Consolidated Financial Results for the Third Quarter Ended December 31, 2017

February 13, 2018

Listed company name	Funai Electric Co., Ltd.			
Stock exchange listing	Tokyo First Section			
Securities code	6839	URL http://www2.funai.co.jp/en/		
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Scheduled date of Quarterly Report February 14, 2018
Scheduled date of Commencement of Annual Dividend Payment ―
Quarterly Financial Results Supplementation Yes
Quarterly Financial Results Seminar No

1. Consolidated Financial Results for the Third Quarter Ended December 31, 2017 (April 1, 2017 – December 31, 2017)

(1) Consolidated Operating Results

(% shows year on year rates)

	Net Sales		Operating Income(Loss)		Ordinary Income(Loss)		Net Income(Loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3rd Quarter FY2017	108,763	5.2	(5,882)	―	(5,866)	―	(15,509)	―
3rd Quarter FY2016	103,416	(22.4)	(4,609)	―	(4,861)	―	(5,319)	―

(Reference) Comprehensive Income 3rd Quarter FY 2017 ended December 31, 2017 (15,660) million yen (―%)
3rd Quarter FY 2016 ended December 31, 2016 (3,548) million yen (―%)

	Net Income(loss) Per Share	Net Income(loss) Per Share on a Fully Diluted Basis
	Yen	Yen
3rd Quarter FY2017	(454.57)	―
3rd Quarter FY2016	(155.91)	―

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity	Equity Ratio
	Million yen	Million yen	Million yen	%
As of December 31,2017	94,182	60,518	60,505	64.2
As of March 31,2017	108,685	76,656	76,507	70.4

2. Dividends

	Dividend per Share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Annual
	yen	yen	yen	yen	yen
Fiscal Year 2016	―	0.00	―	10.00	10.00
Fiscal Year 2017	―	0.00	―		
Fiscal Year 2017 (Forecast)				―	―

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

The dividend for FY 2017 has been undecided. The company's dividend policy of DOE is unchanged. Because of the high impact stemmed from the recent fluctuations in exchange rates give to the consolidated net assets, the dividend is to be disclosed at the time disclosure has become possible to public.

3. Consolidated Financial Forecast for the Fiscal 2017 (April 1, 2017 - March 31, 2018)

(% shows year on year rates)

	Net Sales		Operating Income(loss)		Ordinary Income(loss)		Net Income(loss) Attributable to owners of parent		Net Income(loss) Per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	140,000	4.6	(8,400)	―	(8,000)	―	(17,400)	―	(509.98)

(Note) Revision to consolidated financial forecast: No

*Note

(1) Changes in Consolidated Subsidiaries (Changes in Scope of Consolidation): No

In (Company name: ー) Out (Company name: ー)

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

(3) Changes in accounting policies and estimates

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

(4) Number of Shares Outstanding (Ordinary Shares)

1. Number of shares outstanding (including treasury stock)	As of December 31, 2017	36,130,796
	As of March 31, 2017	36,130,796
2. Number of shares of treasury stock	As of December 31, 2017	2,011,765
	As of March 31, 2017	2,011,765
3. The Average number of outstanding shares	On December 31, 2017	34,119,031
	On December 31, 2016	34,119,107

* The Recording of Implementation Conditions Regarding Quarterly Review Procedures

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

1.Qualitative Information

(1) Consolidated Financial Results

In the nine-month period ended December 31, 2017, the United States, the Company's main market, saw continued mild economic recovery as evidenced in the increase in companies' capital expenditure, improvement in the employment situation, and a rise in personal consumption. Europe continues to see high growth, with companies in major companies posting strong results. Meanwhile in China, there are signs of economic slowdown, as major economic indicators such as the consumer price index show a downward trend. In Japan, the economy maintained a moderate recovery, supported by robust employment and income as well as an increase in exports.

Under these circumstances, net sales amounted to ¥108,763 million, up 5.2% compared to the same quarter of the last fiscal year. Despite an increase in net sales, the Group posted an operating loss of ¥5,882 million (an operating loss of ¥4,609 million in the same quarter of the last fiscal year), due to high price of components such as memories, as well as price intense competition in Americas.
Ordinary loss amounted to ¥5,866 million (an ordinary loss of ¥4,861 million in the same quarter of the last fiscal year). Quarterly net loss attributable to owners of parent amounted to ¥15,509 million (a quarterly net loss attributable to owners of parent of ¥5,319 million in the same quarter of the last fiscal year), due to impairment losses in the second quarter consolidated accounting period.

Results by region

i) Japan
Electronic reception devices decreased due to excluding the DX Antenna Co., Ltd. from the scope of consolidation by transfer of this all shares held by the Company. However, LCD TVs and BD-recorder increased due to good sales. As a result, net sales amounted to ¥29,245 million, up 31.1% year on year, and segment loss (operating loss) amounted to ¥2,588 million (a segment loss of ¥4,001 million in the same quarter of the last fiscal year).

ii) Americas
LCD TVs and BD-players increased due to good sales. However, DVD related equipment and ink-cartridge decreased. As a result, net sales amounted to ¥79,111 million, down 1.7% year on year, and segment loss amounted to ¥1,072 million (a segment loss of ¥205 million in the same quarter of the last fiscal year).

iii) Asia
Net sales amounted to ¥310 million, up 60.6% year on year due to increase on LCD TVs. Segment loss (operating loss) amounted to ¥2,688 million (a segment profit of ¥10 million in the same quarter of the last fiscal year).

iv) Europe
Ink-jet printers and ink-cartridge decreased. As a result, net sales amounted ¥96 million, down 79.5% year on year, and segment loss (operating loss) amounted to ¥58 million, (a segment loss of ¥19 million in the same quarter of the last fiscal year).

Results by product Segment

i) Audiovisual Equipment
DVD-Player and DVD-recorder decreased. However, LCD TVs and BD-recorder increased due to good sales. As a result net sales amounted to ¥103,533 million, up 15.1% year on year.

ii) Information Equipment
Ink-jet printers and ink-cartridge decreased. As a result, net sales of information equipment amounted to ¥2,602 million, down 26.3% year on year.

iii) Other Products
Electronic reception devices decreased due to excluding the DX Antenna Co., Ltd. from the scope of consolidation by transfer of this all shares held by the Company. As a result, net sales of other products amounted to ¥2,627 million, down 73.6% year on year.

(2) Consolidated Financial Position

Total assets decreased by ¥14,503 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Decrease of ¥6,720 million in cash and deposits, and ¥3,254 million in notes and accounts receivable-trade, and ¥4,138 million in property, plant and equipment, and ¥3,237 million in intangible assets, and ¥1,986 million in long-term prepaid expenses included in others in investment and other assets.
- ✓ Increase of ¥3,036 million in merchandise and finished goods, and ¥3,174 million in raw materials and supplies.

Total liabilities increased by ¥1,634 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Decrease of ¥3,515 million in notes and accounts payable-trade.
- ✓ Increase of ¥2,825 million in short-term loans payable, and ¥2,433 million in accounts payable-other.

Net assets decreased by ¥16,137 million compared to the end of the last fiscal year. The primary components of the change were decrease of ¥15,850 million in retained earnings and ¥232 million in the foreign currency translation adjustment.

(3) Consolidated Financial Forecast

There is no change in the consolidated financial results forecast for full year forecasts announced on November 6, 2017.

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

2. Consolidated Financial Statements and Notes

(1) Consolidated Statement of Financial Position

(Units : Million Yen)

	Fiscal year 2016 (As of March 31, 2017)	3rd Quarter FY2017 (As of December 31, 2017)
ASSETS;		
Current Assets		
Cash and deposits	40,136	33,415
Notes and accounts receivable - trade	15,571	12,316
Merchandise and finished goods	15,459	18,496
Work in process	1,149	662
Raw materials and supplies	9,644	12,818
Other	4,390	4,178
Allowance for doubtful accounts	(847)	(1,225)
Total current assets	85,503	80,661
Noncurrent Assets		
Property, plant and equipment	12,963	8,825
Intangible assets	3,342	105
Investments and other assets		
Net defined benefit asset	1,543	1,528
Other	5,583	3,364
Allowance for doubtful accounts	(252)	(303)
Total investments and other assets	6,875	4,590
Total noncurrent assets	23,181	13,521
TOTAL ASSETS	108,685	94,182
LIABILITIES;		
Current Liabilities		
Notes and accounts payable - trade	18,603	15,087
Short-term loans payable	–	2,825
Accounts payable included in other	7,280	9,714
Income taxes payable	813	223
Provision for bonuses	9	16
Provision for product warranties	481	986
Other	2,386	2,634
Total current liabilities	29,575	31,488
Noncurrent Liabilities		
Provision for directors' retirement benefits	1,047	1,024
Net defined benefit liability	15	7
Other	1,391	1,142
Total noncurrent liabilities	2,453	2,174
TOTAL LIABILITIES	32,028	33,663

	Fiscal year 2016 (As of March 31, 2017)	3rd Quarter FY2017 (As of December 31, 2017)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,603	33,603
Retained earnings	47,020	31,170
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	87,590	71,739
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11	12
Foreign currency translation adjustment	(11,206)	(11,438)
Remeasurements of defined benefit plans	111	191
Total accumulated other comprehensive income	(11,082)	(11,233)
Subscription rights to shares	149	13
Total net asset	76,656	60,518
TOTAL LIABILITIES AND NET ASSETS	108,685	94,182

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

(Consolidated Quarterly Statements of Income)

(Units : Million Yen)

		3rd Quarter FY2016 (from April 1, 2016 to December 31, 2016)		3rd Quarter FY2017 (from April 1, 2017 to December 31, 2017)
Net sales		103,416		108,763
Cost of sales		87,514		98,808
Gross profit		15,901		9,954
Selling, general and administrative expenses		20,511		15,836
Operating income (loss)		(4,609)		(5,882)
Non-operating income				
Interest income		155		183
Dividends income		18		2
Other		142		177
Total non-operating income		316		363
Non-operating expenses				
Interest expenses		124		56
Equity in losses of affiliates		1		−
Foreign exchange losses		361		5
Compensation expenses		−		225
Other		82		60
Total non-operating expenses		568		347
Ordinary income (loss)		(4,861)		(5,866)
Extraordinary income				
Gain on sales of non-current assets		217		6
Gain on reversal of subscription rights to shares		0		145
Other		154		9
Total extraordinary income		372		161
Extraordinary loss				
Loss on disposal of noncurrent assets		47		11
Impairment loss	Notes.1	60	Notes.1	10,009
Total extraordinary loss		107		10,020
Income (loss) before income taxes		(4,595)		(15,725)
Income taxes		721		(216)
Income (loss) before minority interests		(5,316)		(15,509)
Minority interests in income (loss)		3		−
Net income (loss) attributable to owners of parent		(5,319)		(15,509)

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	3rd Quarter FY2016 (from April 1, 2016 to December 31, 2016)	3rd Quarter FY2017 (from April 1, 2017 to December 31, 2017)
Income (loss) before minority interest adjustment	(5,316)	(15,509)
Other comprehensive Income		
Valuation difference on avaiable-for-sale securities	(25)	1
Foreign currency translation adjustment	1,821	(232)
Remeasurements of defined benefit plans, net of tax	0	79
Share of other comprehensive income of entities accounted for using equity method	(27)	－
Total other comprehensive Income	1,767	(151)
Comprehensive income	(3,548)	(15,660)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(3,645)	(15,660)
Comprehensive income attributable to minority interests	97	－

(3) Consolidated Quarterly Statements of Income

(Notes for Continuing Enterprises)
Not Applicable

(Notes of remarkable changes in Shareholders Equity)
Not Applicable

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

(Additional Information)
[About anti-tax haven law]
The Group received a reassessment notice from the Osaka Regional Taxation Bureau on June 29, 2011. The Bureau determined that our Hong Kong subsidiary does not meet the requirements for exemption under the anti-tax haven rules. In addition, they imposed a tax on us adding up with the Hong Kong subsidiary’s income for the three fiscal years ended March 31, 2008 through 2010, which deems as our income.
We objected to this reassessment of income taxes, and filed a request for examination to the Osaka National Tax Tribunal on August 25, 2011. However, we received written verdicts that reject our petition on July18, 2012. The Group filed a suit for cancellation of reassessment to the Tokyo District Court on January 17, 2013, but on September 28, 2016 a ruling to dismiss our request was made. The Group appealed to the Tokyo High Court on October 12, 2016, because we cannot accept the decision, but we received a ruling to dismiss our request on October 26, 2017. In response to this decision, the Group did not file a final appeal and a petition for accepting the final appeal, so the appeal trial judgment was finalized on November 10, 2017.
The additional tax amount is totally ¥825 million including corporate, enterprise and residence taxes (¥935 million including incidental taxes). We recorded this additional tax as “prior year’s taxes” in the fiscal year ended March 31, 2012. Also, the financial impact, when applying this tax rules has been recorded in the fiscal year ended March 31, 2011 when tax investigation was completed.

(Consolidated quarterly statements of income)
*Notes.1 Impairment loss
The Group recorded losses on impairment in the following asset groups.
In principle, the Group group’s business assets on the basis of legal units that strive to maintain an ongoing understanding of income and expenses. The idle assets are grouped by individual asset. The idle assets are grouped by individual asset.
Third Quarter of the last fiscal year (April 1, 2016 to December 31, 2016)

Use	Location	Type
Assets scheduled for retirement	Funai Electric Cebu, Inc.	Machinery, equipment and vehicles

Since acquiring the shares of the manufacturing subsidiary (now Funai Electric Cebu, Inc.) from Lexmark International, Inc., the company has undertaken the production of ink cartridges from the company. However, as production ends for some models, the Group reduced the carrying amount to the recoverable value of assets scheduled for retirement, which were previously grouped as assets for business use, and recorded such reduction (60 million yen) as impairment loss.
The recoverable value of the asset is calculated based on the net selling price based on the disposal price.

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

Third Quarter of this fiscal year (April 1, 2017 to December 31, 2017)

Use	Location	Type	Impairment loss (million yen)
Business Assets	Funai Electric Co., Ltd.	Tools, furniture and fixtures	130
		Lease assets (fixed)	4
		Patent right	2,451
		Software	75
		Long-term prepaid expenses	2,918
Business Assets	FUNAI ELECTRIC (H.K.), LTD.	Buildings and structures	19
		Machinery, equipment and vehicles	29
		Tools, furniture and fixtures	468
Business Assets	FUNAI (THAILAND) CO., LTD.	Buildings and structures	568
		Machinery, equipment and vehicles	136
		Tools, furniture and fixtures	198
		Land	56
		Software	1
Business Assets	Funai Electric Philippines Inc.	Buildings and structures	473
		Machinery, equipment and vehicles	333
		Tools, furniture and fixtures	207
		Software	34
Business Assets	Funai Electric Cebu, Inc.	Buildings and structures	540
		Machinery, equipment and vehicles	599
		Tools, furniture and fixtures	67
		Software	33
Business Assets	FEP REAL ESTATE, INC.	Land	42
Business Assets	FUNAI CORPORATION, INC.	Buildings and structures	0
		Machinery, equipment and vehicles	2
		Tools, furniture and fixtures	1
		Lease assets (tangible)	296
Business Assets	Funai Trading Corp.	Buildings and structures	4
		Machinery, equipment and vehicles	27
		Tools, furniture and fixtures	33
		Software	55
Business Assets	Funai Lexington Technology Corporation	Machinery, equipment and vehicles	136
		Tools, furniture and fixtures	5
		Software	3
Business Assets	Funai Manufacturing, S.A. DE C.V.	Buildings and structures	11

Use	Location	Type	Impairment loss (million yen)
		Machinery, equipment and vehicles	4
		Tools, furniture and fixtures	4
		Software	8
Business Assets	P&F MEXICANA, S.A. DE C.V.	Machinery, equipment and vehicles	3
		Tools, furniture and fixtures	1
		Software	13
Total			10,009

The Group reduced the carrying amount to the recoverable value of business assets whose profitability has markedly decreased, and recorded such reduction (10,009 million yen) as impairment loss for the Second Quarter of this fiscal year.
The recoverable value of the asset is measured based on the net selling price for buildings and structures and land, and the net selling price based on the valuation calculated rationally by a real estate appraiser etc. is used, assets other than those mentioned above are measured based on the net selling price and the net selling price is calculated as zero.

(Segment Information)

I. Third Quarter of the last fiscal year (April 1, 2016 to December 31, 2016)
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	22,313	80,440	193	469	103,416	-	103,416
(2) Inter-segment sales	67,024	868	68,829	-	136,722	(136,722)	-
Total	89,338	81,308	69,022	469	240,138	(136,722)	103,416
Segment Income (Loss)	(4,001)	(205)	10	(19)	(4,216)	(392)	(4,609)

Note:
1. ¥ -392 million adjustment amount under segment income includes items such as ¥ -2 million relating to the cancellation of inter-segment transactions, ¥ -584 million of overall Group expenses that are not apportioned to each reporting segment, and ¥ 195 million adjustment relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

II. Third Quarter of this fiscal year (April 1, 2017 to December 31, 2017)
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

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

Note:
1. ¥ 525 million adjustment amount under segment income includes items such as the ¥ -23 million relating to the cancellation of inter-segment transactions, ¥ -592 million of overall Group expenses that are not apportioned to each reporting segment, and the ¥ 1,141 million adjustments relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

3. Others

(Important Information about Going Concern Assumption)

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

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

Since the Group is formulated "FY2017-FY2019 New policy and strategy" in the previous consolidated fiscal year and already implementing the following countermeasures in stages based on this policy, the Group believes that a resolution of the matter can be achieved.

① Display Business (LCD-TV business)

・Increase sales in the U.S market: Increase sales with existing customers and open up new customers by introducing multiple models for large UHD.

・Enter the Japanese market: Increase share in the Japanese market through exclusive business with Yamada Denki Co., Ltd.

② Digital Media Business (DVD, BD business)

・Increase sales of UHD-BD players in the U.S market.

・Enter the Japanese market: Increase share in the Japanese market through exclusive business with Yamada Denki Co., Ltd.

③ Office Solution Business (information equipment-related business)

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

・Review the investment in microfluidic control technology.

④ New Business

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

Accordingly, the Company judges that there is no significant uncertainty related to the going concern assumption as of March 31, 2018 and has omitted the Notes on Going Concern Assumption from the consolidated financial statements.