemoto (March 18, 1939)	<p>July 1995 Vice President and Director of T.P.S. Laboratory Co., Ltd. (To date)</p> <p>September 1998 Outside Director of the Company (To date)</p> <p>March 2009 Outside Director of THE SAILOR PEN CO., LTD.</p> <p>June 2012 Outside Audit &amp; Supervisory Board Member of Oriental Chain Mfg. Co., Ltd. (To date)</p> <p>(Vice President and Director of T.P.S. Laboratory Co., Ltd.) (Outside Audit &amp; Supervisory Board Member of Oriental Chain Mfg. Co., Ltd.)</p>	100 shares

- (Notes)
1. None of the candidates for Director have any special interests with the Company.
  2. Candidate for Director, Mr. Mitsuo Yonemoto, is a candidate for Outside Director.
  3. Reasons for the selection of the candidates for Director or Outside Director:
    - Management expects Mr. Tetsuro Funai, who has long engaged in management of the Company since its founding, to use a wide range of knowledge and capabilities accumulated from his broad experiences for management of the Company.
    - Management expects Mr. Hideaki Funakoshi to use a wide range of knowledge and capabilities accumulated from his broad expertise and experience as a manager of the AV business, one of the Company's core businesses.
    - Management expects Mr. Takeshi Ito to use a wide range of knowledge and capabilities accumulated from his diverse business experience within the Company as well as extensive overseas business experience for management of the Company.
    - Management expects Mr. Hiroyuki Makiura, who has broad experience and expertise in corporate management gained through his career and many years of experience in the business of the Company, to use his capabilities and knowledge for management of the Company.
    - Management expects Mr. Mitsuo Yonemoto to offer advice based on his broad experience as a management consultant and also enhance the transparency of management by participating in the Board of Directors as an independent officer.
  4. Years of service of Outside Director of the Company:

Mr. Mitsuo Yonemoto will have served as Outside Director for 18 years and nine months at the close of this Ordinary General Meeting of Shareholders.
  5. Designation of independent officer:

The Company has designated Mr. Mitsuo Yonemoto as an independent officer in accordance with the rules of Tokyo Stock Exchange, Inc. and registered him with such exchange.
  6. Conclusion of limited liability agreement:

The Company has entered into an agreement with Non-executive Directors Mr. Tetsuro Funai and Mr. Mitsuo Yonemoto to limit their liability for any damage as provided for in Article 423, paragraph 1 of the Companies Act of Japan within the aggregate amount as provided for in the items of Article 425, paragraph 1 of the said Act, pursuant to Article 427, paragraph 1 of the said Act. If they are reelected, such agreement will be renewed.

**Proposition No. 2:** Election of three (3) Directors who are Audit and Supervisory Committee Members

The term of office of all three (3) Directors who are Audit and Supervisory Committee Members currently in office will expire at the close of this Ordinary General Meeting of Shareholders. Hence, it is hereby proposed that three (3) Directors who are Audit and Supervisory Committee Members, including two (2) outside Directors, be elected.

The Audit and Supervisory Committee has consented to this proposition.

The candidates for Directors who are Audit and Supervisory Committee Members are as follows:

Candidate No.	Name (Date of birth)	Brief history, post in the Company and business in charge (and important concurrent office)	Number of shares of the Company held by Candidate
1	[New] Akitaka Inoue (September 25, 1944)	<p>January 1973      Joined Mizuho Audit Corporation</p> <p>September 1976    Registered as Certified Public Accountant</p> <p>July 1991          Became an employee of Mizuho Audit Corporation</p> <p>June 1999          Joined the Company</p> <p>September 1999    Director of the Company General Manager of Administration Headquarters of the Company</p> <p>June 2003          Officer and General Manager of General Planning Headquarters of the Company</p> <p>June 2004          Audit &amp; Supervisory Board</p> <p>June 2005          Member of the Company Director and Chairman of Audit Committee of the Company</p> <p>June 2009          Special Advisor of the Company</p> <p>June 2010          Full-time Audit &amp; Supervisory Board Member of the Company</p> <p>June 2012          Special Advisor of the Company</p> <p>December 2015    General Manager of Management Planning Department of the Company</p> <p>December 2016    Special Advisor of the Company (To date)</p>	- shares

Candi date No.	Name (Date of birth)	Brief history, post in the Company and business in charge (and important concurrent office)	Number of shares of the Company held by Candidate
2	Candidate for outside Director  Masahide Morimoto (August 27, 1944)	<p>April 1967      Joined Daiwa Securities Co. Ltd.</p> <p>June 1991      Director, General Manager of Higashi-Tokyo Headquarters and General Manager of Tokyo Metropolitan-West Sales Headquarters of Daiwa Securities Co. Ltd.</p> <p>September 1995      Managing Director and General Manager of Osaka-Kinki-Shikoku Sales Headquarters of Daiwa Securities Co. Ltd.</p> <p>April 1999      Senior Managing Director, Representative Director and General Manager of Osaka Branch of Daiwa Securities SMBC Co. Ltd. (now Daiwa Securities Co. Ltd.)</p> <p>June 2001      President and Representative Director of Daiwa Tochi Tatemono Co., Ltd. (now Daiwa Property Co., Ltd.)</p> <p>June 2002      President and Representative Director of Daiwa Sanko Co., Ltd. (now Daiwa Office Service Co., Ltd.)</p> <p>April 2007      Special Advisor of Daiwa Property Co., Ltd.</p> <p>June 2010      Outside Corporate Auditor of the Company</p> <p>June 2015      Outside Director of the Company (Audit and Supervisory Committee Member) (To date)</p>	2,000 shares

Candidate No.	Name (Date of birth)	Brief history, post in the Company and business in charge (and important concurrent office)	Number of shares of the Company held by Candidate
3	[New] Candidate for outside Director  Masakazu Funaishi (July 22, 1947)	<p>March 1966      Joined the Company</p> <p>January 1983    President and Representative Director of Chugoku Funai Electric Co., Ltd.</p> <p>June 1993       General Manager of Video Business Department, AV Business Headquarters of the Company</p> <p>January 1994    General Manager of LCD Department, AV Business Headquarters of the Company</p> <p>July 2001       Executive Manager of the Company</p> <p>April 2003      Resigned from the Company (To date)</p>	5,746 shares

- (Notes)
1. The candidate has no special interests with the Company.
  2. Masahide Morimoto and Masakazu Funaishi are candidates for outside Director.
  3. Candidate for outside Director, Mr. Masakazu Funaishi has served as Executive Officer of the Company and Chugoku Funai Electric Co., Ltd., a subsidiary of the Company.
  4. Reason for the selection of candidates for Director and outside Director:  

Management expects Mr. Akitaka Inoue, who has expertise in corporate accounting and taxation as a Certified Public Accountant, to use his capabilities for the audit systems of the Company.

Management expects Messrs. Masahide Morimoto and Masakazu Funaishi, who have broad experience in corporate management for many years, to use their capabilities and knowledge for the audit systems of the Company.
  5. Years of service of outside Director who are Audit and Supervisory Committee Members of the Company:  

Mr. Masahide Morimoto, who currently serves as outside Director who is an Audit and Supervisory Committee Member of the Company, will have served as outside Director for two years at the close of this Ordinary General Meeting of Shareholders.
  6. Conclusion of limited liability agreements:  

The Company has entered into an agreement with Mr. Masahide Morimoto, Director and an Audit and Supervisory Committee Member, to limit his liability for any damage as provided for in Article 423, paragraph 1 of the Companies Act of Japan within the aggregate amount as provided for in the items of Article 425, paragraph 1 of the said Act, pursuant to Article 427, paragraph 1 of the said Act. If Messrs. Akitaka Inoue, Masahide Morimoto and Masakazu Funaishi, who are Audit and Supervisory Committee Members, are elected as Directors, the Company will enter into limited liability agreements with the same content as the aforementioned with them.

**Proposition No. 3:** Election of one (1) Substitute Director who is an Audit and Supervisory Committee Member

To prepare in advance for a vacancy in the statutory number of Directors who are Audit and Supervisory Committee Members, it is hereby proposed that one (1) substitute Director who is an Audit and Supervisory Committee Member be elected in advance in accordance with the provision of Article 329, paragraph 3 of the Companies Act of Japan.

With regard to the effectiveness of the election, it may be repealed by resolution of the Board of Directors upon consent thereto by the Audit and Supervisory Committee only before he assumes office.

The Audit and Supervisory Committee has consented to this proposition.

The candidate for substitute Director who is an Audit and Supervisory Committee Member is as follows:

Name (Date of birth)	Brief history, post in the Company and business in charge (and important concurrent office)	Number of shares of the Company held by Candidate
Candidate for Substitute outside Director  Mitsuo Yonemoto (March 18, 1939)	<p>July 1995 Vice President and Director of T.P.S. Laboratory Co., Ltd. (To date)</p> <p>September 1998 Outside Director of the Company (To date)</p> <p>March 2009 Outside Director of THE SAILOR PEN CO., LTD.</p> <p>June 2012 Outside Corporate Auditor of Oriental Chain Mfg. Co., Ltd. (To date) (Vice President and Director of T.P.S. Laboratory Co., Ltd.) (Outside Corporate Auditor of Oriental Chain Mfg. Co., Ltd.)</p>	100 shares

(Notes) 1. Candidate for substitute Director who is an Audit and Supervisory Committee Member has no special interests with the Company.

2. Candidate for substitute Director who is an Audit and Supervisory Committee Member, Mr. Mitsuo Yonemoto is a candidate for substitute outside Director.

3. Reason for the selection of the candidate for substitute outside Director who is an Audit and Supervisory Committee Member:

Management expects Mr. Mitsuo Yonemoto, who has broad experience as a management consultant as well as many years of experience in corporate management, to use his capabilities and knowledge for the audit systems of the Company.

4. Years of service of outside Director of the Company:



Mr. Mitsuo Yonemoto, who currently serves as outside Director of the Company, will have served as outside Director for 18 years and 9 months at the close of this Ordinary General Meeting of Shareholders.

5. Conclusion of limited liability agreements:

When Mr. Mitsuo Yonemoto, who is an Audit and Supervisory Committee Member, assumes the office of Director, the Company will enter into an agreement with him to limit his liability for any damage as provided for in Article 423, paragraph 1 of the Companies Act of Japan within the aggregate amount as provided for in the items of Article 425, paragraph 1 of the said Act, pursuant to Article 427, paragraph 1 of the said Act.

**Proposition No. 4:** Issuance of stock acquisition rights as stock options

It is hereby proposed to the shareholders to approve that pursuant to the provisions of Article 236, Article 238 and Article 239 of the Companies Act of Japan, the determination of the terms and conditions of the offering for subscription for stock acquisition rights to be issued as stock options to the Directors (excluding Directors who are Audit and Supervisory Committee Members and outside Directors; the same applies hereinafter in this proposition), Officers and employees of the Company and its subsidiaries be left to the Board of Directors of the Company.

The issuance of stock acquisition rights to the Directors of the Company falls under non-pecuniary remuneration, etc. Hence, pursuant to Article 361 of the Companies Act of Japan, it is also proposed to the shareholders to approve the method of calculating the stock acquisition rights to be allotted to the Directors.

In the event that Proposition No. 1 (Election of five (5) Directors (excluding Directors who are Audit and Supervisory Committee Members)) is approved, the number of Directors to be allotted stock acquisition rights will be four (4) (excluding outside Director) and when the stock acquisition rights are issued to the Directors of the Company, in consideration of the purpose of the stock options, the level of remuneration for the Directors and other factors, the maximum number of stock acquisition rights to be allotted to them shall be 500 (the maximum number of stock acquisition rights to be allotted to the persons other than the Directors shall be the residual number after allotting the number of stock acquisition rights from the number listed in section 2. (2) below). The amount of remuneration, etc. for the Directors of the Company in connection with the stock acquisition rights will be obtained by multiplying the fair value of each stock acquisition right calculated by using the Black-Scholes model based on the various conditions on the Allotment Date, by the total number of stock acquisition rights to be allotted to the Directors of the Company (the amount shall be other categories from the maximum amount of Directors' remuneration "¥550 million per year" approved at the 63rd Ordinary General Meeting of Shareholders of the Company held on June 25, 2015). It is also proposed that the issuance timing and the allotting methods of the stock acquisition rights to each Director of the Company, etc. be left to the Board of Directors.

1. Reason for the necessity to make an offering for subscription for stock acquisition

rights to subscribers on specifically favorable conditions:

To afford incentives and raise the morale to achieving much improved results of the Company on a consolidated basis, secure good human resources and enhance its corporate value, management intends to issue stock acquisition rights as stock options.

2. Content and the maximum number of the stock acquisition rights which terms and conditions can be determined upon authorization by resolution of this Ordinary General Meeting of Shareholders:

(1) Class and number of shares to be issued or transferred upon exercise of stock acquisition rights:

Not exceeding 180,000 shares of common stock of the Company.

In the event that the Company makes a stock split (which shall include scrip issues; the same applies hereinafter) or stock consolidation which shall become effective after the close of this Ordinary General Meeting of Shareholders, the said number of shares to be issued or transferred upon exercise of the stock acquisition rights shall be adjusted in accordance with the following formula. Such adjustment shall be made only to the number of shares which the said stock acquisition rights have not been exercised then, with any fraction of one share occurring upon such adjustment discarded.

$$\text{Number of shares as adjusted} = \text{Number of shares before adjustment} \times \text{Split (or consolidation) ratio}$$

In addition, in the event that the Company makes an absorption-type merger, a consolidation-type merger, an absorption-type company a split, incorporate-type company split, a share exchange or a share transfer which shall become effective after the close of this Ordinary General Meeting of Shareholders or otherwise for any inevitable reason, the said number of shares to be issued or transferred upon exercise of the stock acquisition rights shall be adjusted to a reasonable extent.

(2) Number of stock acquisition rights:

Not exceeding 1,800 rights.

The number of shares to be issued or transferred upon exercise of each stock acquisition right shall be 100 shares; provided, however, that in the event of an adjustment to the number of shares as set forth in paragraph (1) above, the total number of shares to be issued or transferred upon exercise of stock acquisition rights shall also be adjusted similarly.

(3) Cash to be paid in for stock acquisition rights:

No cash shall be required to be paid in for stock acquisition rights.

(4) Amount of property to be contributed upon exercise of a stock acquisition right or the

method of determination thereof:

The amount of property to be contributed upon exercise of a stock acquisition right shall be an amount obtained by multiplying the paid-in amount per share to be determined below (the "Exercise Price"), by the number of shares to be issued or transferred for each stock acquisition right as set forth in paragraph (2) above.

The Exercise Price shall be the higher of (i) an amount obtained by multiplying by 1.05 the average of the daily closing prices (the "Closing Price") (regular way) of the shares of common stock of the Company on the Tokyo Stock Exchange for the days (exclusive of any day on which transactions are not validly made) of the month immediately preceding the month under which the date on which the stock acquisition rights shall be allotted (the "Allotment Date") falls (with any fraction of one yen rounded upward to the nearest one yen) and (ii) the Closing Price on the Allotment Date (if the Closing Price is not available on that day, the Closing Price on any trading day immediately preceding that day).

In the event that after the Allotment Date for the stock acquisition rights, the Company makes a stock split or stock consolidation, the said Exercise Price shall be adjusted in accordance with the following formula, with any fraction of one yen occurring upon such adjustment rounded upward to the nearest one yen:

$$\text{Exercise Price as adjusted} = \frac{\text{Exercise Price before adjustment}}{\text{Split (or consolidation) ratio}}$$

In the event that after the Allotment Date for the stock acquisition rights, the Company issues new shares or disposes of its treasury shares at a price lower than the current market price (excluding where the Company issues new shares or transfers its treasury shares upon exercise of stock acquisition rights), the said Exercise Price shall be adjusted in accordance with the following formula, with any fraction of one yen occurring upon such adjustment rounded upward to the nearest one yen:

$$\text{Exercise Price as adjusted} = \frac{\text{Exercise Price before adjustment} \times \left( \frac{\text{Number of newly issued shares} \times \text{Paid-in price per share}}{\text{Current market price before the issuance of new shares}} + \frac{\text{Number of already issued shares}}{\text{Number of already issued shares}} \right)}{\text{Number of newly issued shares} + \text{Number of already issued shares}}$$

In the above calculation formula, "Number of already issued shares" is derived by deducting the number of shares of treasury shares of common stock of the Company from the total number of shares of common stock of the Company issued and outstanding, and in the event that the shares of treasury stock of common stock of the Company are disposed, "Number of newly issued shares" shall be replaced by "Number of treasury shares disposed" and "Paid-in price per share" shall be replaced

by "Disposal price per share".

In addition, in the event that the Company makes an absorption-type merger, a consolidation-type merger, an absorption-type company split, incorporate-type company split, a share exchange or share transfer or otherwise for any reason, the said Exercise Price shall be adjusted to a reasonable extent.

(5) Exercise period of the stock acquisition rights:

From September 1, 2019 to August 31, 2024. However, if the final day of such period falls on a holiday of the Company, the immediately preceding business day shall be the final day.

(6) Terms and conditions of the exercise of stock acquisition rights:

(i) The number of stock acquisition rights exercisable by any person entitled to exercise stock acquisition rights in any given year (from September 1 through August 31 of the following year) during the period for exercising stock acquisition rights shall be governed by the rule to be established by the Board of Directors.

If any person entitled to exercise his/her stock acquisition rights does not exercise all or any part of his/her rights exercisable in any given year during the period for exercising stock acquisition rights, the rights remaining unexercised in such any given year may be carried over to any subsequent year until the period for exercising stock acquisition rights expires.

(ii) Any person entitled to exercise stock acquisition rights cannot exercise his/her rights in any given year (from September 1 through August 31 of the following year) during the period for exercising stock acquisition rights unless he/she obtains approval of the Company therefor in such any given year.

(iii) Any person entitled to exercise stock acquisition rights shall be a Director, Audit & Supervisory Board Member, Officer or employee of the Company or its related companies when he/she exercise his/her stock acquisition rights.

(iv) No stock acquisition rights shall be transferred, offered as a pledge or any other collateral or inherited.

(7) Matters concerning capital and capital reserve to be increased in the event that the Company issues shares upon exercise of the stock acquisition rights:

(i) In the event that the Company issues shares upon exercise of the stock acquisition rights, the amount of capital to be increased shall be a half of the maximum increase amount of capital calculated pursuant to Article 17, paragraph 1 of the Regulations on Corporate Accounts, with any fraction of one yen rounded upward to the nearest one yen.

(ii) In the event that the Company issues shares upon exercise of the stock

acquisition rights, the amount of capital reserve to be increased shall be an amount obtained by deducting the amount of capital to be increased as set forth in item (i) above from the maximum increase amount of capital set forth in item (i) above.

(8) Restriction on acquisition of the stock acquisition rights by transfer:

Any acquisition of the stock acquisition rights by transfer shall be subject to the approval of the Board of Directors of the Company.

(9) Events of acquisition of stock acquisition rights:

(i) In the event that before any person entitled to exercise stock acquisition rights exercises his/her rights, a proposition for the approval of a merger agreement under which the Company shall be merged, a share exchange agreement or a share transfer plan under which the Company shall become a wholly-owned subsidiary is approved at a General Meeting of Shareholders (or a resolution therefor is adopted by the Board of Directors of the Company when such resolution of the General Meeting of Shareholders is not required), the Company may acquire the stock acquisition rights without compensation on a day separately specified by its Board of Directors.

(ii) In the event that before any person entitled to exercise stock acquisition rights exercises his/her rights, he/she ceases to be entitled to do so due to any of the terms and conditions set forth in paragraph (6) above, the Company may acquire the stock acquisition rights without compensation on a day separately specified by its Board of Directors.

(iii) In the event that any person entitled to exercise stock acquisition rights waives all or any part of his/her rights, the Company may acquire the stock acquisition rights without compensation on a day separately specified by its Board of Directors.

(10) Treatment of stock acquisition rights upon reorganization by the Company:

In the event that the Company conducts a merger (limited to cases where the Company shall be extinguished as a result of the merger), an absorption-type company split, an incorporation-type company split, a share exchange or a share transfer (collectively, "reorganization"), the Company shall deliver to any person entitled to exercise the stock acquisition rights outstanding (the "Outstanding Rights") on the day on which the reorganization becomes effective, stock acquisition rights of relevant corporations ("reorganizing companies") listed in Article 236, paragraph 1, item 8 (a) through (e) of the Companies Act, in accordance with the following terms and conditions. In such case, the Outstanding Rights shall become null and void and the reorganizing companies shall issue new stock acquisition rights, only if and when the delivery of stock acquisition rights of the reorganizing companies in accordance with the following terms and conditions is stipulated in the relevant merger agreement,

an absorption-type company split agreement, an incorporate-type company split plan, share exchange agreement or share transfer plan:

- (i) Number of stock acquisition rights of reorganizing company to be delivered:

The same number as that of the stock acquisition rights held by each person entitled to exercise the Outstanding Rights.

- (ii) Class of shares of reorganizing company to be issued or transferred upon exercise of stock acquisition rights:

Shares of common stock of the reorganizing company.

- (iii) Number of shares of reorganizing company to be issued or transferred upon exercise of stock acquisition rights:

The number of shares shall be determined in accordance with paragraph (1) above, taking into account the terms and conditions of the reorganization.

- (iv) Amount of property to be contributed upon exercise of a stock acquisition right:

The amount of property to be contributed upon exercise of each stock acquisition right to be delivered shall be an amount obtained by multiplying by the number of shares of the reorganizing company to be issued or transferred upon exercise of each such stock acquisition right determined as set forth in item (iii) above, the paid-in amount after the reorganization obtained by adjustment to the Exercise Price set forth in paragraph (4) above by taking into account the terms and conditions of the reorganization.

- (v) Exercise period of stock acquisition rights:

From the latter of the first day of the exercise period of stock acquisition rights set forth in paragraph (5) above and the day on which the reorganization becomes effective, to the last day of the exercise period of stock acquisition rights set forth in paragraph (5) above.

- (vi) Terms and conditions of the exercise of stock acquisition rights:

To be determined in accordance with paragraph (6) above.

- (vii) Matters concerning capital and capital reserve to be increased in the event that shares are issued upon exercise of the stock acquisition rights:

To be determined in accordance with paragraph (7) above.

- (viii) Restriction on acquisition of stock acquisition rights by transfer:

Any acquisition of stock acquisition rights by transfer shall be subject to the approval of the reorganizing company.

(ix) Events of acquisition of stock acquisition rights:

To be determined in accordance with paragraph (9) above.

(11) Treatment of fractions of a share upon exercise of the stock acquisition rights:

In the case the number of shares to be delivered to any stock acquisition right holder who exercises his/her rights includes any fraction of one share, such fraction shall be discarded.

(12) Other matters:

Other matters concerning the stock acquisition rights shall be determined by resolution of the Board of Directors.

- END -