

(Translation)

Securities Code: 6839  
June 9, 2015

NOTICE OF THE 63RD 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 63rd 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 24 (Wednesday) in Japan time, 2015.

Yours very truly,

Tomonori Hayashi  
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 25 (Thursday), 2015, 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 results of the consolidated financial statements by the independent auditors and the Board of Corporate Auditors for the 63rd fiscal year (from April 1, 2014 to March 31, 2015)
2. The nonconsolidated financial statements for the 63rd fiscal year (from April 1, 2014 to March 31, 2015)

Matters to be resolved:

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|--------------------|---|
| Proposition No. 1: | Partial amendments to the Articles of Incorporation   |
| Proposition No. 2: | Election of six (6) Directors (excluding Directors who are Audit and Supervisory Committee Members)                             |
| Proposition No. 3: | Election of three (3) Directors who are Audit and Supervisory Committee Members   |
| Proposition No. 4: | Election of one (1) Substitute Director who is an Audit and Supervisory Committee Member  |
| Proposition No. 5: | Setting of the amount of remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members) |
| Proposition No. 6: | Setting of the amount of remuneration, etc. for Directors who are Audit and Supervisory Committee Members                       |
| Proposition No. 7: | Granting retirement benefits to the retiring Corporate Auditors   |

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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://www.funai.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, 2014 to March 31, 2015)

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

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

In the fiscal year under review, the economy of the United States, which is the Group’s mainstay market, generally was on a recovery trend, apart from a slowdown caused by a labor dispute in the West Coast ports, a cold snap and other factors from early this year. Despite the effects of economic stagnation in Russia and the recurring Greek debt crisis, the European economies were on a gradual recovery led by Germany. There were signs of a slowdown in the Chinese economy, resulting from a weakened economy in the housing market. The speed of economic recovery in Japan remained slow because of a rebound of the spike in demand before the consumption tax increase (from April 1, 2014), as well as the effects of abnormal weather conditions.

Under these circumstances, the Group reported net sales of ¥217,088 million, a 7.2% decrease from the previous fiscal year.

Operating income was ¥564 million (operating loss for the previous fiscal year was ¥5,465 million); ordinary income was ¥1,924 million (ordinary loss for the previous fiscal year was ¥2,253 million); and net income was ¥1,354 million (net loss for the previous fiscal year was ¥6,745 million).

Income improved despite lower sales of DVD/BD-related products and printers, etc., because of the efficiency improvement achieved by thorough inventory management.

Net sales by product sector were as follows:

#### **Audiovisual Equipment**

In the audiovisual equipment sector, sales of LCD TVs remained static, and there was a decline in sales of DVD/BD-related products because of the market shrinkage. As a result, net sales of this sector were ¥172,367 million, a decrease of 5.9% year on year.

#### **Information Equipment**

Despite higher sales of ink cartridges, net sales in the information equipment sector were lower because of a drop in sales of printers. As a result, net sales were ¥12,634 million, a decrease of 33.1% year on year.

## Other

Sales of products other than the items stated above increased year over year. Sales of electronic reception devices decreased, however there was a moderate increase in sales of audio accessories and other items. Net sales were ¥32,087 million, an increase of 0.1% year on year.

<Consolidated net sales by product group>

Group	Net sales (millions of yen)	Component rate (%)
Audiovisual equipment	172,367	79.4
Information equipment	12,634	5.8
Other	32,087	14.8
Total	217,088	100.0

(2) Investment in property, plant and equipment by the Group:

Investment in property, plant and equipment by the Group during the fiscal year under review totaled ¥3,275 million, which composed of ¥3,014 million by its manufacturing companies and ¥261 million by its sales companies. This investment was aimed mainly at the improvement of the manufacturing facilities.

(3) Finance:

Nothing to be reported.

(4) Issues to be addressed:

In the consumer electronics industry, the demand for LCD TVs expanded because of the 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 and signs of a slowdown in demand for products, hitherto regarded as growth drivers, such as smartphones and tablets.

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 issue is the increase of net sales and the recovery of profitability.

(Product strategy)

Sales decreased from the previous fiscal year because sales of LCD TVs and DVD/BD-related products, which are the Group's main products, and printers etc., decreased. However, the Group was able to increase income by further strengthening controls related to purchasing and sales and inventories (PSI), and by establishing systems to introduce cost-competitive products at an appropriate time.

To increase sales, the Group took over the North American TV business of Sanyo Electric Co., Ltd., which was a subsidiary of Panasonic Corporation, in October 2014. In February 2015, the Group concluded a licensing agreement with Eastman Kodak Company covering the global supply, delivery, marketing, sales and servicing of Kodak brand consumer and small-office printer products and related consumables.

Also, the Group considered expansion into new business areas to be an urgent issue. During the current fiscal year, the Group launched its self-developed printers after establishing the infrastructure for providing the ink-jet printers including the manufacture and sales of ink-jet cartridges, which are more profitable, based on the ink-jet related technologies and assets which were acquired from Lexmark International, Inc. Previously, the Group had provided contracted manufacturing services for ink-jet printers.

(Market strategy)

The Group recognizes the need to avoid the risks associated with excessive reliance on the U.S. market, to level out production and sales activity by reducing the effects of seasonal fluctuations, and to expand sales. The Group is therefore developing business in emerging markets, such as Central and South American markets (e.g. Mexico).

To implement the above-mentioned strategies steadily, the Group is realizing 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 and development systems

The Group considers excessive reliance on production in China to be a risk factor for the Group. To avoid this risk, the Group has been working to decentralize the Group's production sites, which resulted in the product ratio in China to decline. However, the product ratio in China is still high. During the current fiscal year, the factory construction of Funai Electric Philippines Inc., which is a production subsidiary in Philippines, was completed, and now the Group is preparing for an earlier-than-expected start-up.

The Company is also continuing efforts to improve development efficiency across the entire Group, including operations in China and Asia.

(iii) Training and appointment of human resources

The Group recognizes that improving each employee's capabilities and more effectively leveraging the skill set of the workforce to bolster the strength of the Group will be critical for ensuring the Group stays in the lead in the new era of global competition, and implementing the Group's medium- to long-term business strategy. Therefore, the Company's policy is to actively train and assign employees, regardless of their age and career, by strengthening and expanding its internal and external training systems, including language training, among other things.

(5) Property and income/loss:

Fiscal year Item	60th (April 1, 2011 to March 31, 2012)	61st (April 1, 2012 to March 31, 2013)	62nd (April 1, 2013 to March 31, 2014)	63rd (April 1, 2014 to March 31, 2015)
Net sales (millions of yen)	246,147	192,008	234,042	217,088
Ordinary income (loss) (millions of yen)	174	(355)	(2,253)	1,924
Net income (loss) (millions of yen)	(4,629)	(8,542)	(6,745)	1,354
Net income (loss) per share (yen)	(135.69)	(250.38)	(197.70)	39.70
Total assets (millions of yen)	176,607	194,524	181,341	189,695
Equity (millions of yen)	123,843	121,398	117,684	127,881
Equity per share (yen)	3,598.03	3,520.11	3,414.77	3,712.81

(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.

## (6) Major subsidiaries:

Trade name	Capital stock	Ratio of equity participation of the Company (%)	Main business
DX ANTENNA Co., Ltd.	¥363 million	91.40	Manufacture and sale of electronic equipment related to receivers
FUNAI CORPORATION, INC.	US\$68.5 million	100.0	Sale of the Company's products
Funai Electric (HK) Ltd.	HK\$115 million	100.0	Manufacture of the Company's products

(Note) Each ratio of equity participation of the Company is obtained by calculating down to the third decimal place and thereafter rounding upward or downward to the nearest second decimal place, as the case may be.

## (7) 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	Audio accessories and electronic equipment related to receivers

## (8) Major business sites of the Group:

Category		Name	Location
Funai Electric Co., Ltd.		Head Office	Daito City, Osaka
		Tokyo Branch	Chiyoda-ku, Tokyo
Japan	Production and sales subsidiary	DX ANTENNA Co., Ltd.	Hyogo-ku, Kobe City
Overseas	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 subsidiary	Funai Electric (HK) Ltd.	Hong Kong

## (9) Employees of the Group:

Number of employees (persons)	Change from the end of the previous fiscal year (+ or -) (persons)
3,604	-1,508

(Notes) 1. The above number of employees represents those actively at work.  
2. The number of employees decreased due principally to the curtailment of production of

information equipment at Zhong Shan Funai Electron Co., a production subsidiary in China.

(10) Major lenders:

Nothing to be reported.

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

The Company resolved to acquire from Koninklijke Philips N.V. (hereinafter, "Philips") all shares in a company that would succeed the operation of Philips' Lifestyle Entertainment Business and concluded a share purchase agreement on January 29, 2013. However, Philips filed against the Company a petition as of October 25, 2013 for arbitration to claim compensation for damages on the grounds of a breach of the agreement by the Company and the petition was served on the Company by the International Chamber of Commerce (ICC) on November 8, 2013.

With regard to this matter, the Company recognizes that there was no breach of the agreement on its part. Consequently, on December 6, 2013, the Company filed with the ICC a counterclaim for claiming compensation for damages on the grounds of the breach of the agreement and undue action by Philips.

On May 20, 2014, the Company received notice from Philips of the amount of the claim for compensatory damages. On October 1, 2014, the Company filed a statement with the ICC that included an indication of the amount of compensatory damages claimed against Philips.

On December 24, 2014, the Company received Philips's statement of reply, in which Philips revised the amount of its claim for compensatory damages.

## 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 2,011,665 shares of treasury stock)
- (3) Number of shareholders: 9,325 persons
- (4) Principal shareholders (top 10):

Name	Number of shares held (thousands of share)	Shareholding ratio (%)
Tetsuro Funai	12,709	37.25
Funai Information Science Promotion Foundation	1,540	4.51
Tetsuo Funai	1,079	3.16
Japan Trustee Services Bank, Ltd. (Trust account)	902	2.65
The Master Trust Bank of Japan, Ltd.	680	2.00
State Street Bank and Trust Company 505103	551	1.62
The Bank of New York 133522	533	1.56
Chase Manhattan Bank GTS Clients Account Escrow	530	1.55
Ftsu Limited Liability Company	470	1.38
FT Development 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: 3,835 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: 383,500 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	Exercise period
The first stock acquisition rights for the year ended March 31, 2009	Director	20	1	¥1,609	August 1, 2010 to July 31, 2017
The first stock acquisition rights for the year ended March 31, 2015	Director	90	2	¥1,296	September 1, 2016 to August 31, 2023

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

Stock acquisition rights issued at the meeting of the Board of Directors held on October 10, 2014:

(i) Number of stock acquisition rights: 1,200 rights

(ii) Class and number of shares to be issued or transferred upon exercise of the stock acquisition rights: 120,000 shares of common stock  
(100 shares per stock acquisition right)

(iii) Amount of property to be paid in upon exercise of stock acquisition rights: ¥129,600 per right  
(¥1,296 per share)

(iv) Exercise period of stock acquisition rights: September 1, 2016 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	160	16,000	3
Employees of the Company	140	14,000	2
Corporate officers and employees of the subsidiaries	900	90,000	3

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

Nothing to be reported.

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

##### (1) Directors and Corporate Auditors (as of March 31, 2015)

Title	Name	Business in charge and important concurrent office
Representative Director and Chairman	Tetsuro Funai	Chairman of Funai Information Science Promotion Foundation; and Chairman of Funai Scholarship Foundation
Representative Director, President and Chief Executive Officer (CEO)	Tomonori Hayashi	
Representative Director and Officer	Tetsuhiro Maeda	General Manager of Management Planning Headquarters and General Manager of New Business Headquarters
Director and Officer	Joji Okada	General Manager of Development & Technology Headquarters and General Manager of Intellectual Property Rights Headquarters
Outside Director	Mitsuo Yonemoto	Vice President and Director of T.P.S. Laboratory Co., Ltd.; Outside Director of THE SAILOR PEN CO., LTD. and Outside Corporate Auditor of Oriental Chain Mfg. Co., Ltd.
Outside Director	Yoshiaki Bannai	President and Representative Director of Be.com corporation
Full-time Corporate Auditor	Hiromu Ishizaki	
Outside Corporate Auditor	Shinichi Komeda	
Outside Corporate Auditor	Masahide Morimoto	

(Notes) 1. As of October 2, 2014, Representative Director, President and CEO was changed as follows:

As Director Yoshikazu Uemura resigned from the office of Representative Director, President and CEO, Director Tomonori Hayashi, who had been Vice Chairman, assumed the office of Representative Director, President and CEO.

2. Full-time Corporate Auditor Hiromu Ishizaki, who is qualified as a certified tax accountant, has considerable knowledge of financing and accounting.
3. The Company has designated Outside Director Mitsuo Yonemoto and Outside Corporate Auditor Shinichi Komeda as independent officers in accordance with the rules of Tokyo Stock Exchange, Inc. and registered them 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: Tetsuro Funai (Chairman), Tomonori Hayashi, Tetsuhiro Maeda and Joji Okada

- Compensation Committee: Tetsuhiro Maeda (Chairman), Tetsuro Funai, Tomonori Hayashi, Joji Okada and Mitsuo Yonemoto

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

Name	Retirement date	Reason	Title, business in charge and important concurrent office upon retirement
Yoshikazu Uemura	November 11, 2014	Resignation	Director

(For reference)

The Company has adopted a “System of Officers” and the Officers as of March 31, 2015 who did not concurrently hold the offices of Directors were as follows:

Officer	Hideaki Funakoshi
Officer	Kazuo Uga
Officer	Takeshi Ito
Officer	Kiyoshi Chinzei
Officer	Kazuhiko Yamamoto
Officer	Motomi Adachi

(3) Total amount of remuneration, etc. for Directors and Corporate Auditors

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

Category	Number of recipients	Amount of payments
Director (Outside Director)	7 (2)	¥85,921 thousand (¥10,600 thousand)
Corporate Auditor (Outside Corporate Auditor)	3 (2)	¥19,987 thousand (¥10,400 thousand)
Total (Outside Director/Corporate Auditor)	10 (4)	¥105,909 thousand (¥21,000 thousand)

(Notes) 1. 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:

- ¥10,475 thousand for six Directors (including ¥1,000 thousand for two outside Directors)
- ¥1,537 thousand for three Corporate Auditors (including ¥800 thousand for two outside Corporate Auditors)

2. The above-listed amount of payments includes the following amount of remuneration in stock options recorded as expenses for the fiscal year under review:

- ¥436 thousand for three Directors

3. The above-listed amount of payments includes the payment to one Director who retired from office as of November 11, 2014.

(4) Other important matters concerning officers:

Nothing to be reported.

(5) 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 outside Director of THE SAILOR PEN CO., LTD. and outside Corporate Auditor of Oriental Chain Mfg. Co., Ltd. The Company has no special relationship with THE SAILOR PEN CO., LTD. and 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 at the meetings of the Board of Directors and the Board of Corporate Auditors:

Name	Board of Directors		Board of Corporate Auditors	
	Number of meetings	Number attended	Number of meetings	Number attended
Director Mitsuo Yonemoto	16	16	-	-
Director Yoshiaki Bannai	16	16	-	-
Corporate Auditor Shinichi Komeda	16	16	13	13
Corporate Auditor Masahide Morimoto	16	16	13	13

(Note) In addition to the number of the 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 three occasions.

- Speeches at meetings of the Board of Directors and the Board of Corporate Auditors:

Name	Speeches
Director Mitsuo Yonemoto	He attended meetings of the Board of Directors and expressed opinions principally from the standpoint of a management consultant, as well as the standpoint of an independent officer.
Director Yoshiaki Bannai	He attended meetings of the Board of Directors and expressed opinions principally from the standpoint of a veteran top executive.
Corporate Auditor Shinichi Komeda	He attended meetings of the Board of Directors and the Board of Corporate Auditors and expressed opinions principally from the standpoint of a veteran top executive, as well as the standpoint of an independent officer.
Corporate Auditor Masahide Morimoto	He attended meetings of the Board of Directors and the Board of Corporate Auditors and expressed opinions principally from the standpoint of a veteran top executive, as well as a technical standpoint of finance and securities.

- (v) 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 each of the two Outside Directors and two Outside Corporate Auditors to limit the 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.

## 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: ¥47 million
- (ii) Total amount of cash and other proprietary benefits payable to the independent auditors by the Company and its subsidiaries: ¥69 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. Among the major subsidiaries of the Company, FUNAI CORPORATION, INC. and one other company are subject to audits by audit firms (including persons having qualifications in foreign countries equivalent to those of the independent auditors of the Company) other than the independent auditors of the Company.

(3) Content of non-auditing services:

The Company has entrusted Deloitte Touche Tohmatsu LLC with, and paid remuneration for, advisory and guidance services concerning internal control over financial reporting and others, which are not covered by Article 2, paragraph 1 of the Certified Public Accountant Act of Japan.

(4) 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, the Company shall, upon unanimous consent of the Corporate Auditors, dismiss the independent auditors. In addition, in the event that there arises any problem with the performance by the independent auditors of their duties or otherwise considered necessary, the Company shall, upon consent of the Board of Corporate Auditors or upon request from the Board of Corporate Auditors, prepare a proposition for the dismissal or non-reappointment of the independent auditors as an agenda item of a General Meeting of Shareholders.

(Note) The “Act for partial revision of the Companies Act” (Act No. 90 of 2014) of Japan became effective on May 1, 2015. Accordingly, the organization responsible for determining a proposition of the dismissal or non-reappointment of the independent auditors has been changed from the Board of Directors to the Board of Corporate Auditors. The Act stated above is applied for the fiscal year under review.

(5) 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 perform their duties in compliance with laws, ordinances and the Articles of Incorporation

In the “Funai Group Charter of Conduct” and the “Regulations of Officers’ Compliance”, the Company shall specify the acts to be taken by the Directors to comply with laws and ordinances and ensure that the Directors perform

their duties in compliance with laws, ordinances and the Articles of Incorporation.

- (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 shall be 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 shall institute "Risk Management Regulations" for management of risk of loss. Each division or department shall manage risks related to its operations and also control such risks systematically.

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

To ensure that management performs decision-making swiftly and effectively, the Company shall introduce 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 shall introduce the outside Directors.

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

In the "Funai Group Charter of Conduct" and the "Compliance Regulations", the Company shall specify the acts to be taken by the employees and ensure that the employees perform their duties in compliance with laws, ordinances and the Articles of Incorporation.

In addition, the Company shall establish a whistle-blowing system which is independent from its regular reporting channels and strengthen its compliance system.

- (vi) Systems to secure the propriety of business activities of the corporate group composed of the Company, its parent company and its subsidiaries

The "Funai Group Charter of Conduct" shall be the rule of conduct of the officers and employees of the Group.

In addition, in the "Affiliated Companies Management Regulations", the Company shall clearly define authorities and responsibilities of its group

companies with regard to their important matters with due considerations to their autonomy and independence, and ensure that the whole Group's business activities are performed appropriately.

- (vii) Matters concerning the employees assisting the Corporate Auditors to perform their duties when the Corporate Auditors request the assignment thereof

When the Corporate Auditors request the assignment of employees to assist them to perform their duties, the Board of Directors of the Company shall, upon consultation with the Board of Corporate Auditors, establish a secretariat to the Board of Corporate Auditors and assign its employees to assist the Board of Corporate Auditors.

- (viii) Matters concerning the independence of the employees set forth in (vii) above, from the Directors

When the employees, set forth in item (vii) above, are transferred to the secretariat to the Board of Corporate Auditors, the Company shall respect the opinions of the Board of Corporate Auditors with regard to their transfer and personnel evaluations and ensure their independence from the Directors.

- (ix) System for reports by the Directors and employees to the Corporate Auditors and systems for other reports to the Corporate Auditors

The Corporate Auditors shall attend meetings of the Board of Directors and other important meetings, hear from the Directors, etc., concerning the state of execution of their duties, and inspect related materials.

In addition, the Corporate Auditors shall, in accordance with the "Regulations Concerning Reporting to the Board of Corporate Auditors", request the Directors, Officers and employees to report facts that may inflict material damage on the Company and other matters considered necessary for them to perform their duties.

- (x) Other systems to ensure that the Corporate Auditors perform their audits effectively

To ensure that the Corporate Auditors perform their audits effectively, the Corporate Auditors shall closely cooperate with the independent auditors, and regularly meet the Representative Directors to confirm the management policy and exchange opinions on the risks and issues surrounding the Company.

- (xi) 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 implement a corrective measure when any defect is found.

(xii) 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 end 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) Policies for the determination of Directors' remuneration, etc.,:

Remuneration for Directors and Corporate Auditors 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 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 Corporate Auditors shall be determined upon consultation among the Corporate Auditors.

Bonuses for Directors shall be determined by the Compensation Committee upon authorization by the Board of Directors based on the Company's rules. Bonuses for Corporate Auditors shall be determined upon consultation among the Corporate Auditors.

Regarding the retirement benefits for Directors and Corporate Auditors, upon the approval by resolution of the General Meeting of Shareholders and based on the Company's rules, the benefits for Directors shall be determined by the Compensation Committee, and the benefits for Corporate Auditors shall be determined by consultation among the Corporate Auditors.

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

The Company recognizes the return out of earnings to its shareholders as one of the most important missions of management and pursues 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 1.0% on a consolidated basis, considering business conditions and other factors.

In accordance with the above basic policies, the Company will pay a year-end dividend of ¥35 per share for the fiscal year under review.

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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, 2015)

(millions of yen)

### ASSETS:

<b>Current assets:</b>	<b>154,775</b>
Cash and deposits .....	66,820
Notes and accounts receivable-trade .....	38,183
Merchandise and finished goods .....	26,398
Work in process .....	1,455
Raw materials and supplies .....	14,708
Deferred tax assets .....	2,245
Other .....	5,352
Allowance for doubtful accounts.....	(389)
<b>Fixed assets:</b>	<b>34,920</b>
<b>Property, plant and equipment:</b>	<b>21,306</b>
Buildings and structures.....	10,055
Machinery, equipment, and motor vehicles .....	2,990
Tools, furniture, and fixtures .....	1,722
Land .....	6,343
Lease assets .....	173
Other .....	19
<b>Intangible assets:</b>	<b>6,117</b>
Patents .....	4,020
Other .....	2,097
<b>Investments and other assets:</b>	<b>7,496</b>
Investment securities.....	2,814
Deferred tax assets .....	339
Assets for retirement benefits .....	1,716
Other .....	2,900
Allowance for doubtful accounts .....	(276)
<b>TOTAL ASSETS</b>	<b>189,695</b>

(millions of yen)

LIABILITIES:

<b>Current liabilities:</b>	<b>51,378</b>
Notes and accounts payable-trade .....	31,625
Short-term bank loans.....	4,012
Accounts payable-other .....	11,944
Current portion of long-term lease obligations.....	126
Income taxes payable.....	485
Accrued bonuses.....	212
Reserve for products warranty.....	1,228
Other .....	1,743
<b>Long-term liabilities:</b>	<b>10,435</b>
Long-term bank loans.....	6,683
Long-term lease obligations .....	290
Deferred tax liabilities .....	1,345
Deferred tax liabilities on revaluation of land.....	226
Liabilities for directors' and corporate auditors' retirement benefits...	1,093
Liabilities for retirement benefits .....	548
Other .....	247
<b>TOTAL LIABILITIES</b>	<b>61,813</b>
<u>EQUITY:</u>	
<b>Shareholders' equity:</b>	<b>134,079</b>
Common stock .....	31,307
Capital surplus .....	33,272
Retained earnings.....	93,840
Treasury stock.....	(24,341)
<b>Accumulated other comprehensive income (loss):</b>	<b>(7,401)</b>
Unrealized gain on available-for-sale securities .....	421
Foreign currency translation adjustments .....	(8,188)
Defined retirement benefit plans.....	365
<b>Stock acquisition rights:</b>	<b>142</b>
<b>Minority interests:</b>	<b>1,061</b>
<b>TOTAL EQUITY</b>	<b>127,881</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>189,695</b>

**CONSOLIDATED STATEMENT OF INCOME**

(from April 1, 2014 to March 31, 2015)

(millions of yen)

<b>Net sales</b>		<b>217,088</b>
<b>Cost of sales</b>		<b>179,515</b>
<b>Gross profit</b>		<b>37,573</b>
<b>Selling, general, and administrative expenses</b>		<b>37,009</b>
<b>Operating income</b>		<b>564</b>
<b>Nonoperating income:</b>		
Interest and dividend income	311	
Foreign exchange gains	1,570	
Other	475	2,356
<b>Nonoperating expenses:</b>		
Interest expense	187	
Loss on disposal of inventories	147	
Other	662	996
<b>Ordinary income</b>		<b>1,924</b>
<b>Extraordinary income:</b>		
Gain on sales of fixed assets	150	
Gain on sales of investment securities	824	
Gain on sales of investment in nonconsolidated subsidiaries and associated companies	134	1,110
<b>Extraordinary loss:</b>		
Loss on disposal of fixed assets	25	
Impairment loss on fixed assets	618	
Loss on closing of sales office	131	
Other	14	789
<b>Income before income taxes and minority interests</b>		<b>2,244</b>
Income taxes – current	635	
Income taxes – deferred	238	873
<b>Net income before minority interests</b>		<b>1,370</b>
Minority interests in net income		16
<b>Net income</b>		<b>1,354</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(from April 1, 2014 to March 31, 2015)

(millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2014	31,307	33,272	93,196	(24,341)	133,435
Cumulative effect of change in accounting policy			483		483
Balance as of April 1, 2014 (As restated)	31,307	33,272	93,679	(24,341)	133,918
Changes of items during the fiscal year					
Cash dividends			(1,194)		(1,194)
Net income			1,354		1,354
Acquisition of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	-	-	160	(0)	160
Balance as of March 31, 2015	31,307	33,272	93,840	(24,341)	134,079

	Accumulated other comprehensive income (loss)				Stock acquisition rights	Minority 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, 2014	672	(17,495)	(103)	(16,925)	132	1,042	117,684
Cumulative effect of changes in accounting policy						(11)	472
Balance as of April 1, 2014 (As restated)	672	(17,495)	(103)	(16,925)	132	1,031	118,156
Changes of items during the fiscal year							
Cash dividends							(1,194)
Net income							1,354
Acquisition of treasury stock							(0)
Net changes of items other than shareholders' equity	(251)	9,307	468	9,524	10	29	9,564
Total changes of items during the fiscal year	(251)	9,307	468	9,524	10	29	9,724
Balance as of March 31, 2015	421	(8,188)	365	(7,401)	142	1,061	127,881

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

Copy of Independent Auditor's Report on Consolidated Financial Statements

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

May 18, 2015

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

Deloitte Touche Tohmatsu LLC

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

Motoo Nakamura

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, 2015 of Funai Electric Co., Ltd. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of income and changes in equity for the fiscal year from April 1, 2014 to March 31, 2015, 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 the Company and its consolidated subsidiaries as of March 31, 2015, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

As discussed in the "Notes to the Consolidated Balance Sheet: 4. Contingent liability," Koninklijke Philips N.V. filed against the Company a petition for arbitration to claim compensation for damages and the petition was served on the Company by the International Chamber of Commerce. With regard to this matter, the Company filed with the International Chamber of Commerce a counterclaim for claiming compensation for damages against Koninklijke Philips N.V. The petition and counterclaim may have an effect on the operating results of the Company and its consolidated subsidiaries.

However, it is not possible to make a reasonable estimate of the effect of the arbitration proceedings, and the effect thereof, if any, on the operating results, and the financial position of the Company and its consolidated subsidiaries remains unclear.

Our opinion is not qualified in respect of this matter.

### **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-

## NONCONSOLIDATED BALANCE SHEET

(As of March 31, 2015)

(millions of yen)

### ASSETS:

<b>Current assets:</b>	<b>71,818</b>
Cash and deposits .....	24,518
Notes receivable-trade .....	29
Accounts receivable-trade .....	41,493
Merchandise and finished goods .....	70
Raw materials and supplies .....	4,668
Prepaid expenses .....	1,287
Deferred tax assets .....	1,417
Other.....	537
Allowance for doubtful accounts .....	(2,205)
<b>Fixed assets:</b>	<b>48,944</b>
<b>Property, plant and equipment:</b>	<b>7,173</b>
Buildings .....	2,767
Structures.....	42
Machinery and equipment.....	29
Motor vehicles.....	0
Tools, furniture, and fixtures.....	139
Land.....	4,034
Lease assets .....	160
<b>Intangible assets:</b>	<b>4,647</b>
Patents .....	4,020
Software .....	198
Lease assets .....	0
Other.....	427
<b>Investments and other assets:</b>	<b>37,123</b>
Investment securities .....	444
Investment in subsidiaries and associated companies.....	31,489
Long-term loans receivable.....	16,417
Long-term prepaid expenses .....	960
Prepaid pension cost.....	1,794
Other.....	194
Allowance for doubtful accounts .....	(14,177)
<b>TOTAL ASSETS</b>	<b>120,763</b>

(millions of yen)

LIABILITIES:

<b>Current liabilities:</b>	<b>29,952</b>
Accounts payable-trade .....	19,738
Current portion of long-term lease obligations.....	66
Accounts payable-other .....	6,574
Accrued expenses .....	3,104
Income taxes payable.....	198
Deposit received .....	166
Reserve for products warranty.....	98
Other .....	5
<b>Long-term liabilities:</b>	<b>8,180</b>
Long-term bank loans .....	6,008
Long-term lease obligations .....	105
Deferred tax liabilities .....	961
Liabilities for directors' and corporate auditors' retirement benefits...	1,074
Other .....	29
<b>TOTAL LIABILITIES</b>	<b>38,133</b>

EQUITY

<b>Shareholders' equity</b>	<b>82,204</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>41,966</b>
Legal reserve.....	209
Other retained earnings.....	41,756
Reserve for advanced depreciation of fixed assets.....	513
General reserve.....	23,400
Retained earnings brought forward .....	17,843
<b>Treasury stock</b>	<b>(24,341)</b>
<b>Valuation and translation adjustments:</b>	<b>282</b>
<b>Unrealized gain on available-for-sale securities</b>	<b>282</b>
<b>Stock acquisition rights</b>	<b>142</b>
<b>TOTAL EQUITY</b>	<b>82,629</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>120,763</b>

**NONCONSOLIDATED STATEMENT OF INCOME**

(from April 1, 2014 to March 31, 2015)

(millions of yen)

<b>Net sales</b>		<b>154,549</b>
<b>Cost of sales</b>		<b>136,103</b>
<b>Gross profit</b>		<b>18,445</b>
<b>Selling, general, and administrative expenses</b>		<b>20,287</b>
<b>Operating loss</b>		<b>1,841</b>
<b>Nonoperating income:</b>		
Interest and dividend gains	279	
Foreign exchange gains	1,789	
Other	329	2,398
<b>Nonoperating expenses:</b>		
Interest expense	59	
Allowance for doubtful accounts of subsidiaries and associated companies	642	
Other	199	900
<b>Ordinary loss</b>		<b>343</b>
<b>Extraordinary income:</b>		
Gain on sales of fixed assets	0	
Gain on sales of investment securities	824	
Gain on sales of investment in subsidiaries and associated companies	134	959
<b>Extraordinary loss:</b>		
Loss on disposition of fixed assets	0	
Loss on revaluation of investment in subsidiaries and associated companies	13	14
<b>Income before income taxes</b>		<b>601</b>
Income taxes - current	148	
Income taxes - deferred	105	253
<b>Net income</b>		<b>347</b>

**NONCONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(from April 1, 2014 to March 31, 2015)

(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, 2014	31,307	32,833	438	33,272	209	501	23,400	18,099	42,211	(24,341)	82,449
Cumulative effect of change in accounting policy								601	601		601
Balance as of April 1, 2014 (As restated)	31,307	32,833	438	33,272	209	501	23,400	18,701	42,812	(24,341)	83,051
Changes of items during the fiscal year											
Reserve for advanced depreciation of fixed assets						25		(25)	-		-
Reversal of reserve for advanced depreciation of fixed assets						(13)		13	-		-
Cash dividends								(1,194)	(1,194)		(1,194)
Net income								347	347		347
Acquisition of treasury stock										(0)	(0)
Net changes of items other than shareholders' equity											
Total changes of items during the fiscal year	-	-	-	-	-	11	-	(858)	(846)	(0)	(846)
Balance as of March 31, 2015	31,307	32,833	438	33,272	209	513	23,400	17,843	41,966	(24,341)	82,204

(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, 2014	585	585	132	83,167
Cumulative effect of change in accounting policy				601
Balance as of April 1, 2014 (As restated)	585	585	132	83,769
Changes of items during the fiscal year				
Reserve for advanced depreciation of fixed assets				-
Reversal of reserve for advanced depreciation of fixed assets				-
Cash dividends				(1,194)
Net income				347
Acquisition of treasury stock				(0)
Net changes of items other than shareholders' equity	(303)	(303)	10	(292)
Total changes of items during the fiscal year	(303)	(303)	10	(1,139)
Balance as of March 31, 2015	282	282	142	82,629

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

Copy of Independent Auditor's Report on Nonconsolidated Financial Statements

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

May 18, 2015

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

Deloitte Touche Tohmatsu LLC

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

Motoo Nakamura

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, 2015 of Funai Electric Co., Ltd. (the "Company"), and the related statements of income and changes in equity for the 63rd fiscal year from April 1, 2014 to March 31, 2015, 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 the Company as of March 31, 2015, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

As discussed in the "Notes to the Nonconsolidated Balance Sheet: 3. Contingent liabilities, (arbitration)," Koninklijke Philips N.V. filed against the Company a petition for arbitration to claim compensation for damages and the petition was served on the Company by the International Chamber of Commerce. With regard to this matter, the Company filed with the International Chamber of Commerce a counterclaim for claiming compensation for damages against Koninklijke Philips N.V. The petition and counterclaim may have an effect on the operating results of the Company.

However, it is not possible to make a reasonable estimate of the effect of the arbitration proceedings, and the effect thereof, if any, on the operating results, and financial position of the Company remains unclear.

Our opinion is not qualified in respect of this matter.

### **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 Board of Corporate Auditors

AUDIT REPORT

We, the Board of Corporate Auditors of Funai Electric Co., Ltd. (the “Company”), after deliberation based upon the audit report prepared by each Corporate Auditor on the execution by Directors of their duties during the 63rd fiscal year from April 1, 2014, through March 31, 2015, have performed our audits and hereby report as follows.

1. Method of audits by the Corporate Auditors and the Board of Corporate Auditors and the particulars thereof:

The Board of Corporate Auditors determined the audit policy, audit plans, etc., received from each Corporate Auditor reports on the state of his performance of audits and the results thereof, and also received from the Directors, etc., and the independent auditors reports on the state of execution of their duties and demanded their explanations whenever necessary.

Each Corporate Auditor, in accordance with the auditing standards for the Corporate Auditors determined by the Board of Corporate Auditors and pursuant to the audit policy, audit plans, etc., maintained constant communication with the Directors, the internal audit division and other employees, etc., in an effort to collect information and improve the environment for auditing, attended meetings of the Board of Directors and other important meetings, received from the Directors and employees, etc., reports on the state of execution of their duties, demanded their explanations whenever necessary, inspected important decision documents, etc., and made investigations into the state of activities and property at the head office and principal business offices of the Company. With regard to the details of the resolutions of the Board of Directors for establishing systems to ensure that the execution by the Directors of their duties will comply with laws or ordinances and the Articles of Incorporation and such other systems provided for in Article 100, paragraphs 1 and 3 of the Regulations to Enforce the Companies Act of Japan as necessary to ensure the adequacy of business of joint stock corporations, as well as the status of the systems (internal control systems) established pursuant to such resolutions, which are described in the business report, we periodically received from the Directors and employees, etc., reports, demanded their explanations, and expressed our opinions whenever necessary, on the state of formulation and operation thereof. With regard to its subsidiaries, we maintained constant communication and exchanged information with the Directors, Corporate Auditors, etc., thereof and required the subsidiaries to render reports on their business operations whenever necessary. In accordance with such methods, we investigated the business report and its accompanying detailed statements for the fiscal year under review.

We also monitored and verified whether the independent auditors had maintained an independent position and conducted adequate audits, and received from the independent auditors reports on the state of execution of their duties and demanded their explanations whenever necessary. In addition, we received from the independent auditors a notice that

the “systems to secure adequate execution of duties” (as listed in the items of Article 131 of the Regulations on Corporate Accounts) had been established in accordance with the “Standard for Quality Control Concerning Audits” (the Accounting Standards Board of Japan, October 28, 2005) and demanded their explanations whenever necessary.

In accordance with such methods, we investigated the nonconsolidated financial statements (the nonconsolidated balance sheet, the nonconsolidated statement of operations, the nonconsolidated statement of changes in equity, and the notes to nonconsolidated financial statements) and their accompanying supplemental schedules, as well as the consolidated financial statements (the consolidated balance sheet, the consolidated statement of operations, the consolidated statement of 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.:

We are of the opinion:

- (i) That the business report and its accompanying detailed statements present fairly the state of the Company in accordance with laws and ordinances and the Articles of Incorporation;
- (ii) That in connection with the execution by the Directors of their duties, no dishonest act or material fact of violation of laws or ordinances or the Articles of Incorporation exists; and
- (iii) That the details of the resolutions of the Board of Directors on internal control systems are proper and that the descriptions in the business report and the execution by the Directors of their duties concerning such internal control systems contain nothing to be pointed out.

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

We are of the opinion that the method and results of the audit made by the independent auditors, Deloitte Touche Tohmatsu LLC, are proper.

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

We are of the opinion that the method and results of the audit made by the independent auditors, Deloitte Touche Tohmatsu LLC, are proper.

May 18, 2015

Funai Electric Co., Ltd.  
The Board of Corporate Auditors

Hironu Ishizaki (seal)  
Full-time Corporate Auditor

Shinichi Komeda (seal)  
Outside Corporate Auditor

Masahide Morimoto (seal)  
Outside Corporate Auditor

- END -

## Reference Document for the General Meeting of Shareholders

### Propositions and reference information

#### Proposition No. 1: Partial amendments to the Articles of Incorporation

1. Reasons for the amendment:

- (1) The Companies Act (the “Revised Companies Act”) that was revised by the “Act for partial revision of the Companies Act” (Act No. 90 of 2014) came in effect on May 1, 2015. The Company makes a shift to a company with Audit and Supervisory Committee, which has been newly established by the Revised Companies Act, from the perspective of enhancing corporate governance by strengthening the supervisory function of its Board of Directors. For that transition, the Company plans to establish new provisions for an Audit and Supervisory Committee and Audit and Supervisory Committee Members and abolish the provisions for the Board of Corporate Auditors and Corporate Auditors.
- (2) To prepare in advance for a vacancy in the statutory number of Directors who are Audit and Supervisory Committee Members, the Company intends to establish a new provision about the election of substitute Directors who are Audit and Supervisory Committee Members in Article 18 of the existing Articles of Incorporation. In the provision, the Company shall define the effective period of the election of the substitute Directors and the term of office if they assume office of Directors who are an Audit and Supervisory Committee Members.
- (3) With the expansion of the scope of the Officers eligible to enter into limited liability agreements under the Revised Companies Act, the Company plans to change Article 26 of the existing Articles of Incorporation to enter into limited liability agreements with Directors who do not execute business, to fulfill their expected roles. Each Corporate Auditor has consented to the amendment to the Articles of Incorporation related to limited liability agreements.
- (4) With regard to the indemnification of the Corporate Auditors that are provided in the existing Articles of Incorporation, the Company intends to establish a transitional measure as a supplementary provision to make it remain effective after the shift to a company with Audit and Supervisory Committee.
- (5) In addition, the Company intends to change the numbering of the Articles, etc., to reflect each of the above-mentioned changes accordingly.

The amendment to the Articles of Incorporation in this proposition shall become effective from the close of this General Meeting of Shareholders.

2. Details of the amendment:

The details of the proposed amendment are set forth below:

(Underlines show amendment)

Existing Articles of Incorporation	Proposed amendment
<p><b>Chapter I. General Provisions</b></p> <p>From Article 1 to Article 3 (Description omitted)</p> <p>(Organizations)</p> <p>Article 4. The Company shall have the following organizations in addition to the General Meeting of Shareholders, Directors <u>and Corporate Auditors</u>:</p> <p>(1) The Board of Directors;            (2) <u>Board of Corporate Auditors</u>; and            (3) Independent Auditors.</p> <p>Article 5. (Description omitted)</p> <p><b>Chapter II. Shares</b></p> <p>From Article 6 to Article 10 (Description omitted)</p> <p><b>Chapter III. General Meeting of Shareholders</b></p> <p>From Article 11 to Article 16 (Description omitted)</p> <p><b>Chapter IV. Directors and Board of Directors</b></p> <p>(Number)</p> <p>Article 17. The Company shall have not more than 20 Directors.</p>	<p><b>Chapter I. General Provisions</b></p> <p>From Article 1 to Article 3 (Same as existing)</p> <p>(Organizations)</p> <p>Article 4. The Company shall have the following organizations in addition to the General Meeting of Shareholders <u>and</u> Directors:</p> <p>(1) The Board of Directors;            (2) <u>The Audit and Supervisory Committee</u>; and            (3) Independent Auditors.</p> <p>Article 5. (Same as existing)</p> <p><b>Chapter II. Shares</b></p> <p>From Article 6 to Article 10 (Same as existing)</p> <p><b>Chapter III. General Meeting of Shareholders</b></p> <p>From Article 11 to Article 16 (Same as existing)</p> <p><b>Chapter IV. Directors and Board of Directors</b></p> <p>(Number)</p> <p>Article 17. The Company shall have not more than 20 Directors (<u>excluding Directors who are Audit and Supervisory Committee Members</u>) and <u>not more than five Directors who are Audit and Supervisory Committee Members</u>.</p>

Existing Articles of Incorporation	Proposed amendment
<p>(Method of election)</p> <p>Article 18. Directors shall be elected at General Meetings of Shareholders.</p> <p>2. (Description omitted)</p> <p>3. (Description omitted)</p> <p>(To be newly established)</p> <p>(To be newly established)</p> <p>(Term of office)</p> <p>Article 19. The term of office of Directors shall expire at the close of the Ordinary General Meeting of Shareholders relating to the last fiscal year ending within one (1) year after their election.</p>	<p>(Method of election)</p> <p>Article 18. Directors shall be elected, <u>by separating Directors who are Audit and Supervisory Committee Members from those who are not,</u> at General Meetings of Shareholders.</p> <p>2. (Same as existing)</p> <p>3. (Same as existing)</p> <p>4. <u>In preparation for a vacancy in the statutory number of Directors who are Audit and Supervisory Committee Members, the Company may elect substitute Directors who are Audit and Supervisory Committee Members at a General Meeting of Shareholders pursuant to the provision of Article 329, paragraph 3 of the Companies Act of Japan.</u></p> <p>5. <u>The resolution for the election of substitute Directors who are Audit and Supervisory Committee Members under the preceding paragraph shall remain effective until the commencement of the Ordinary General Meeting of Shareholders relating to the last fiscal year ending within two (2) years after the close of the General Meeting of Shareholders relating to their election.</u></p> <p>(Term of office)</p> <p>Article 19. The term of office of Directors <u>(excluding Directors who are Audit and Supervisory Committee Members)</u> shall expire at the close of the Ordinary General Meeting of Shareholders relating to the last fiscal year ending within one (1) year after their election.</p>

Existing Articles of Incorporation	Proposed amendment
(To be newly established)	<u>2. The term of office of substitute Directors who are Audit and Supervisory Committee Members shall expire at the close of the Ordinary General Meeting of Shareholders relating to the last fiscal year ending within two (2) years after their election.</u>
(To be newly established)	<u>3. The term of office of a Director who is an Audit and Supervisory Committee Member elected as a substitute to fill a vacancy created by the retirement of a Director who is an Audit and Supervisory Committee Member prior to the expiration of the term of office shall expire at the expiration term of office of the retired Director who is an Audit and Supervisory Committee Member.</u>
From Article 20 to Article 21 (Description omitted)	From Article 20 to Article 21 (Same as existing)
(Notice of meeting of the Board of Directors)	(Notice of meeting of the Board of Directors)
Article 22. Notice for convening a meeting of the Board of Directors shall be dispatched to each Director <u>and each Corporate Auditor</u> not later than three (3) days prior to the date of the meeting; provided, however, that such period of notice may be shortened in the case of urgent necessity.	Article 22. Notice for convening a meeting of the Board of Directors shall be dispatched to each Director not later than three (3) days prior to the date of the meeting; provided, however, that such period of notice may be shortened in the case of urgent necessity.
2. If consented to by all the Directors <u>and Corporate Auditors</u> , a meeting of the Board of Directors may be held without following the convocation procedure.	2. If consented to by all the Directors, a meeting of the Board of Directors may be held without following the convocation procedure.



Existing Articles of Incorporation	Proposed amendment
<p><b><u>Chapter V. Corporate Auditors and Board of Corporate Auditors</u></b></p>	(To be deleted)
<p><u>(Number)</u></p>	
<p><u>Article 27. The Company shall have not less than three (3) Corporate Auditors.</u></p>	(To be deleted)
<p><u>(Method of election)</u></p>	
<p><u>Article 28. Corporate Auditors shall be elected at General Meetings of Shareholders.</u></p>	(To be deleted)
<p><u>2. Resolutions for the election of Corporate Auditors shall be adopted at a General Meeting of Shareholders at which shareholders holding one-third (1/3) or more of voting rights of the shareholders entitled to vote shall be present, by a majority of the voting rights of the shareholders so present.</u></p>	(To be deleted)
<p><u>3. In preparation for a vacancy in such number of Corporate Auditors as provided for in laws or ordinances, the Company may elect an alternate Corporate Auditor or Auditors at a General Meeting of Shareholders pursuant to the provision of Article 329, paragraph 2 of the Companies Act of Japan.</u></p>	(To be deleted)
<p><u>4. The resolution for the election of an Alternate Corporate Auditor or Auditors under the preceding paragraph shall remain effective until the commencement of the Ordinary General Meeting of Shareholders relating to the last fiscal year to end within four (4) years after his/her/their election.</u></p>	(To be deleted)

Existing Articles of Incorporation	Proposed amendment
<p><u>(Term of office)</u></p> <p><u>Article 29. The term of office of Corporate Auditors shall expire at the close of the Ordinary General Meeting of Shareholders relating to the last fiscal year to end within four (4) years after their election.</u></p> <p><u>2. The term of office of a Corporate Auditor elected to fill a vacancy created by the retirement of a Corporate Auditor prior to the expiration of the term of office shall expire at such time as the term of office of the retired Statutory Auditor would expire.</u></p> <p><u>(Full-time Corporate Auditors)</u></p> <p><u>Article 30. The Board of Corporate Auditors shall, by its resolution, appoint one (1) or more full-time Corporate Auditors.</u></p> <p><u>(Notice of meeting of the Board of Corporate Auditors)</u></p> <p><u>Article 31. Notice for convening a meeting of the Board of Corporate Auditors shall be dispatched to each Corporate Auditor not later than three (3) days prior to the date of the meeting; provided, however, that such period of notice may be shortened in the case of urgent necessity.</u></p> <p><u>2. If consented to by all the Corporate Auditors, a meeting of the Board of Corporate Auditors may be held without following the convocation procedure.</u></p> <p><u>(Method of adopting resolutions of the Board of Corporate Auditors)</u></p> <p><u>Article 32. Resolutions of the Board of Corporate Auditors shall be adopted by a majority of the Corporate Auditors.</u></p>	<p>(To be deleted)</p>

Existing Articles of Incorporation	Proposed amendment
<p><u>(Regulations of the Board of Corporate Auditors)</u></p> <p><u>Article 33. All matters concerning the Board of Corporate Auditors shall be governed by the Regulations of the Board of Corporate Auditors to be established by the Board of Corporate Auditors, in addition as provided for in laws or ordinances or in these Articles of Incorporation.</u></p> <p><u>(Remuneration, etc.)</u></p> <p><u>Article 34. Remuneration, etc. of Corporate Auditors shall be determined by resolution of a General Meeting of Shareholders.</u></p> <p><u>(Indemnification of Corporate Auditors)</u></p> <p><u>Article 35. The Company may, by resolution of the Board of Directors, exempt any Corporate Auditor (including any former Corporate Auditor) from liabilities for any damage as provided for in Article 423, paragraph 1 of the Companies Act of Japan, to the extent allowable by law, pursuant to the provision of Article 426, paragraph 1 of the said Act.</u></p> <p><u>2. The Company may enter into an agreement with any outside Corporate Auditor to limit liabilities for any damage as provided for in Article 423, paragraph 1 of the Companies Act of Japan to the aggregate amount as provided for in the items of paragraph 1 of Article 425 of the said Act, pursuant to the provision of Article 427, paragraph 1 of the said Act.</u></p>	<p>(To be deleted)</p> <p>(To be deleted)</p> <p>(To be deleted)</p> <p>(To be deleted)</p>

Existing Articles of Incorporation	Proposed amendment
(To be newly established)	<b><u>Chapter V. Audit and Supervisory Committee</u></b>
(To be newly established)	<u>(Notice of meeting of the Audit and Supervisory Committee)</u>
	<u>Article 28. Notice for convening a meeting of the Audit and Supervisory Committee shall be dispatched to each Audit and Supervisory Committee Member not later than three (3) days prior to the date of the meeting; provided, however, that such period of notice may be shortened in the case of urgent necessity.</u>
(To be newly established)	<u>2. If consented to by all the Audit and Supervisory Committee Members, a meeting of the Audit and Supervisory Committee may be held without following the convocation procedure.</u>
(To be newly established)	<u>(Method of adopting resolutions of the Audit and Supervisory Committee)</u>
	<u>Article 29. Resolutions of the Audit and Supervisory Committee shall be adopted at its meeting at which a majority of the Audit and Supervisory Committee Members entitled to participate in the voting shall be present, by a majority of the Audit and Supervisory Committee Members so present.</u>
(To be newly established)	<u>Regulations of the Audit and Supervisory Committee)</u>
	<u>Article 30. All matters concerning the Audit and Supervisory Committee shall be governed by the Regulations of the Audit and Supervisory Committee to be established by the Audit and Supervisory Committee, in addition as provided for in laws or ordinances or in these Articles of Incorporation.</u>

Existing Articles of Incorporation	Proposed amendment
<p style="text-align: center;"><b>Chapter VI. Accounts</b></p> <p>From Article 36 to Article 39 (Descriptions omitted)</p> <p style="text-align: center;"><b>Supplementary Provisions</b></p> <p>Article 1. (Description omitted)</p> <p>(To be newly established)</p>	<p style="text-align: center;"><b>Chapter VI. Accounts</b></p> <p>From Article 31 to Article 34 (Same as existing)</p> <p style="text-align: center;"><b>Supplementary Provisions</b></p> <p>Article 1. (Same as existing)</p> <p><u>Article 2. The Company may, by resolution of the Board of Directors, exempt any Corporate Auditor (including any former Corporate Auditor) who remains in office up to the close of the 63rd Ordinary General Meeting of Shareholders from liabilities for any damage as provided for in Article 423, paragraph 1 of the Companies Act of Japan, to the extent allowable by law, pursuant to the provision of Article 426, paragraph 1 of the said Act.</u></p>

**Proposition No. 2:** Election of six (6) Directors (excluding Directors who are Audit and Supervisory Committee Members)

The term of office of all the (6) Directors currently in office will expire at the close of this Ordinary General Meeting of Shareholders. On the condition that Proposition No. 1 “Partial Amendments to the Articles of Incorporation” is approved and adopted as proposed, the Company will make a shift to a company with Audit and Supervisory Committee. Hence, it is hereby proposed that six (6) Directors (excluding Directors who are Audit and Supervisory Committee Members; the same applies hereinafter in this proposition), including two (2) outside Directors, be elected to enhance the transparency of the Board of Directors and attempt the efficiency of management.

This proposition shall become effective subject to Proposition No. 1 “Partial amendments to the Articles of Incorporation” becoming effective as proposed.

The candidates for Director 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.	Tetsuro Funai (January 24, 1927)	<p>April 1951      Established Funai Sewing Machine Company</p> <p>Dec. 1952      Representative Director of Funai Sewing Machine Co., Ltd.</p> <p>August 1961    Founding President and Representative Director of Funai Electric Co., Ltd. (the "Company")</p> <p>June 2005      Director of the Company; President and CEO of the Company</p> <p>June 2008      Director of the Company; Chairman and Officer of the Company</p> <p>June 2010      Chairman and Officer of the Company</p> <p>June 2012      Chairman of the Company</p> <p>October 2014    Chairman and Representative Director of the Company (To date) (Chairman of Funai Information Science Promotion Foundation) (Chairman of Funai Scholarship Foundation)</p>	12,709,288 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
2.	Tomonori Hayashi (March 13, 1947)	<p>April 1969      Joined the Company</p> <p>October 2002    Officer of the Company</p> <p>June 2005        Executive Officer of the Company</p> <p>March 2006      CEO of FUNAI CORPORATION INC.</p> <p>June 2007        Senior Executive Officer of the Company</p> <p>March 2008      General Manager of AV Headquarters of the Company</p> <p>June 2008        Director of the Company; President and CEO of the Company</p> <p>June 2010        Representative Director of the Company; President and CEO of the Company</p> <p>January 2014    Director of the Company; Vice Chairman of the Company</p> <p>October 2014    Representative Director of the Company; (To date) President and CEO of the Company (To date)</p>	15,400 shares
3.	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. (To date)</p> <p>June 2012        Outside Corporate Auditor of Oriental Chain Mfg. Co., Ltd. (To date)</p> <p>(Vice President and Director of T.P.S. Laboratory Co., Ltd.)</p> <p>(Outside Director of THE SAILOR PEN CO., LTD.)</p> <p>(Outside Corporate Auditor of Oriental Chain Mfg. Co., Ltd.)</p>	100 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
4.	Joji Okada (August 27, 1954)	<p>April 1977      Joined Hitachi, Ltd.</p> <p>April 1990      Chief Engineer, Hitachi, Ltd.</p> <p>April 1999      General Manager of Development Office, System LSI Business Dept. and Semiconductor Group of Hitachi, Ltd.</p> <p>April 2003      General Manager of Global Marketing Dept. of Renesas Technology Corp.</p> <p>February 2004   Representative Director of Applause Technologies Co., Ltd.</p> <p>December 2005   Joined the Company</p> <p>April 2007      Executive Manager of Development &amp; Technology Headquarters of the Company</p> <p>October 2009   Officer and Deputy General Manager of Development &amp; Technology Headquarters of the Company</p> <p>June 2010      Director of the Company (To date)</p> <p>June 2011      Officer and General Manager of Development &amp; Technology Headquarters of the Company</p> <p>June 2014      Officer, General Manager of Development &amp; Technology Headquarters and General Manager of Intellectual Property Rights Headquarters of the Company (To date)</p>	500 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
5.	Candidate for Outside Director  Yoshiaki Bannai (August 3, 1954)	<p>April 1979      Joined TDK Corporation</p> <p>June 2000      President and Representative Director of Terra Logic Japan Inc. (renamed Zoran Japan Corporation in August 2003)</p> <p>June 2005      Country General Manager; and Vice President in charge of Japan area Sales &amp; Marketing of Zoran Corporation (U.S.A.)</p> <p>January 2012    Advisor of the Company</p> <p>June 2012      Outside Director of the Company (To date)</p> <p>July 2012      President and Representative Director of Be.com corporation (To date)</p> <p>(President and Representative Director of Be.com corporation)</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
6.	Tetsuhiro Maeda (July 4, 1954)	<p>April 1980      Joined Sanyo Electric Co., Ltd.</p> <p>October 1998    General Manager of Technical Engineering Dept., Personnel Communication Business Div. of Sanyo Electric Co., Ltd.</p> <p>April 2002      Managing Director of Sanyo Telecommunications Co., Ltd.</p> <p>April 2005      Vice President, Telecom Company of Sanyo Electric Co., Ltd.</p> <p>April 2006      Executive Officer of Sanyo Electric Co., Ltd.</p> <p>April 2008      Executive Officer and General Manager of Solar Business Div. of Sanyo Electric Co., Ltd.</p> <p>April 2011      Managing Executive Officer of Sanyo Electric Co., Ltd.</p> <p>August 2012     Joined the Company</p> <p>January 2013    Executive Manager of Strategic Technology Department, Development Technology Headquarters of the Company</p> <p>April 2013      Officer and General Manager of Business Department, New Business Div. of the Company</p> <p>April 2014      Officer and General Manager of Corporate Planning Div. and General Manager of Business Department, New Business Div. of the Company (To date)</p> <p>October 2014    Representative Director of the Company (To date)</p>	- share

- (Notes)
1. None of the candidates for Director has any special interests with the Company.
  2. Candidates for Directors, Messrs. Mitsuo Yonemoto and Yoshiaki Bannai, are candidates for outside Director.
  3. Reasons for the selection of the candidates for outside Director:  
Management has judged that Mr. Mitsuo Yonemoto will be able to offer advice based on his broad experience as a management consultant.  
  
Management has judged that Mr. Yoshiaki Bannai will be able to use his broad knowledge and experience in corporate management and the creation of new businesses.
  4. Years of service of outside Directors of the Company:  
  
Mr. Mitsuo Yonemoto will have served as outside Director for 17 years at the close of this Ordinary General Meeting of Shareholders.

Mr. Yoshiaki Bannai will have served as outside Director for three years 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 agreements:

The Company has entered into an agreement with each of outside Directors Mr. Mitsuo Yonemoto and Mr. Yoshiaki Bannai 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 agreements will be renewed.

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

On the condition that Proposition No. 1 “Partial amendments to the Articles of Incorporation” is approved and adopted as proposed, the Company will make a shift to a company with Audit and Supervisory Committee. Hence, it is hereby proposed that three (3) Directors who are Audit and Supervisory Committee Members be elected.

This proposition shall become effective subject to Proposition No. 1 “Partial amendments to the Articles of Incorporation” becoming effective as proposed.



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
2.	[New]  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 (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  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>	- share

- (Notes)
1. None of the candidates for Director have any special interests with the Company.
  2. Candidates for Director, Messrs. Shinichi Komeda, Masahide Morimoto and Hiroyuki Makiura, are candidates for outside Director.
  3. Reasons for the selection of the candidates for outside Director:  

Management has judged that Messrs. Shinichi Komeda, Masahide Morimoto and Hiroyuki Makiura, who have long engaged in corporate management, will be able to use their capabilities and knowledge for the audit systems of the Company.
  4. Years of service of Corporate Auditors:  

Messrs. Shinichi Komeda and Masahide Morimoto, who are currently outside Corporate Auditors of the Company, will have served as Corporate Auditors for five years at the close of this Ordinary General Meeting of Shareholders, respectively.
  5. Designation of independent officer:  

The Company has designated Mr. Shinichi Komeda 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 agreements:  

The Company has entered into an agreement with each of outside Corporate Auditors Mr. Shinichi Komeda and Mr. Masahide Morimoto 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 Messrs. Shinichi Komeda, Masahide Morimoto and Hiroyuki Makiura are elected as Directors who are Audit and Supervisory Committee Members, the Company will enter into limited liability agreements with the same content with the aforementioned with them.

**Proposition No. 4:** Election of one (1) Substitute Director who is an Audit and Supervisory Committee Member

On the condition that Proposition No. 1 “Partial amendments to the Articles of Incorporation” is approved and adopted as proposed, the Company will make a shift to a company with Audit and Supervisory Committee. Hence, 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.

This proposition shall become effective subject to Proposition No. 1 “Partial amendments to the Articles of Incorporation” becoming effective as proposed.

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

Name (Date of birth)	Brief history (and important concurrent office)	Number of shares of the Company held by Candidate
Candidate for alternate outside Director  Yoshiaki Bannai (August 3, 1954)	April 1979	- share
	June 2000	
	June 2005	
	January 2012	
	June 2012	
	July 2012	

(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. Yoshiaki Bannai, is a candidate for substitute outside Director.

3. Reasons for the selection of the candidate to substitute outside Director:

Management has judged that Mr. Yoshiaki Bannai, who has long engaged in corporate management, will be able to use his capabilities and knowledge for the audit systems of the Company.

When Proposition No. 2 is approved and adopted as proposed, he will assume the office of Director who is not a Director serving on the Audit and Supervisory Committee. In case of any vacancy in the statutory number of Directors who are Audit and Supervisory Committee Members, he will resign from the office of Director who is not a Director serving on the Audit and Supervisory Committee and assume the office of Director who is an Audit and Supervisory Committee Member

4. Conclusion of limited liability agreements:

When Mr. Yoshiaki Bannai assumes the office of Director who is an Audit and Supervisory Committee Member, 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. 5:** Setting of the amount of remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members)

The amount of remuneration, etc. for Directors of the Company has been fixed at no more than ¥550 million per year (including the amount of ¥30 million of remuneration, etc. for outside Directors per year) since it was approved at the 58th Ordinary General Meeting of Shareholders held on June 22, 2010. On the condition that Proposition No. 1 “Partial amendments to the Articles of Incorporation” is approved and adopted as proposed, the Company will make a shift to a company with Audit and Supervisory Committee. Hence, in accordance with Article 361, paragraphs 1 and 2 of the Companies Act, it is hereby proposed that the current cap on the amount of remuneration for Directors be abolished and that the amount of remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members; the same applies hereinafter in this proposition) be no more than ¥550 million per year (including the amount of ¥30 million of remuneration, etc. for outside Directors per year) in consideration of the economic conditions and various other factors.

The amount of remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members) shall not include wages for employees who are concurrently serving as Directors.

Currently, the Company has six Directors (including two outside Directors). Upon the approval and adoption of Proposition No. 1 and Proposition No. 2 as proposed, there will be six Directors (including two outside Directors) (excluding Directors who are Audit and Supervisory Committee Members).

This proposition shall become effective subject to Proposition No. 1 “Partial amendments to the Articles of Incorporation” becoming effective as proposed.

**Proposition No. 6:** Setting of the amount of remuneration, etc. for Directors who are Audit and Supervisory Committee Members

On the condition that Proposition No. 1 “Partial amendments to the Articles of Incorporation” is approved and adopted as proposed, the Company will make a shift to a company with Audit and Supervisory Committee. Hence, in accordance with Article 361, paragraphs 1 and 2 of the Companies Act, it is hereby proposed that the amount of remuneration, etc. for Directors who are Audit and Supervisory Committee Members be no more than ¥40 million per year in consideration of the economic conditions and various other factors.

Upon the approval and adoption of Proposition No. 1 and Proposition No. 3 as proposed, there will be three Directors who are Audit and Supervisory Committee Members (including three outside Directors).

This proposition shall become effective subject to Proposition No. 1 “Partial amendments to the Articles of Incorporation” becoming effective as proposed.

**Proposition No. 7:** Granting retirement benefits to the retiring Corporate Auditors

On the condition that Proposition No. 1 “Partial amendments to the Articles of Incorporation” is approved and adopted as proposed, the Company will make a shift to a company with Audit and Supervisory Committee, and upon the amendment to the Articles of Incorporation becoming effective, all three Corporate Auditors will retire due to the expiration of the term of office. Hence, it is hereby proposed that retirement benefits be granted to Messrs. Hiromu Ishizaki, Shinichi Komeda and Masahide Morimoto, who will retire as Corporate Auditors at the close of this Ordinary General Meeting of Shareholders, in appreciation of services rendered by them while in office, within the extent of a reasonable amount in accordance with the established standards of the Company and that determination of the actual amount, the time and method of presentation, etc. be left to the consultation among the Directors who are Audit and Supervisory Committee Members.

This proposition shall become effective subject to Proposition No. 1 “Partial amendments to the Articles of Incorporation” becoming effective as proposed.

The brief histories of the retiring Corporate Auditors are as follows:

Name	Brief history
Hiromu Ishizaki	June 2012 Corporate Auditor of the Company (To date)
Shinichi Komeda	June 2010 Outside Corporate Auditor of the Company (To date)
Masahide Morimoto	June 2010 Outside Corporate Auditor of the Company (To date)

- END -