

# Financial Section

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# Five-Year Summary of Operations

Pioneer Corporation and Subsidiaries  
Years ended March 31

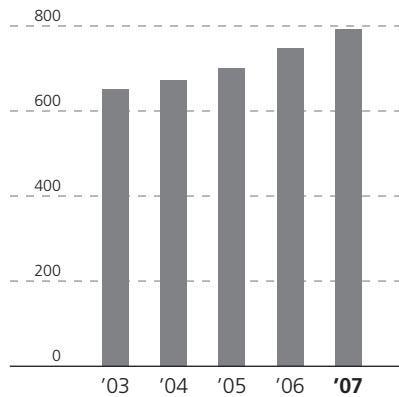
In millions of yen and thousands of U.S. dollars	Yen					U.S. Dollars
	2003	2004	2005	2006	2007	2007
<b>Operating revenue:</b>						
Net sales	¥652,244	¥672,928	¥700,805	¥746,424	<b>¥792,441</b>	<b>\$6,715,602</b>
Royalty revenue	12,584	11,821	10,237	8,540	<b>4,661</b>	<b>39,500</b>
Total operating revenue	664,828	684,749	711,042	754,964	<b>797,102</b>	<b>6,755,102</b>
Income (loss) from continuing operations	15,029	19,464	(10,112)	(85,758)	<b>(9,536)</b>	<b>(80,814)</b>
Income from discontinued operations, net of tax	1,049	5,374	1,323	772	<b>2,775</b>	<b>23,517</b>
Net income (loss)	¥ 16,078	¥ 24,838	¥ (8,789)	¥ (84,986)	<b>¥ (6,761)</b>	<b>\$ (57,297)</b>
<b>Basic net income (loss) per share of common stock (yen):</b>						
Income (loss) from continuing operations	¥84.35	¥110.95	¥(57.65)	¥(491.66)	<b>¥(54.67)</b>	<b>\$(0.46)</b>
Income from discontinued operations, net of tax	5.89	30.63	7.54	4.43	<b>15.91</b>	<b>0.13</b>
Net income (loss)	90.24	141.58	(50.11)	(487.23)	<b>(38.76)</b>	<b>(0.33)</b>
<b>Diluted net income (loss) per share of common stock (yen):</b>						
Income (loss) from continuing operations	84.35	110.09	(57.65)	(491.66)	<b>(54.67)</b>	<b>(0.46)</b>
Income from discontinued operations, net of tax	5.89	30.43	7.54	4.43	<b>15.91</b>	<b>0.13</b>
Net income (loss)	90.24	140.52	(50.11)	(487.23)	<b>(38.76)</b>	<b>(0.33)</b>
Cash dividends per share declared (yen)	¥17.50	¥ 25.00	¥ 25.00	¥ 10.00	<b>¥ 10.00</b>	<b>\$ 0.08</b>
Capital expenditures	¥ 40,493	¥ 57,978	¥ 63,866	¥ 40,325	<b>¥ 41,932</b>	<b>\$ 355,356</b>
Depreciation and amortization	36,387	41,047	46,990	46,703	<b>41,127</b>	<b>348,534</b>
Research and development expenses	45,366	51,449	55,858	63,442	<b>59,222</b>	<b>501,881</b>
Total assets	647,029	722,542	725,167	678,046	<b>635,474</b>	<b>5,385,373</b>
<b>Borrowings:</b>						
Short-term borrowings and current portion of long-term debt	30,867	27,837	52,428	30,370	<b>18,605</b>	<b>157,669</b>
Long-term debt	32,196	89,691	81,219	92,970	<b>86,015</b>	<b>728,941</b>
Total borrowings	63,063	117,528	133,647	123,340	<b>104,620</b>	<b>886,610</b>
Common stock	49,049	49,049	49,049	49,049	<b>49,049</b>	<b>415,670</b>
Shareholders' equity	¥318,393	¥332,938	¥332,239	¥273,250	<b>¥268,116</b>	<b>\$2,272,170</b>
Return on assets (%)	2.5	3.6	(1.2)	(12.1)	<b>(1.0)</b>	
Return on equity (%)	4.8	7.6	(2.6)	(28.1)	<b>(2.5)</b>	
Weighted-average number of shares outstanding (in thousands)	178,168	175,433	175,389	174,426	<b>174,419</b>	
Diluted average number of shares outstanding (in thousands)	178,171	176,609	175,389	174,426	<b>174,419</b>	
Number of shares issued (in thousands)	180,064	180,064	180,064	180,064	<b>180,064</b>	
Number of employees	31,555	32,526	33,409	38,826	<b>37,622</b>	

Notes: 1. The U.S. dollar amounts in this report represent translation of Japanese yen, for convenience only, at the rate of ¥118=U.S.\$1.00, the approximate current rate prevailing on March 31, 2007.

2. Basic net income (loss) per share of common stock has been computed based on the weighted-average number of shares outstanding during each fiscal year. Diluted net income (loss) per share of common stock has been computed on the basis that all dilutive warrants and stock options were exercised.
3. Return on assets represents net income (loss) as a percentage of average total assets. Return on equity represents net income (loss) as a percentage of average shareholders' equity.
4. In fiscal 2004 the Company sold subsidiaries in the audio/video software business, in fiscal 2006 sold a subsidiary engaged in the development of cable TV software, and in fiscal 2007 sold subsidiaries involved in the electronic components business. As a result, the operating results of these subsidiaries and the gain on the sales are presented as income from discontinued operations in the consolidated statements of operations in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Corresponding figures for the previous fiscal years have been reclassified accordingly. See Note 4 of notes to consolidated financial statements.
5. In fiscal 2006, the Company changed the standard for counting the number of employees. Contract employees with contract period of less than one year and temporary employees, previously included in the number of employees, have been excluded. Previously reported numbers have been adjusted accordingly.

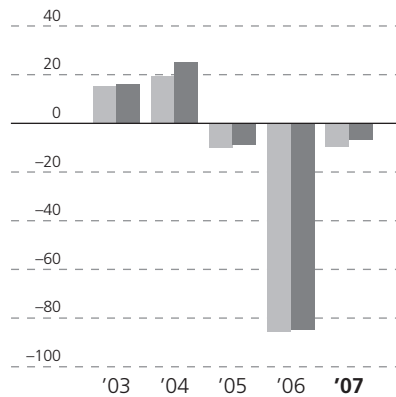
### Operating Revenue

(Billions of Yen)



### Income (Loss)

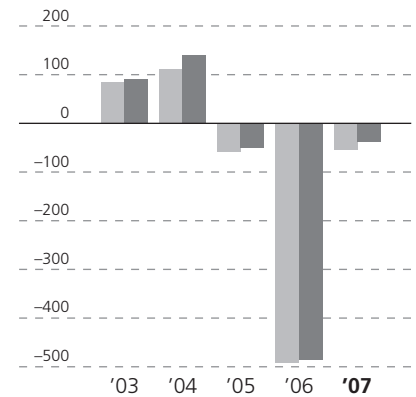
(Billions of Yen)



■ Income (loss) from continuing operations  
■ Net income (loss)

### Income (Loss) per Share

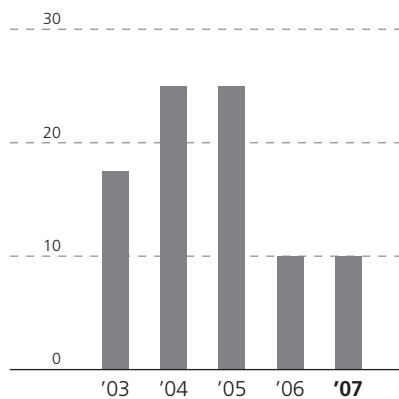
(Yen)



■ Income (loss) from continuing operations per share  
■ Net income (loss) per share

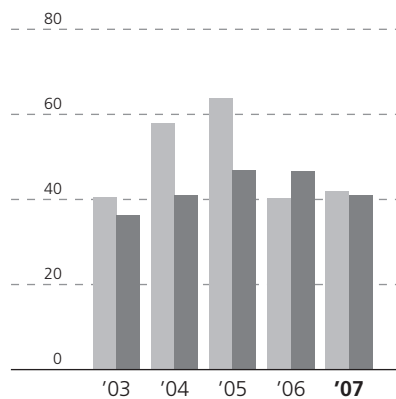
### Cash Dividends per Share

(Yen)



### Capital Expenditures and Depreciation and Amortization

(Billions of Yen)

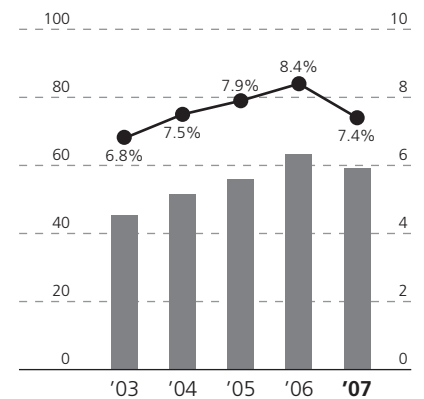


■ Capital expenditures  
■ Depreciation and amortization

### R&D Expenses

(Billions of Yen)

(%)

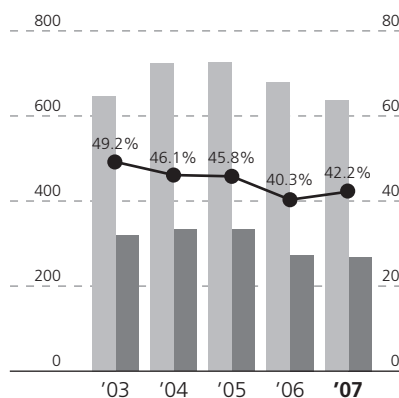


■ R&D expenses  
● As % of operating revenue

### Total Assets and Shareholders' Equity

(Billions of Yen)

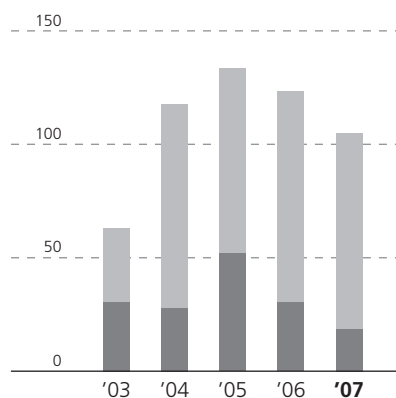
(%)



■ Total assets  
■ Shareholders' equity  
● Shareholders' equity ratio

### Borrowings

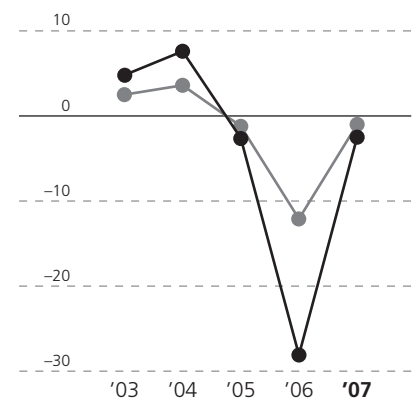
(Billions of Yen)



■ Short-term borrowings and current portion of long-term debt  
■ Long-term debt

### ROA and ROE

(%)



● Return on assets  
● Return on equity

# Financial Review

Year ended March 31, 2007, compared  
with year ended March 31, 2006

## Results of Operations

### Operating revenue

Net sales amounted to ¥792.4 billion, a 6.2% increase over fiscal 2006. Net sales in Japan were ¥233.6 billion, up 0.4% from fiscal 2006, and overseas net sales increased 8.8% to ¥558.8 billion. Royalty revenue decreased 45.4% from fiscal 2006 to ¥4.7 billion.

*Home Electronics* net sales increased 3.9% year on year to ¥368.6 billion. In terms of geographic sales, sales in Japan declined 19.7% to ¥65.9 billion due to a drop in OEM (original equipment manufacturing) sales of plasma displays, while overseas sales increased 11.0% to ¥302.8 billion due to increased sales of own-brand plasma displays. Sales of plasma displays declined slightly due to decreased overall OEM sales, despite increased sales of own-brand models in Europe and North America. Plasma display sales accounted for approximately 48% of Home Electronics sales. Meanwhile, sales of DVD drives, DVD-related devices and DJ equipment rose, while sales of DVD recorders fell year on year.

*Car Electronics* sales increased 8.3% year on year to ¥357.8 billion due to higher sales of both car navigation systems and car audio products. In car navigation systems, consumer-market sales rose mainly in Japan and OEM sales also increased mainly in North America. In car audio products, consumer-market sales increased in Central and South America and Russia, while OEM sales declined in North America, but rose in Japan and China. Total OEM sales in this segment accounted for approximately 36% of Car Electronics sales in fiscal 2007. In terms of geographic sales, sales in Japan rose 7.4% to ¥126.3 billion due to increased sales of car navigation systems for the consumer market and car audio products for OEM. Overseas sales increased 8.7% to ¥231.5 billion due mainly to sales growth of car audio products for consumer markets in Central and South America and Russia and OEM car navigation systems in North America.

Royalty revenue from *Patent Licensing* decreased 45.4% year on year to ¥4.7 billion. This decrease was attributable to the impact of the expiration of some patents licensed to the optical disc industry.

Net sales for *Others* rose 7.8% year on year to ¥66.0 billion. This mainly reflected higher sales of factory automation systems and passive-matrix organic light-emitting diode ("OLED") displays, despite lower sales of speaker units for cellular phones. In terms of geographic sales, sales in Japan increased 24.9% to ¥41.5 billion due to higher sales of both factory automation systems and OLED displays, while overseas sales were down 12.4% at ¥24.5 billion due to declining sales of speaker units for cellular phones.

### Other income

Other income includes interest income, gain on sale of fixed assets and others. Interest income increased from ¥2.7 billion to ¥5.9 billion mainly due to increase of interest rates. While gain on sale of fixed assets increased, others decreased from ¥6.8 billion to ¥2.3 billion due mainly to a decrease in the gain on sale of available-for-sale securities.

### Cost and expenses

*Cost of sales* increased to ¥614.4 billion from fiscal 2006's ¥593.2 billion. Cost of sales for fiscal 2007 represented 77.1% of operating revenue, down by 1.5 percentage points from 78.6% for fiscal 2006. This decrease is chiefly due to the benefits of business restructuring measures. Particularly, profitability of Home Electronics products such as plasma displays was improved.

#### *Selling, general and administrative ("SGA") expenses*

decreased by ¥8.0 billion to ¥170.2 billion from fiscal 2006's ¥178.1 billion. This decrease is due mainly to the effect of restructuring. In fiscal 2006, as a part of our efforts to improve business performance, 12 Pioneer group companies, including Pioneer Corporation (the "parent company"), implemented voluntary incentive-based early retirement programs. As a result of these programs, 777 employees retired and payroll expenses included in SGA expenses and cost of sales decreased.

*R&D expenses*, which are included in cost of sales and SGA expenses, decreased 6.7% to ¥59.2 billion, representing 7.4% of operating revenue. R&D expenses are mostly spent for activities to enhance our technological advantage in our strategic products such as car navigation systems and plasma displays.

*Loss on sale and disposal of fixed assets* decreased by ¥1.3 billion. The decrease was attributable mainly to losses recorded in fiscal 2006 for disposal of production facilities for the purpose of improving production efficiencies, mainly in OLED products and plasma display panels.

*Other deductions* decreased from ¥60.0 billion to ¥25.5 billion. The decrease is mainly due to ¥41.4 billion impairment losses and special termination benefits of ¥14.1 billion recognized in fiscal 2006 related to restructuring. During fiscal 2007, we reviewed the production facilities for plasma displays and DVD-related products because of a decline in profitability. As a result of the review, impairment losses of ¥20.4 billion in assets for plasma displays and ¥2.3 billion in those for DVD-related products were recognized as the excess of the carrying value of the asset group over the estimated fair value of the asset group.

#### **Loss from continuing operations before income taxes**

As a result of factors discussed above, we posted a ¥7.7 billion loss before income taxes in fiscal 2007, compared with a loss of ¥71.2 billion in fiscal 2006.

#### **Income taxes**

In fiscal 2007, the provision for income taxes was ¥1.8 billion against a ¥7.7 billion loss before taxes. The relationship between loss before taxes and tax expense was distorted primarily due to a valuation allowance set up for deferred tax assets of the parent company and certain subsidiaries which posted losses.

#### **Minority interest in losses (earnings) of subsidiaries**

Minority interest in earnings of subsidiaries, which primarily consists of the earnings of Tohoku Pioneer Corporation, a subsidiary in Japan, and its subsidiaries attributable to its minority shareholders, amounted to ¥0.4 billion in fiscal 2007 compared with losses of ¥4.8 billion in fiscal 2006.

#### **Equity in earnings (losses) of affiliated companies**

Equity in earnings of affiliated companies was ¥0.3 billion in fiscal 2007, compared with losses of ¥24.0 billion in fiscal 2006. The improvement is mainly attributable to the assumption of debt amounting to ¥25.3 billion incurred by ELDis, Inc. in fiscal 2006, as a result of the decision to withdraw from the thin film transistor substrate business which had been carried out by ELDis, Inc.

#### **Income from discontinued operations, net of tax**

In fiscal 2007, we sold subsidiaries involved in the electronic components business, while in fiscal 2006, sold a subsidiary engaged in the development of cable TV software. As a result, the operating results of these subsidiaries and the gain on the sales are presented as income from discontinued operations. Income from discontinued operations, net of tax, for fiscal 2007 and 2006 was ¥2.8 billion and ¥0.8 billion, respectively.

#### **Net loss**

Net loss in fiscal 2007 was ¥6.8 billion, compared with net loss of ¥85.0 billion posted in fiscal 2006. Net loss per share of common stock in fiscal 2007 was ¥38.76, compared with net loss per share of ¥487.23 in fiscal 2006.

## Liquidity and Capital Resources

### Cash flows

Net cash provided by operating activities in fiscal 2007 was ¥16.8 billion, a decrease of ¥51.6 billion compared to fiscal 2006. Changes in operating assets and liabilities were the primary cause for the decreased cash flows from operating activities. Among operating assets and liabilities, accounts payable decreased due mainly to lower production volume of plasma displays in the fourth quarter of fiscal 2007. In addition, accrued liabilities decreased due mainly to the payments of accrued special retirement expenses. Decreases in non-cash expenses, such as equity in losses of affiliated companies and impairment losses of fixed assets, were also the cause for the decrease. In fiscal 2006, we recorded assumption of debt amounting to ¥25.3 billion incurred by ELDis, Inc. Because of these factors, cash flows from operating activities decreased despite decreased net loss.

Net cash used in investing activities was ¥16.5 billion for fiscal 2007, a decrease of ¥13.3 billion compared to ¥29.8 billion in fiscal 2006. The decrease was mainly due to an advance of ¥14.1 billion for the sale of land and buildings at the Tokorozawa and Omori Plants and proceeds of ¥10.9 billion from the sale of subsidiaries in fiscal 2007, which more than offset a substantial decline in the proceeds from sales of securities recorded in fiscal 2006.

Net cash used in financing activities was ¥21.7 billion, a decrease of ¥16.9 billion compared to ¥38.6 billion in fiscal

2006. In fiscal 2007, cash was used primarily for reducing long-term debt, short-term borrowings and the payment of dividends. ¥17.0 billion cash was used for repayments of long-term debt and short-term borrowings. Cash used in dividend payments amounted to ¥1.3 billion.

As a result of these activities and the effect of changes in exchange rates on cash and cash equivalents of overseas subsidiaries, cash and cash equivalents decreased by ¥19.9 billion to ¥101.8 billion at the end of fiscal 2007, from ¥121.7 billion at the end of fiscal 2006.

### Capital requirements

Our requirements for operating capital primarily are for the purchase of raw materials and parts for manufacturing our products. Also, operating expenses, including manufacturing expenses and SGA expenses, require a substantial amount of operating capital. Payroll and payroll-benefits, and marketing expenses, such as those for advertising and sales promotion, account for a significant portion of operating expenses. Our expenditure for R&D is included in various operating expenses, and payroll for R&D-related personnel accounts for a substantial portion of R&D expenses.

We believe that our ability to generate positive operating cash flows and liquidity discussed in the following financial management section provides sufficient resources to fund future operating capital requirements and capital expenditures.

## Financial management

At present, funds required for operating capital and capital expenditures are generally financed through internally generated cash and debt or equity financing. With regard to debt financing, short-term debt financing with maturities of one year or less is utilized to fund operating capital requirements. Short-term borrowing is generally arranged locally by each consolidated subsidiary based on its capital requirements. At March 31, 2007, short-term borrowings of ¥12.0 billion were principally in Japanese yen and euro. On the other hand, financing of long-term funding requirements such as investments in production facilities through debt and equity securities markets are arranged in Japan, and long-term borrowing from financial institutions is arranged locally by each consolidated subsidiary. At March 31, 2007, substantially all of the long-term debt of ¥92.6 billion, including the portion due within one year, was comprised of ¥61.2 billion of zero coupon convertible bonds due 2011 including ¥1.2 billion unamortized issue premium, ¥10.0 billion of unsecured bonds due 2008, and capital lease obligations and other loans arranged locally.

We believe that our financial position is sound and also we believe we have an ability to generate positive operating cash flows. Accordingly, together with uncommitted and unused credit lines of ¥264.4 billion, we believe we have sufficient resources to fund future requirements for operating capital and for capital expenditures to sustain the growth of Pioneer. Also, the parent company and its four subsidiaries in Japan and China entered into a three-year global credit facility agreement for the amount of ¥70.0 billion, which includes ¥67.0 billion unused portion included in the abovementioned unused credit lines, effective from May 2005. This will ensure that these companies in Japan and China have an efficient and stable financing source for their operational funding needs.

## Contractual obligations and off-balance sheet arrangements

The following summarizes our contractual obligations at March 31, 2007:

	Billions of Yen				
	Total	Payment Due by Period			
		Less than 1 year	1–3 years	3–5 years	More than 5 years
Contractual obligations:					
Long-term debt	¥91.4	¥ 6.6	¥16.9	¥66.4	¥1.5
Operating leases	10.5	3.2	3.9	1.6	1.8
Purchase commitment	35.5	35.5	–	–	–
Interest payments	3.3	1.1	1.6	0.6	–
Contribution to defined benefit plans	7.1	7.1	–	–	–

- Notes: 1. Total long-term debt of ¥91.4 billion does not include a ¥1.2 billion unamortized issue premium on convertible bonds.  
 2. Long-term debt includes capital lease obligations.  
 3. The amount that we will contribute under our defined pension plans is based on a number of factors, primarily rate of salary increase and the number of employees. As such, we have estimated the amount of such contribution for the year ending March 31, 2008 but not for the years thereafter.

The ¥35.5 billion purchase commitment outstanding at March 31, 2007 was for raw materials, property, plant and equipment and advertising. This included a part of our ¥47.0 billion capital expenditures plan for fiscal 2008.

We provide guarantees covering a nine-month period to third parties who provide loans to our affiliated companies. If our affiliated companies were to default on a payment within the contract period of nine months, we would have to pay the guaranteed amount. The maximum potential amount of undiscounted future payments we could be required to make under the guarantee is ¥0.2 billion at March 31, 2007.

We have the following accounts receivable securitization programs. In the United States of America, we have established PUSA Receivables Funding Corporation, a wholly-owned, bankruptcy-remote, special-purpose entity and established an accounts receivable securitization program of eligible trade accounts receivable. A bankruptcy-remote subsidiary is a company that has been structured so as to make it highly unlikely that it would be drawn into a bankruptcy of any Pioneer group companies. Through this program, we can securitize and sell, without recourse, on a revolving basis, an undivided interest up to \$100 million in that pool of receivables to third-party conduits owned by a bank. These securitization transactions are accounted for as sales in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," because we have surrendered control over the receivables. We sold a total of ¥18.7 billion of receivables under this program in fiscal 2007. In Japan, we set up several accounts receivable sales programs of eligible trade accounts receivable. Through these programs, we can sell receivables, without recourse, to financial institutions. These transactions are accounted for as sales in accordance with SFAS No. 140, because we have surrendered control over the receivables. We sold a total of ¥11.7 billion of receivables under this program in fiscal 2007.

We utilize these programs to diversify our options to increase the flexibility of our cash flow control. Our cash flow management would not be critically effected without these programs.

## Segment Information

The following segment information is prepared pursuant to the regulations under the Securities and Exchange Law of Japan and is not in accordance with accounting principles generally accepted in the United States of America.

In fiscal 2006, the Company sold a subsidiary engaged in the development of cable TV software, and in fiscal 2007, sold

subsidiaries involved in the electronic components business. As a result, the operating results of these subsidiaries and the gain on the sales are presented as income from discontinued operations in the consolidated statements of operations. Segment information has been reclassified to conform to this presentation. See also Note 4 of notes to consolidated financial statements.

### Business segments

	Millions of Yen					
<b>Year ended March 31, 2007</b>	Home Electronics	Car Electronics	Patent Licensing	Others	Corporate and Eliminations	Consolidated
Operating revenue:						
Unaffiliated customers	¥368,622	¥357,809	¥4,661	¥ 66,010	-	¥797,102
Inter-segment	824	1,993	762	34,277	¥ (37,856)	-
Total	<b>369,446</b>	<b>359,802</b>	<b>5,423</b>	<b>100,287</b>	<b>(37,856)</b>	<b>797,102</b>
Operating income (loss)	<b>(16,236)</b>	<b>22,116</b>	<b>3,924</b>	<b>2,875</b>	<b>(192)</b>	<b>12,487</b>
Identifiable assets	<b>160,538</b>	<b>187,558</b>	<b>464</b>	<b>78,074</b>	<b>208,840</b>	<b>635,474</b>
Depreciation and amortization	<b>15,745</b>	<b>11,671</b>	<b>126</b>	<b>7,606</b>	<b>5,979</b>	<b>41,127</b>
Capital expenditures (additions to fixed assets)	<b>¥ 23,344</b>	<b>¥ 14,576</b>	<b>¥ 89</b>	<b>¥ 6,515</b>	<b>¥ 3,327</b>	<b>¥ 47,851</b>

	Millions of Yen					
Year ended March 31, 2006	Home Electronics	Car Electronics	Patent Licensing	Others	Corporate and Eliminations	Consolidated
Operating revenue:						
Unaffiliated customers	¥354,690	¥330,522	¥ 8,540	¥61,212	-	¥754,964
Inter-segment	2,123	1,579	2,048	37,645	¥ (43,395)	-
Total	356,813	332,101	10,588	98,857	(43,395)	754,964
Operating income (loss)	(35,184)	17,486	7,217	(3,991)	(1,937)	(16,409)
Identifiable assets	177,367	169,338	1,474	74,326	255,541	678,046
Depreciation and amortization	20,654	11,511	963	8,532	4,897	46,557
Capital expenditures (additions to fixed assets)	¥ 16,317	¥ 12,214	¥ 60	¥ 8,462	¥ 1,973	¥ 39,026

Note: Operating income (loss) is presented as operating revenue less cost of sales and selling, general and administrative expenses, in accordance with accounting practices generally accepted in Japan.

## Geographic segments

Millions of Yen

### Year ended March 31, 2007

	Japan	North America	Europe	Other Regions	Corporate and Eliminations	Consolidated
Operating revenue:						
Unaffiliated customers	¥276,034	¥203,198	¥179,730	¥138,140	–	¥797,102
Inter-area	356,696	5,716	308	212,291	¥(575,011)	–
Total	632,730	208,914	180,038	350,431	(575,011)	797,102
Operating income (loss)	(941)	423	4,945	6,580	1,480	12,487
Identifiable assets	225,645	48,327	73,520	125,809	162,173	635,474
Depreciation and amortization	23,972	2,079	1,822	7,275	5,979	41,127
Capital expenditures (additions to fixed assets)	¥ 29,632	¥ 1,857	¥ 1,032	¥ 12,003	¥ 3,327	¥ 47,851

Millions of Yen

### Year ended March 31, 2006

	Japan	North America	Europe	Other Regions	Corporate and Eliminations	Consolidated
Operating revenue:						
Unaffiliated customers	¥270,771	¥196,809	¥163,361	¥124,023	–	¥754,964
Inter-area	333,878	6,161	341	209,919	¥(550,299)	–
Total	604,649	202,970	163,702	333,942	(550,299)	754,964
Operating income (loss)	(25,832)	3,368	3,519	3,697	(1,161)	(16,409)
Identifiable assets	245,695	43,317	65,071	119,273	204,690	678,046
Depreciation and amortization	28,966	3,109	2,180	7,405	4,897	46,557
Capital expenditures (additions to fixed assets)	¥ 25,961	¥ 1,346	¥ 1,097	¥ 8,649	¥ 1,973	¥ 39,026

Notes: 1. Geographic segment information is based on the location of the parent company and its subsidiaries.

2. Operating income (loss) is presented as operating revenue less cost of sales and selling, general and administrative expenses, in accordance with accounting practices generally accepted in Japan.

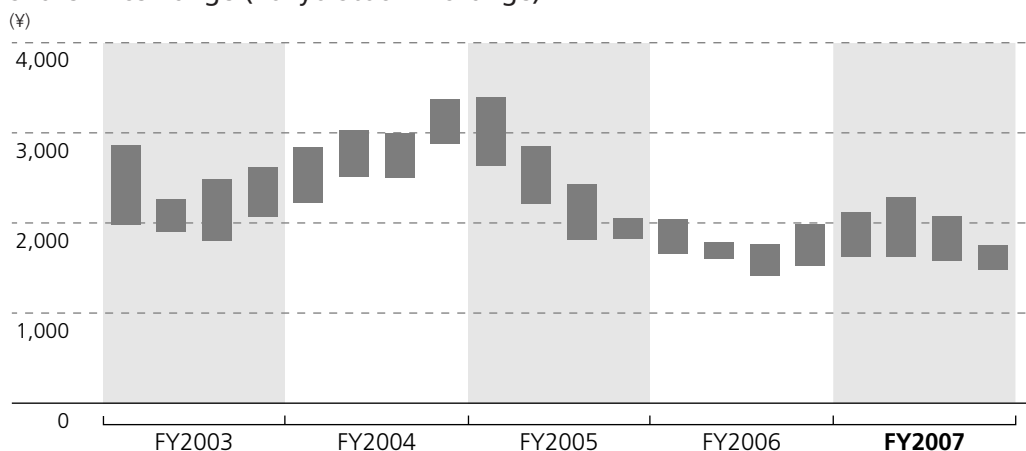
# Quarterly Information (Unaudited)

Pioneer Corporation and Subsidiaries

In millions of yen except per share information and share prices	Year ended March 31, 2006				Year ended March 31, 2007			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
<b>Revenues and other income:</b>								
Operating revenue:								
Net sales	¥158,073	¥175,726	¥214,983	¥197,642	¥190,415	¥188,143	¥214,252	¥199,631
Royalty revenue	1,123	4,162	1,977	1,278	1,261	500	349	2,551
Total operating revenue	159,196	179,888	216,960	198,920	191,676	188,643	214,601	202,182
Other income	4,086	3,225	1,159	977	1,804	2,097	3,031	2,442
Total revenues and other income	163,282	183,113	218,119	199,897	193,480	190,740	217,632	204,624
Cost and expenses	169,954	220,594	214,243	230,785	185,476	186,120	212,151	230,446
Income (loss) from continuing operations before income taxes	(6,672)	(37,481)	3,876	(30,888)	8,004	4,620	5,481	(25,822)
Income taxes	(1,588)	(5,347)	2,510	(235)	2,744	3,470	2,634	(7,090)
Minority interest in losses (earnings) of subsidiaries	568	3,601	(241)	846	246	(245)	(406)	1
Equity in earnings (losses) of affiliated companies	(853)	(24,305)	30	1,101	40	(18)	(5)	326
Income (loss) from continuing operations	(5,369)	(52,838)	1,155	(28,706)	5,546	887	2,436	(18,405)
Income from discontinued operations, net of tax	26	137	248	361	116	2,659	–	–
Net income (loss)	¥ (5,343)	¥ (52,701)	¥ 1,403	¥ (28,345)	¥ 5,662	¥ 3,546	¥ 2,436	¥ (18,405)
Basic net income (loss) per share of common stock:								
Income (loss) from continuing operations	¥(30.78)	¥(302.92)	¥6.62	¥(164.58)	¥31.80	¥ 5.09	¥13.97	¥(105.52)
Income from discontinued operations, net of tax	0.15	0.78	1.42	2.07	0.66	15.24	–	–
Net income (loss)	¥(30.63)	¥(302.14)	¥8.04	¥(162.51)	¥32.46	¥20.33	¥13.97	¥(105.52)
Diluted net income (loss) per share of common stock:								
Income (loss) from continuing operations	¥(30.78)	¥(302.92)	¥5.70	¥(164.58)	¥28.87	¥ 4.28	¥12.46	¥(105.52)
Income from discontinued operations, net of tax	0.15	0.78	1.31	2.07	0.61	14.04	–	–
Net income (loss)	¥(30.63)	¥(302.14)	¥7.01	¥(162.51)	¥29.48	¥18.32	¥12.46	¥(105.52)
Share prices on the Tokyo Stock Exchange:								
High	¥2,040	¥1,785	¥1,764	¥1,989	¥2,120	¥2,295	¥2,075	¥1,751
Low	1,655	1,604	1,410	1,530	1,628	1,630	1,586	1,480

Note: In fiscal 2006, the Company sold a subsidiary engaged in the development of cable TV software, and in fiscal 2007 sold subsidiaries involved in the electronic components business. As a result, the operating results of these subsidiaries and the gain on the sales are presented as income from discontinued operations in the consolidated statements of operations.

## Share Price Range (Tokyo Stock Exchange)



# Consolidated Balance Sheets

Pioneer Corporation and Subsidiaries  
March 31

Assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2007	2007
<b>Current assets:</b>			
Cash and cash equivalents—			
Cash, including time deposits of ¥41,342 million— \$350,356 thousand (¥48,211 million in 2006)	¥ 121,680	¥ 101,820	\$ 862,881
Trade receivables—			
Notes	1,729	2,210	18,729
Accounts (Notes 6 and 11)	108,893	118,446	1,003,780
Allowance for doubtful notes and accounts (Note 23)	(3,059)	(2,781)	(23,568)
Inventories (Note 7)	104,226	105,331	892,636
Deferred income taxes (Note 13)	27,802	28,245	239,364
Assets held for sale (Note 4)	25,577	—	—
Prepaid expenses and other current assets	41,824	40,821	345,941
Total current assets	428,672	394,092	3,339,763
<b>Investments and long-term receivables:</b>			
Available-for-sale securities (Note 5)	24,733	22,265	188,686
Investments in and advances to affiliated companies (Note 8)	1,705	1,998	16,932
Sundry investments (Notes 5 and 21)	3,189	2,857	24,212
Long-term receivables, less allowance for doubtful accounts of ¥106 million—\$898 thousand (¥106 million in 2006) (Note 23)	145	99	839
Total investments and long-term receivables	29,772	27,219	230,669
<b>Property, plant and equipment (Note 10):</b>			
Land (Notes 11 and 17)	30,611	33,196	281,322
Buildings (Notes 11 and 17)	119,312	114,727	972,263
Machinery and equipment	243,811	235,779	1,998,127
Construction in progress	1,999	15,035	127,415
Total	395,733	398,737	3,379,127
Accumulated depreciation	(235,502)	(252,262)	(2,137,813)
Net property, plant and equipment	160,231	146,475	1,241,314
<b>Other assets:</b>			
Intangible assets (Note 9)	20,576	18,248	154,644
Deferred income taxes (Note 13)	28,933	37,903	321,212
Other	9,862	11,537	97,771
Total other assets	59,371	67,688	573,627
<b>Total assets</b>	¥ 678,046	¥ 635,474	\$ 5,385,373

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2007	2007
<b>Current liabilities:</b>			
Short-term borrowings (Note 11)	¥ 23,205	¥ 12,028	\$ 101,932
Current portion of long-term debt (Note 11)	7,165	6,577	55,737
Trade payables	102,082	93,351	791,110
Accrued liabilities—			
Taxes on income	6,987	7,674	65,034
Payroll	16,640	16,965	143,771
Royalty	17,579	17,164	145,458
Other	56,656	46,928	397,695
Warranty reserve (Note 23)	6,603	6,843	57,992
Dividends payable	436	872	7,390
Liabilities held for sale (Note 4)	17,863	—	—
Deposit on sales contract (Note 17)	—	14,112	119,593
Other current liabilities	17,076	20,199	171,178
<b>Total current liabilities</b>	<b>272,292</b>	<b>242,713</b>	<b>2,056,890</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 11)	92,970	86,015	728,941
Accrued pension and severance cost (Note 12)	23,475	23,793	201,635
Deferred income taxes (Note 13)	1,718	285	2,415
Other long-term liabilities	232	263	2,229
<b>Total long-term liabilities</b>	<b>118,395</b>	<b>110,356</b>	<b>935,220</b>
<b>Commitments and contingent liabilities</b> (Note 24)			
<b>Minority interests</b>	14,109	14,289	121,093
<b>Shareholders' equity</b> (Note 14):			
Common stock, no par value			
Authorized—400,000,000 shares			
Issued—180,063,836 shares—2006 and 2007	49,049	49,049	415,670
Capital surplus	82,910	82,983	703,246
Retained earnings	173,826	165,321	1,401,025
Accumulated other comprehensive loss (Note 16)	(20,092)	(16,784)	(142,237)
Treasury stock at cost, 5,641,946 shares—2006 and 5,647,513 shares—2007	(12,443)	(12,453)	(105,534)
<b>Total shareholders' equity</b>	<b>273,250</b>	<b>268,116</b>	<b>2,272,170</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥678,046</b>	<b>¥635,474</b>	<b>\$5,385,373</b>

See notes to consolidated financial statements.

# Consolidated Statements of Operations

Pioneer Corporation and Subsidiaries  
Years ended March 31

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2006	2007	2007
<b>Revenues and other income:</b>				
Operating revenue:				
Net sales	¥700,805	¥746,424	¥792,441	\$6,715,602
Royalty revenue	10,237	8,540	4,661	39,500
Total operating revenue	711,042	754,964	797,102	6,755,102
Interest income	1,929	2,658	5,873	49,771
Gain on sale of fixed assets	–	–	1,238	10,492
Others (Notes 5 and 18)	3,424	6,789	2,263	19,178
Total revenues and other income	716,395	764,411	806,476	6,834,543
<b>Cost and expenses:</b>				
Cost of sales (Note 12)	564,457	593,238	614,444	5,207,153
Selling, general and administrative expenses (Note 12)	194,591	178,135	170,171	1,442,127
Subsidy from the government (Note 12)	(48,697)	–	–	–
Interest expense	1,741	1,479	2,622	22,221
Loss on sale and disposal of fixed assets	34	2,704	1,423	12,059
Other deductions (Notes 10, 17 and 18)	6,336	60,020	25,533	216,381
Total cost and expenses	718,462	835,576	814,193	6,899,941
<b>Loss from continuing operations before income taxes</b>	(2,067)	(71,165)	(7,717)	(65,398)
<b>Income taxes (Note 13):</b>				
Current	7,169	8,074	9,180	77,797
Deferred	(2,882)	(12,734)	(7,422)	(62,898)
Total income taxes	4,287	(4,660)	1,758	14,899
<b>Loss from continuing operations before minority interest and equity in earnings (losses)</b>	(6,354)	(66,505)	(9,475)	(80,297)
<b>Minority interest in losses (earnings) of subsidiaries</b>	(690)	4,774	(404)	(3,424)
<b>Equity in earnings (losses) of affiliated companies (Note 8)</b>	(3,068)	(24,027)	343	2,907
Loss from continuing operations	(10,112)	(85,758)	(9,536)	(80,814)
Income from discontinued operations, net of tax (Note 4)	1,323	772	2,775	23,517
<b>Net loss</b>	¥ (8,789)	¥ (84,986)	¥ (6,761)	\$ (57,297)
			Yen	U.S. Dollars
	2005	2006	2007	2007
<b>Basic net income (loss) per share of common stock (Note 22):</b>				
Loss from continuing operations	¥(57.65)	¥(491.66)	¥(54.67)	\$(0.46)
Income from discontinued operations, net of tax	7.54	4.43	15.91	0.13
Net loss	¥(50.11)	¥(487.23)	¥(38.76)	\$(0.33)
<b>Diluted net income (loss) per share of common stock (Note 22):</b>				
Loss from continuing operations	¥(57.65)	¥(491.66)	¥(54.67)	\$(0.46)
Income from discontinued operations, net of tax	7.54	4.43	15.91	0.13
Net loss	¥(50.11)	¥(487.23)	¥(38.76)	\$(0.33)

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Pioneer Corporation and Subsidiaries  
Years ended March 31

	Millions of Yen						
	Number of Shares Issued (Thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at March 31, 2004	180,064	¥49,049	¥82,464	¥273,718	¥(61,829)	¥(10,464)	¥332,938
Comprehensive income (loss):							
Net loss				(8,789)			(8,789)
Other comprehensive income (Note 16)					14,160		14,160
Total comprehensive income							5,371
Value ascribed to stock options (Note 15)			270				270
Cash dividends (¥25.00 per share)				(4,373)			(4,373)
Purchase of treasury stock (Note 14)						(1,979)	(1,979)
Sales of treasury stock			1			11	12
Balance at March 31, 2005	180,064	49,049	82,735	260,556	(47,669)	(12,432)	332,239
Comprehensive income (loss):							
Net loss				(84,986)			(84,986)
Other comprehensive income (Note 16)					27,577		27,577
Total comprehensive loss							(57,409)
Value ascribed to stock options (Note 15)			175				175
Cash dividends (¥10.00 per share)				(1,744)			(1,744)
Purchase of treasury stock (Note 14)						(12)	(12)
Sales of treasury stock						1	1
Balance at March 31, 2006	180,064	49,049	82,910	173,826	(20,092)	(12,443)	273,250
Comprehensive income (loss):							
Net loss				(6,761)			(6,761)
Other comprehensive income (Note 16)					5,091		5,091
Total comprehensive loss							(1,670)
Adjustment to initially apply SFAS No. 158 (Note 12)					(1,783)		(1,783)
Value ascribed to stock options (Note 15)			73				73
Cash dividends (¥10.00 per share)				(1,744)			(1,744)
Purchase of treasury stock (Note 14)						(12)	(12)
Sales of treasury stock						2	2
Balance at March 31, 2007	180,064	¥49,049	¥82,983	¥165,321	¥(16,784)	¥(12,453)	¥268,116

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity	
Balance at March 31, 2006	\$415,670	\$702,627	\$1,473,102	\$(170,271)	\$(105,449)	\$2,315,679	
Comprehensive income (loss):							
Net loss			(57,297)			(57,297)	
Other comprehensive income (Note 16)				43,144		43,144	
Total comprehensive loss						(14,153)	
Adjustment to initially apply SFAS No. 158 (Note 12)				(15,110)		(15,110)	
Value ascribed to stock options (Note 15)		619				619	
Cash dividends (\$0.08 per share)			(14,780)			(14,780)	
Purchase of treasury stock (Note 14)					(102)	(102)	
Sales of treasury stock					17	17	
Balance at March 31, 2007	\$415,670	\$703,246	\$1,401,025	\$(142,237)	\$(105,534)	\$2,272,170	

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Pioneer Corporation and Subsidiaries  
Years ended March 31

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2006	2007	2007
<b>Operating activities:</b>				
Net loss	¥ (8,789)	¥ (84,986)	¥ (6,761)	\$ (57,297)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	46,990	46,703	41,127	348,534
Minority interest in earnings (losses) of subsidiaries	692	(4,773)	404	3,424
Equity in (earnings) losses of affiliated companies, less dividends	3,072	24,031	(329)	(2,788)
Deferred income taxes	(2,846)	(13,056)	(7,422)	(62,898)
Provision for pension and severance cost, less payments	2,463	(2,862)	(3,263)	(27,653)
Loss on sale and disposal of fixed assets, net	40	2,704	185	1,567
Impairment of long-lived assets	4,460	41,422	22,711	192,466
Write-down of available-for-sale securities and sundry investments	51	133	38	322
Gains on sale of available-for-sale securities and sundry investments, net	(2,309)	(5,673)	(1,154)	(9,780)
Gain on sale of discontinued operations	–	(434)	(2,488)	(21,085)
Stock-based compensation expenses	270	175	73	619
Decrease (increase) in trade notes and accounts receivable	(12,322)	19,329	(6,348)	(53,797)
Decrease in inventories	6,317	9,530	4,380	37,119
Decrease (increase) in prepaid expenses and other current assets	(5,051)	(7,898)	1,689	14,314
Increase (decrease) in trade payables	4,405	13,941	(11,841)	(100,347)
Increase (decrease) in accrued taxes on income	(4,473)	2,069	(219)	(1,856)
Increase (decrease) in other accrued liabilities	(5,898)	22,045	(12,225)	(103,602)
Other	(7,126)	5,929	(1,805)	(15,296)
Net cash provided by operating activities	19,946	68,329	16,752	141,966
<b>Investing activities:</b>				
Payment for purchase of fixed assets	(63,866)	(40,325)	(41,932)	(355,356)
Payment for purchase of investment securities	(510)	(6)	(179)	(1,517)
Payment for purchase of available-for-sale securities	–	(1)	(2,478)	(21,000)
Payment for purchase of a subsidiary, net of cash acquired	(34,015)	–	–	–
Payment for other assets	(1,252)	(578)	(253)	(2,144)
Proceeds from sale of fixed assets	2,184	3,049	2,284	19,356
Proceeds from sale of discontinued operations	–	754	10,949	92,788
Proceeds from sale of investment securities	12	282	1,496	12,678
Proceeds from sale of available-for-sale securities	3,091	7,068	28	237
Deposit on sales contract (Note 17)	–	–	14,112	119,593
Other	840	(2)	(495)	(4,194)
Net cash used in investing activities	(93,516)	(29,759)	(16,468)	(139,559)
<b>Financing activities:</b>				
Payment of long-term debt	(6,246)	(26,123)	(7,244)	(61,390)
Increase (decrease) in short-term borrowings	9,025	(8,616)	(12,917)	(109,466)
Purchase of treasury stock (Note 14)	(1,979)	(12)	(12)	(102)
Proceeds from sales of treasury stock	12	1	2	17
Dividends paid	(4,386)	(3,499)	(1,308)	(11,085)
Dividends paid to minority interests	(445)	(302)	(194)	(1,643)
Net cash used in financing activities	(4,019)	(38,551)	(21,673)	(183,669)
Effect of exchange rate changes on cash and cash equivalents	1,851	4,980	1,529	12,957
<b>Net increase (decrease) in cash and cash equivalents</b>	(75,738)	4,999	(19,860)	(168,305)
Cash and cash equivalents, beginning of year	192,419	116,681	121,680	1,031,186
<b>Cash and cash equivalents, end of year</b>	¥116,681	¥121,680	¥101,820	\$ 862,881

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Pioneer Corporation and Subsidiaries

## 1. Basis of presentation and significant accounting policies:

### 1) *Basis of Presentation*

Basis of Financial Statements—

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which Pioneer Corporation (Pioneer Kabushiki Kaisha) (the “parent company”) is incorporated. The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2007 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥118 to U.S.\$1.00, the approximate rate of exchange prevailing at the Tokyo Foreign Exchange Market at March 31, 2007. Such translation should not be construed as a representation that Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (“U.S. GAAP”) concerning the operations of the parent company and its majority-owned subsidiaries (together, the “Company”), except for the omission of segment information as required by Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information.”

The accompanying consolidated financial statements reflect the adjustments which management believes are necessary to conform them with U.S. GAAP. Effect has been given in the consolidated financial statements to adjustments which, because of either customary accounting practices in Japan or income tax law requirements, have not been entered in the Company’s general books of account.

Nature of Operations—

The Company is engaged in the development, manufacture and sale of electronic products. The Company is a leading global manufacturer of consumer- and business-use electronic products such as audio-video, plasma displays, and car electronics.

The principal production activities of the Company are carried out in Asia including Japan, the United States of America, and Europe. The Company’s products are generally sold under its own brand names, principally “Pioneer.” The principal markets for the Company are Japan, the United States of America, Europe and Asia. The Company sells its products to customers in consumer and commercial markets through its sales offices in Japan, and its sales subsidiaries and independent distributors overseas. On an original-equipment-manufacturer basis, the Company markets certain products, such as car electronics products, to other companies.

Use of Estimates—

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of these statements and the reported amounts of revenues and expenses during the reporting period.

Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

### 2) *Summary of Significant Accounting Policies*

Consolidation and Investments in Affiliated Companies—

The consolidated financial statements include the accounts of the parent company and its majority-owned subsidiaries. Investments in 20% to 50% owned companies are accounted for by the equity method of accounting. All significant inter-company transactions have been eliminated.

Foreign Currency Translation—

For all significant foreign operations, the functional currency is the local currency. Generally, all asset and liability accounts of foreign operations are translated into Japanese yen at year-end rates and all revenue and expense accounts are translated at rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated and reported as a component of accumulated other comprehensive income (loss).

Foreign currency assets and liabilities are translated at year-end exchange rates and resulting exchange gains and losses are recognized in earnings currently.

Revenue Recognition—

Sales are generally recorded when merchandise is shipped or delivered to customers. Recognition of sales occurs when the title and risks and rewards of ownership are transferred to customers based on sales contracts. In certain cases, terms of the contract require the product to pass customer inspection after delivery and the Company records the sale upon satisfactory customer acceptance. Royalty revenue, which is based on actual amounts produced or sold by the licensee, is recognized when either a royalty report or payment is received from the licensee, whichever is earlier. Until such time, this revenue is not considered to have met the recognition criterion of being fixed or determinable, nor is collectibility reasonably assured. The Company normally does not accept returns except for warranty issues, noncompliance with purchase order specifications

and returns from end-users to certain dealers. The financial impact of the future returns are estimated and reserved based on historical experience.

Costs incurred by the Company in connection with sales incentives related to the purchase or promotion of the Company's products are classified as a reduction of revenues in accordance with Emerging Issues Task Force ("EITF") Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." Such costs include the estimated cost of promotional discounts, dealer price protection, dealer rebates, consumer rebates, cash discounts, and support for dealers' promotion of the Company's products. Sales incentives that are dependent on future customer performance are estimated and recorded at the later of when the original sale is recorded or when the incentive is offered.

#### Cash and Cash Equivalents—

Cash and cash equivalents include cash on hand and deposits in bank including time deposits. The Company considers all time deposits with an original maturity of one year or less to be cash equivalents. Such time deposits can be withdrawn at any time without diminution of the principal amount.

#### Available-for-Sale Securities—

Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," all debt securities and marketable equity securities held by the Company are classified as available-for-sale securities, and are carried at their fair values with unrealized gains and losses reported in other comprehensive income (loss). The cost of securities is determined using the average-cost method.

The Company reviews the fair value of its available-for-sale securities on a regular basis to determine if the fair value of any individual security has declined below its cost and if such decline is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value and the resulting realized loss is included in the consolidated statements of operations. For such marketable debt and equity securities, we assume the decline is other than temporary when market value is less than cost for a period of six months, or sooner depending on the severity of decline or other factors.

#### Sundry Investments—

Sundry investments are stated at cost. The Company reviews the investments for impairment when the events or changes in circumstances that may have a significant adverse effect on the value of those investments are identified. The investments are written down if the value of investments is estimated to have declined and such decline is other than temporary.

#### Inventories—

Inventories are valued at the lower of cost, which is determined principally by the average-cost method, or market, which is net realizable value. Inventories are reviewed periodically and items considered to be slow moving or obsolete are written down to market.

#### Property, Plant and Equipment and Depreciation—

Property, plant and equipment are stated at cost. Depreciation is computed principally using the declining-balance method for assets located in Japan and under the straight-line method for assets located outside Japan, using rates based on the estimated useful lives of the assets.

The principal ranges of estimated useful lives are as follows:

Buildings	15–65 years
Machinery and equipment	2–10 years

#### Goodwill and Other Intangible Assets—

Under SFAS No. 142, "Goodwill and Other Intangible Assets," acquired goodwill and other intangible assets that are determined to have an indefinite life are no longer amortized. Instead, the carrying values of these assets are reviewed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets that are determined to have a definite life are amortized over their estimated useful lives. At March 31, 2007, the Company had no goodwill. Amortization of intangible assets with definite lives is computed using the straight-line method with no residual value. The cost of patents is amortized principally over seven years and software is amortized principally over two to five years.

#### Long-Lived Assets—

Under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. For the purpose of assessment of an impairment loss, the Company groups long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. When the sum of expected future cash flows is less than the carrying amount of the asset group, an impairment loss is recognized. Such impairment loss is measured as the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

#### Warranty Reserve—

The Company engages in extensive product quality programs and processes including actively monitoring and evaluating the quality of component suppliers. The Company's warranty obligation is affected by product failure rates and service costs incurred in correcting product failure. The Company provides for the estimated cost of product warranties at the time revenue is recognized. These estimates are established using historical information.

#### Long-Term Debt—

Premiums and issuance costs of long-term debt are amortized over the term of long-term debt using the interest method.

#### Income Taxes—

Income taxes are provided based on the asset and liability method of accounting. Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at year-end. These deferred taxes are measured by applying currently enacted tax laws. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that all, or some portion, of such deferred tax assets will not be realized.

#### Research and Development Costs and Advertising Costs—

Research and development costs and advertising costs are expensed as incurred.

#### Shipping and Handling Costs—

Shipping and handling costs totaled ¥12,502 million, ¥16,512 million and ¥16,449 million (\$139,398 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

#### Accounting for Stock-Based Compensation—

The Company accounted for its stock-based compensation agreements using the fair value based method in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." The Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," during the year ended March 31, 2007. The adoption did not have a material impact on the Company's consolidated statements of operations or financial position.

#### Net Income (Loss) per Share—

Basic net income (loss) per share has been computed by dividing net income (loss) available to holders of common stock by the weighted-average number of shares of common stock outstanding during each year. Diluted net income (loss) per share reflects the potential dilution and has been computed on the basis that all dilutive potential common stocks were exercised.

#### Derivatives—

Derivative financial instruments utilized by the Company are comprised principally of forward exchange contracts, currency options and currency swaps. Forward exchange contracts and currency options, the majority of which mature within six months, and currency swaps, which mature from 2007 to 2008, are utilized to hedge exposures to foreign exchange risk and interest risk. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133," and by SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities." Under SFAS No. 133, all derivative instruments are recognized in the balance sheet at their fair values and changes in fair value are recognized immediately in earnings, unless the derivatives qualify as hedges of future cash flows. For derivatives

qualifying as hedges of future cash flows, the effective portion of changes in fair value is recorded in other comprehensive income, then recognized in earnings along with the related effects of the hedged items. Any ineffective portion of hedges is reported in earnings as it occurs.

Forward exchange contracts and currency swaps are utilized to hedge certain foreign currency and interest rate exposures. However, none of these derivatives were designated as hedging instruments under SFAS No. 133 at March 31, 2005, 2006 and 2007. Unrealized gains and losses on such instruments are recognized currently in earnings.

#### New Accounting Standards—

In March 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 156, “Accounting for Servicing of Financial Assets.” SFAS No. 156 was issued to simplify the accounting for servicing assets and servicing liabilities and reduce the volatility that results from the use of different measurement attributes for servicing rights and the related financial instruments used to hedge risks associated with those servicing rights. SFAS No. 156 clarifies when to separately account for servicing rights, requires separately recognized servicing rights to be initially measured at fair value, and provides the option to subsequently account for those servicing rights at either fair value or under the amortization method previously required under SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. The adoption of this standard is not expected to have any material impact on the Company’s consolidated statements of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a two-step recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation requires that realization of an uncertain income tax position must be “more likely than not” before it can be recognized in the financial statements. In addition, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation is not expected to have any

material impact on the Company’s consolidated statements of operations or financial position.

In June 2006, the EITF reached a consensus on EITF Issue No. 06-2, “Accounting for Sabbatical Leave and Other Similar Benefits” (“EITF 06-2”). EITF 06-2 provides that an employee’s right to a compensated absence under a sabbatical leave or similar benefit arrangement in which the employee is not required to perform any duties during the absence is an accumulating benefit. Therefore, such arrangements should be accounted for as a liability with the cost recognized over the service period during which the employee earns the benefit. EITF 06-2 is effective for fiscal years beginning after December 15, 2006. The adoption of this guidance is not expected to have any material impact on the Company’s consolidated statements of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS No. 157 does not expand or require any new fair value measures. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of this standard is not expected to have any material impact on the Company’s consolidated statements of operations or financial position.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132 (R).” SFAS No. 158 requires an employer to: (a) recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, (b) recognize changes in that funded status in the year in which the changes occur through comprehensive income, (c) measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions, and (d) disclose in the notes to financial statements certain additional information. The Company initially adopted the recognition and related disclosure provisions (a), (b) and (d) above of SFAS No. 158 as of the end of the year ended March 31, 2007. See Note 12, “Pension plans and accrued severance cost” for the incremental effect of applying the provisions. The adoption of the measurement date provisions (c) above will be effective for the year ending March 31, 2009, however, the Company has already measured its plans as of the date of its year-end statement of financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. If an entity elects the fair value option for an eligible item, changes in that item's

fair value in subsequent reporting periods must be recognized in current earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of this standard is not expected to have any material impact on the Company's consolidated statements of operations or financial position.

## 2. Supplemental cash flow information:

Selected cash payments and noncash activities for the years ended March 31, 2005, 2006 and 2007 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Cash payment for interest	¥ 2,038	¥ 1,652	¥ 2,739	\$ 23,212
Cash payment for income taxes	17,195	9,039	12,565	106,483
Noncash investing activities:				
Acquisition of a subsidiary:				
Fair value of assets, net of cash acquired	60,736	—	—	—
Liability assumed including capital lease obligation of ¥12,882 million	(26,721)	—	—	—
Payment for acquisition of a subsidiary, net of cash acquired	34,015	—	—	—
Sales of discontinued operations:				
Transferred assets	—	1,527	24,180	204,915
Transferred liabilities	—	(1,080)	(15,615)	(132,331)
Minority interest	—	—	(20)	(169)
Accumulated other comprehensive income	—	(127)	(84)	(712)
Gain on sales	—	434	2,488	21,085
Cash received, net	—	754	10,949	92,788
Noncash financing activities:				
Assumption of long-term debts from an affiliated company	—	25,357	—	—

### 3. Acquisition:

On September 30, 2004, the Company acquired 100% of the issued common stock of NEC Plasma Display Corporation ("NPD"), a subsidiary of NEC Corporation, and the intellectual property rights of NPD for cash in an aggregate amount of ¥35,097 million. NPD changed its name to Pioneer Plasma Display Corporation ("PPD") on September 30, 2004. This acquisition was to meet a fast-growing global demand for plasma displays.

The consolidated financial statements for the year ended March 31, 2005 include the operating results of PPD from the date of acquisition.

In connection with this acquisition, ¥6,937 million was assigned to intangible asset of patents subject to amortization with an amortization period of seven years which is based on legal provisions that may limit the useful life.

The following unaudited pro forma information shows the consolidated results of operations of the Company for the year ended March 31, 2005 as if the acquisition had been completed at the beginning of such fiscal year.

	Unaudited Millions of Yen
	2005
Revenues	¥731,563
Net loss	(19,002)
	Yen
	2005
Net loss per share:	
Basic	¥(108.34)
Diluted	(108.34)

### 4. Discontinued operations:

In accordance with SFAS No. 144, the Company presented the results of discontinued operations (including operations of subsidiaries that either have been disposed of or are classified as held for sale) as a separate line item in the consolidated statements of operations under "Income from discontinued operations, net of tax." The cash flows attributable to the operating, investing and financing activities of the discontinued operations were not presented separately from the cash flows attributable to activities of the continuing operations.

Pioneer Digital Technologies, Inc.—

During the year ended March 31, 2006, the Company decided to sell 100% of its shares in Pioneer Digital Technologies, Inc. through a management buyout. Pioneer Digital Technologies, Inc. was a wholly-owned subsidiary which was engaged in the development of operating software for cable TV set-top boxes in the United States. The Company sold the shares for a cash consideration of ¥754 million and recognized a gain on the sale of ¥282 million, net of taxes, in the year ended March 31, 2006. The Company has no continuing involvement with Pioneer Digital Technologies, Inc.

Pioneer Precision Machinery Corporation ("PPMC") and its subsidiaries—

In order to improve management efficiency by concentrating resources in strategic businesses, on March 31, 2006, the Company reached a preliminary agreement with OMRON Corporation on the transfer to OMRON of the Company's entire investment in PPMC, a 99.5%-owned subsidiary of the Company, which has been engaged in manufacturing and marketing of high-precision parts for electronic equipment.

The Company sold PPMC and its subsidiaries for a cash consideration of ¥10,949 million on August 1, 2006 and recognized a gain on the sale of ¥2,488 million, net of taxes, during the year ended March 31, 2007.

Assets and liabilities of PPMC and its subsidiaries had been classified as held for sale at March 31, 2006. In accordance with SFAS No. 144, assets held for sale of PPMC and its subsidiaries were recorded at the lower of their carrying amount or fair value less costs to sell and no impairment adjustment was necessary.

The major classes of assets and liabilities included in the consolidated balance sheet at March 31, 2006 relating to assets and liabilities held for sale of PPMC and its subsidiaries were as follows:

	Millions of Yen
	2006
<b>Current assets held for sale:</b>	
Trade receivables	¥10,421
Inventories	1,569
Other current assets	10,775
Property, plant and equipment	2,258
Other assets	554
<b>Total</b>	<b>¥25,577</b>
<b>Current liabilities held for sale:</b>	
Trade payables	¥10,673
Accrued liabilities	1,129
Other current liabilities	4,629
Other long-term liabilities	1,432
<b>Total</b>	<b>¥17,863</b>

Summarized selected financial information for the years ended March 31, 2005, 2006 and 2007 for the discontinued operations was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	<b>2007</b>	<b>2007</b>
Revenues	¥22,598	¥30,282	<b>¥10,445</b>	<b>\$88,517</b>
Cost and expenses	20,720	29,462	<b>10,121</b>	<b>85,771</b>
Income before income taxes	1,878	820	<b>324</b>	<b>2,746</b>
Gain on sales of discontinued operations	–	434	<b>2,488</b>	<b>21,085</b>
Income taxes	555	482	<b>37</b>	<b>314</b>
<b>Income from discontinued operations</b>	<b>¥ 1,323</b>	<b>¥ 772</b>	<b>¥ 2,775</b>	<b>\$23,517</b>

## 5. Available-for-sale securities and sundry investments:

Cost, gross unrealized holding gains, gross unrealized holding losses and the aggregate fair value of available-for-sale securities at March 31, 2006 and 2007 were as follows:

	2006				2007			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Millions of Yen								
Marketable equity securities:								
Non-current	¥4,627	¥19,982	–	¥24,609	<b>¥7,212</b>	<b>¥15,042</b>	<b>¥(79)</b>	<b>¥22,175</b>
Marketable debt securities:								
Non-current	94	30	–	124	<b>77</b>	<b>13</b>	–	<b>90</b>
Total	¥4,721	¥20,012	–	¥24,733	<b>¥7,289</b>	<b>¥15,055</b>	<b>¥(79)</b>	<b>¥22,265</b>

	2006				2007			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Thousands of U.S. Dollars								
Marketable equity securities:								
Non-current					<b>\$61,119</b>	<b>\$127,475</b>	<b>\$(670)</b>	<b>\$187,924</b>
Marketable debt securities:								
Non-current					<b>652</b>	<b>110</b>	–	<b>762</b>
Total					<b>\$61,771</b>	<b>\$127,585</b>	<b>\$(670)</b>	<b>\$188,686</b>

At March 31, 2007, the fair values of marketable debt securities by contractual maturities for securities classified as available-for-sale due in one year through five years were ¥90 million (\$762 thousand).

Gross realized gain on available-for-sale securities for the years ended March 31, 2005, 2006 and 2007 were ¥2,300 million, ¥5,626 million and ¥11 million (\$93 thousand), respectively. Gross realized loss for the year ended March 31, 2005 was ¥1 million. There were no gross realized losses on available-for-sale securities recorded for the years ended March 31, 2006 and 2007. The Company owns marketable equity securities of customers and financial institutions for the purpose of maintaining long-term relationships, whose share prices are highly volatile. For the years ended March 31, 2005 and 2007, losses on other-than-temporary impairment of marketable equity securities were ¥3 million and ¥2 million (\$17 thousand), respectively. There was no loss on other-than-temporary

impairment of marketable equity securities recorded for the year ended March 31, 2006. For the year ended March 31, 2005, a loss on other-than-temporary impairment of marketable debt securities was ¥3 million. There was no loss on other-than-temporary impairment of marketable debt securities recorded for the years ended March 31, 2006 and 2007.

Sundry investments consist of non-marketable equity securities and memberships. The aggregate cost of the Company's non-marketable equity securities totaled ¥2,793 million and ¥2,505 million (\$21,229 thousand) at March 31, 2006 and 2007, respectively. The Company's non-marketable equity securities were not evaluated for impairment because (a) it was not practicable to estimate the fair value and (b) the Company has not identified any events or changes in circumstances that might have a significant adverse effect on the fair value of those investments.

## 6. Accounts receivable securitization programs:

In the United States of America, the Company has established PUSA Receivables Funding Corporation, a wholly-owned, bankruptcy-remote, special-purpose entity, and set up an accounts receivable securitization program of eligible trade accounts receivable. A bankruptcy-remote subsidiary is a company that has been structured to make it highly unlikely that it would be drawn into a bankruptcy of the Company. Through this program, the Company can securitize and sell, without recourse, on a revolving basis, an undivided interest up to \$100 million in a pool of receivables to third-party conduits owned by a bank. The value assigned to undivided interests retained in securitized trade receivables is based on the relative fair values of the interest retained and sold in the securitization. The Company has assumed that the fair value of the retained interest is equivalent to its carrying value as the receivables are short-term in nature and high quality. These securitization transactions are accounted for as sales in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," because the Company has surrendered control over the receivables.

The Company sold a total of ¥9,706 million and ¥18,723 million (\$158,669 thousand) of receivables under this program for the years ended March 31, 2006 and 2007, respectively. The Company's subordinated net retained interest in accounts receivable for securitization which has been recorded as a

component of accounts receivable, was ¥5,268 million and ¥6,918 million (\$58,627 thousand) at March 31, 2006 and 2007, respectively. The Company recognized a loss of ¥42 million and gain of ¥8 million (\$68 thousand) on the securitization of receivables for the years ended March 31, 2006 and 2007, respectively. The Company continues to service the sold receivables and is compensated at what is believed to be market rates. Accordingly, no servicing asset or liability has been recorded.

In Japan, the Company has set up several accounts receivable sales programs of eligible trade accounts receivable. Through these programs, the Company can sell receivables, without recourse, to financial institutions. These transactions are accounted for as sales in accordance with SFAS No. 140, because the Company has surrendered control over the receivables. The Company sold a total of ¥5,636 million and ¥11,691 million (\$99,076 thousand) of receivables under these programs for the years ended March 31, 2006 and 2007, respectively. Losses from these transactions were ¥24 million and ¥14 million (\$119 thousand) for the years ended March 31, 2006 and 2007, respectively. Although the Company continues servicing the sold receivables, no servicing liabilities are recorded because costs for collection of the sold receivables are immaterial.

## 7. Inventories:

Inventories at March 31, 2006 and 2007 are comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Finished products	¥ 48,622	¥ 54,683	\$463,416
Work in process	27,175	21,687	183,788
Materials and supplies	28,429	28,961	245,432
Total	¥104,226	¥105,331	\$892,636

## 8. Investments in and advances to affiliated companies:

Investments in and advances to affiliated companies principally represent the Company's equity in the underlying assets of 20% to 50% owned companies. Dividends received from companies accounted for by the equity method of accounting were ¥4 million, ¥4 million and ¥14 million (\$119 thousand), respectively, for the years ended March 31, 2005, 2006 and 2007.

Retained earnings include the parent company's and its consolidated subsidiaries' equity in the undistributed earnings of 20% to 50% owned companies accounted for by the

equity method of accounting in the amount of ¥339 million and ¥840 million (\$7,119 thousand) at March 31, 2006 and 2007, respectively.

Summarized financial information of companies owned 20% to 50%, including ELDis, Inc., which was 47.5% owned by Tohoku Pioneer Corporation (itself, a 67.1% owned subsidiary of the parent company) and was liquidated in March, 2006 (See Note 17), accounted for by the equity method of accounting is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Current assets	¥2,528	<b>¥5,418</b>	<b>\$45,915</b>
Property, plant and equipment	638	<b>1,812</b>	<b>15,356</b>
Other assets	210	<b>556</b>	<b>4,712</b>
Total assets	¥3,376	<b>¥7,786</b>	<b>\$65,983</b>
Current liabilities	¥1,110	<b>¥2,507</b>	<b>\$21,246</b>
Long-term liabilities	294	<b>429</b>	<b>3,635</b>
Shareholders' equity	1,972	<b>4,850</b>	<b>41,102</b>
Total liabilities and shareholders' equity	¥3,376	<b>¥7,786</b>	<b>\$65,983</b>

Years ended March 31	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Net sales	¥ 9,229	¥ 6,974	<b>¥22,809</b>	<b>\$193,297</b>
Gross profit (loss)	(1,932)	941	<b>1,856</b>	<b>15,729</b>
Net income (loss)	(5,801)	(24,720)	<b>314</b>	<b>2,661</b>

## 9. Intangible assets:

Intangible assets subject to amortization acquired during the year ended March 31, 2007 totaled ¥7,103 million (\$60,195 thousand) and consisted primarily of purchased software of ¥6,690 million (\$56,695 thousand). The weighted-average

amortization periods for software and the total acquisitions in the year ended March 31, 2007 were 3.7 years and 4.4 years, respectively.

Intangible assets subject to amortization are comprised of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2006		2007		2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Software	¥30,503	¥(17,164)	<b>¥35,564</b>	<b>¥(23,305)</b>	<b>\$301,390</b>	<b>\$(197,500)</b>
Patents	30,319	(24,593)	<b>8,601</b>	<b>(3,968)</b>	<b>72,890</b>	<b>(33,627)</b>
Other	2,588	(1,077)	<b>2,605</b>	<b>(1,249)</b>	<b>22,076</b>	<b>(10,585)</b>
Total	¥63,410	¥(42,834)	<b>¥46,770</b>	<b>¥(28,522)</b>	<b>\$396,356</b>	<b>\$(241,712)</b>

The aggregate amortization expense for intangible assets for the years ended March 31, 2005, 2006 and 2007 was ¥7,229 million, ¥8,662 million and ¥8,498 million (\$72,017 thousand), respectively. The estimated aggregate amortization expenses for intangible assets for the next five years are as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥9,109	\$77,195
2009	5,293	44,856
2010	2,099	17,788
2011	1,045	8,856
2012	241	2,042

## 10. Impairment losses of long-lived assets:

The Company recognized impairment losses of long-lived assets in accordance with the provisions of SFAS No. 144 during the years ended March 31, 2005, 2006 and 2007. Impairment losses are included in other deductions of cost and expenses in the consolidated statements of operations (See Note 18). See Note 17, "Restructuring plans" for the impairment losses of long-lived assets recognized in connection with the restructuring plans.

The Company recognized impairment losses of long-lived assets in the aggregate of ¥4,460 million for the year ended March 31, 2005.

For the year ended March 31, 2005, the Company reviewed PPD's production facilities for impairment because of the unfavorable post-acquisition changes in market conditions for plasma displays. As a result of the review, an impairment loss of ¥3,396 million was recognized as the excess of the carrying value of the asset group over the group's estimated fair value. Fair value was determined using the present value of estimated cash flows.

The Company recognized impairment losses of long-lived assets in the aggregate of ¥41,422 million for the year ended March 31, 2006.

During the year ended March 31, 2006, the Company reviewed the production facilities of plasma displays (PPD's production facilities and other) and DVD recorder-related

products for impairment because of significant decreases in gross profit margins for these products due to a sharp decline in market prices. As a result of the review, an impairment loss of ¥31,915 million in plasma display and ¥8,950 million in DVD recorder-related products were recognized as the excess of the carrying value of the asset group over the group's estimated fair value. Fair value was determined using the present value of estimated cash flows.

The Company additionally recognized impairment losses of long-lived assets in the aggregate of ¥22,711 million (\$192,466 thousand) for the year ended March 31, 2007.

The projected estimate of gross profit margins for plasma displays and DVD recorder-related products for future years were revised downward in comparison to the Company's previous projections made in March 2006, mainly reflecting more intense competition and lower prices in the markets.

The Company reviewed the production facilities of plasma displays (PPD's production facilities and other) and DVD-related products for impairment. As a result of the review, an impairment loss of ¥20,412 million (\$172,983 thousand) in plasma display and ¥2,296 million (\$19,458 thousand) in DVD-related products were recognized as the excess of the carrying value of the asset group over the group's estimated fair value. Fair value was determined using the present value of estimated cash flows.

## 11. Short-term borrowings and long-term debt:

Short-term borrowings at March 31, 2006 and 2007 are comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Bank loans:			
Weighted-average interest rate of 1.62% at March 31, 2006 and 1.91% at March 31, 2007:			
Collateralized	–	¥ 2,391	\$ 20,263
Uncollateralized	¥23,205	9,637	81,669
Total	¥23,205	¥12,028	\$101,932

Long-term debt at March 31, 2006 and 2007 are comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Loans, principally from banks, maturing serially through 2013 with interest ranging from 0.95% to 2.90% at March 31, 2006 and from 0.95% to 2.90% at March 31, 2007:			
Collateralized	¥ 4,916	¥ 3,272	\$ 27,729
Uncollateralized	15,452	13,032	110,441
2.80% uncollateralized bonds due 2008	10,000	10,000	84,746
Zero coupon convertible bonds due 2011, including unamortized issue premium, ¥1,479 million at March 31, 2006 and ¥1,179 million (\$9,992 thousand) at March 31, 2007 (effective annual rate of 0.5%)	61,479	61,179	518,466
Long-term capital lease obligations, 1.25% to 3.26% at March 31, 2006 and 1.38% to 4.97% at March 31, 2007 due principally 2012	8,251	5,102	43,237
Other	37	7	59
<b>Total</b>	<b>100,135</b>	<b>92,592</b>	<b>784,678</b>
Less—Portion due within one year	7,165	6,577	55,737
<b>Total</b>	<b>¥ 92,970</b>	<b>¥86,015</b>	<b>\$728,941</b>

The outstanding bond indentures generally require the parent company to provide collateral for the outstanding bonds if the parent company provides collateral to new bonds issued in Japan.

On March 5, 2004, the parent company issued ¥60,000 million zero coupon convertible bonds due 2011 (bonds with stock acquisition rights) (“Bonds”) at 103.5% of their principal amount. The Bonds do not bear interest. The stock acquisition rights are not transferable separately from the Bonds. The Bonds are traded on the London Stock Exchange’s market for listed securities. The Bonds were issued in the denomination of ¥5 million each and each bondholder is entitled to exercise the stock acquisition right from April 1, 2006 until February 18, 2011 (unless previously redeemed) into common shares at an initial conversion price, subject to adjustment in certain events, of ¥4,022. Market price of common stock at the date of issuance of the Bonds was ¥3,220.

The parent company may redeem all, but not some of the Bonds, with advance irrevocable notice to bondholders in each case (1) if the closing price of common stock for each of the 30 consecutive trading days is at least 120% of the conversion price on or after March 4, 2007 and prior to maturity, or (2) if the laws or regulations of Japan having power to tax is changed, or (3) if a resolution is passed at the general meeting of shareholders of the parent company to become a wholly-owned subsidiary of another company.

The stock acquisition right is also exercisable on or after March 19, 2004 if the parent company issues an irrevocable notice to bondholders for (2) or (3) above, or if a resolution passes at a general meeting of shareholders of the parent company (a) for any consolidation or amalgamation of the parent company with any company, or (b) for any split of parent company’s business, or (c) for the parent company to become a wholly-owned subsidiary of another company.

The parent company will redeem the outstanding Bonds at 100% of their principal amount on March 4, 2011.

Unused lines of credit for short-term financing at March 31, 2007 approximated ¥264,397 million (\$2,240,653 thousand) of which ¥30,000 million (\$254,237 thousand) relates to commercial paper programs. There were no unused commitments for long-term financing arrangements at March 31, 2007. There were no commitment fees.

Accounts receivable with a book value of ¥2,391 million (\$20,263 thousand) were pledged as collateral for certain short-term loans of the Company at March 31, 2007. Land and buildings with a book value of ¥7,278 million (\$61,678 thousand) were pledged as collateral for certain long-term loans of the Company at March 31, 2007.

The aggregate annual maturities of long-term debt during the five years ending March 31, 2012 and thereafter are as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 6,577	\$ 55,737
2009	13,671	115,856
2010	3,271	27,720
2011	64,446	546,153
2012	3,151	26,703
2013 and thereafter	1,476	12,509
Total	¥92,592	\$784,678

## 12. Pension plans and accrued severance cost:

The parent company and major domestic subsidiaries have non-contributory defined benefit pension plans which cover substantially all of their employees. The benefits are in the form of annuity payments and/or lump-sum payments and are determined based on the sum of cumulative points. The points are accumulated based on years of service, job class and conditions under which termination occurs. The Company's policy is to fund amounts required to maintain sufficient plan assets to provide for accrued benefits, subject to the limitation on deductibility imposed by the Japanese income tax laws.

The Company also sponsors a domestic non-contributory defined-benefit Corporate Pension Fund ("CPF") under the Defined Benefit Corporate Pension Law of Japan, which covers substantially all of its Japanese employees. The benefits are determined based on the sum of cumulative points; which are accumulated based on years of service, job class and conditions under which termination occurs.

The Company sponsored a domestic defined-benefit welfare pension plan (the "Welfare Pension Plan") under the Japanese government's welfare pension regulations, covering substantially all of its Japanese employees. The benefits under the Welfare Pension Plan were primarily based on years of service and the average compensation during years of service. The Welfare Pension Plan consisted of a substitutional portion which, management considered, represented the welfare pension plan of the government, and a corporate portion representing a non-contributory plan established by the Company. The substitutional portion was contributory and specified by the governmental regulations. The Welfare Pension Plan was administered by a board of trustees composed of management and labor representatives.

Substantially all short-term and long-term loans from banks are made under agreements which, as is customary in Japan, provide that the bank may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantors with respect to the loans, and that the bank may treat any collateral, whether furnished as security for short-term or long-term loans or otherwise, as collateral for all indebtedness to such bank. The Company has no compensating balance arrangements with any lending bank.

On October 29, 2003, the Company received approval from the Japanese government for exemption from the obligation to pay benefits for future employee services related to the substitutional portion, and on November 1, 2004, approval for exemption from the obligation to pay benefits for past employee services related to the substitutional portion. Accordingly, on March 11, 2005, the benefit obligation of the substitutional portion and the related government-specified portion of plan assets of the Welfare Pension Plan were transferred to the Japanese government.

Upon completion of the transfer, in accordance with EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," the Company recorded the transaction for the year ended March 31, 2005. The transfer resulted in the Company recording a subsidy from the government of ¥48,697 million, representing the difference between the accumulated benefit obligation of the substitutional portion and the related plan assets that were transferred. Additionally, the Company recorded a reduction in net periodic benefit cost related to the derecognition of previously accrued salary progression of ¥2,402 million and a settlement loss of ¥51,893 million. Out of the total amount of derecognition of previously accrued salary progression and settlement loss, ¥25,339 million was allocated to cost of sales, and ¥24,152 million to selling, general and administrative expenses.

As a result of the transfer of the substitutional portion, in fiscal 2005, the remaining corporate portion of the Welfare Pension Plan was called the CPF since it became subject to the Defined Benefit Corporate Pension Law, with a reduced benefit payment rate and shorter benefit payment period. In addition, the Company amended the CPF to introduce a "point"-based retirement benefit plan. The foregoing amendment generated an unrecognized prior service gain of ¥9,602 million for the year ended March 31, 2005.

Substantially all of the employees of U.S. and European subsidiaries are covered by defined benefit pension plans.

Under such plans, the related cost of benefit is funded or accrued. The benefits are based on the level of salary at retirement or earlier termination of employment, the years of service and conditions under which termination occurs.

As described in Note 1, "Basis of presentation and significant accounting policies," the Company initially adopted the recognition and related disclosure provisions of SFAS No. 158 as of the end of the year ended March 31, 2007. The incremental effect of applying the provisions on individual line items in the consolidated balance sheets was as follows:

	Millions of Yen		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes (Other assets)	¥ 36,681	¥ 1,222	¥ 37,903
Other (Other assets)	11,772	(235)	11,537
Total assets	634,487	987	635,474
Other current liabilities	20,195	4	20,199
Accrued pension and severance cost	20,998	2,795	23,793
Minority interests	14,318	(29)	14,289
Accumulated other comprehensive loss	(15,001)	(1,783)	(16,784)
Total shareholders' equity	269,899	(1,783)	268,116
Total liabilities and shareholders' equity	634,487	987	635,474

	Thousands of U.S. Dollars		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes (Other assets)	\$ 310,856	\$ 10,356	\$ 321,212
Other (Other assets)	99,763	(1,992)	97,771
Total assets	5,377,009	8,364	5,385,373
Other current liabilities	171,144	34	171,178
Accrued pension and severance cost	177,949	23,686	201,635
Minority interests	121,339	(246)	121,093
Accumulated other comprehensive loss	(127,127)	(15,110)	(142,237)
Total shareholders' equity	2,287,280	(15,110)	2,272,170
Total liabilities and shareholders' equity	5,377,009	8,364	5,385,373

The plan assets and pension obligations for the domestic and foreign defined benefit pension plans are measured at March 31 in each fiscal year.

Net periodic benefit costs for the domestic and foreign defined benefit pension plans for the years ended March 31, 2005, 2006 and 2007 consisted of the following:

	Millions of Yen						Thousands of U.S. Dollars	
	2005		2006		2007		2007	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Service cost	¥ 4,540	¥ 565	¥ 4,552	¥ 417	¥ 4,074	¥ 436	\$ 34,525	\$ 3,695
Interest cost	5,224	693	2,361	755	2,427	857	20,568	7,263
Expected return on assets	(3,729)	(580)	(2,313)	(684)	(3,014)	(835)	(25,542)	(7,076)
Amortization of unrecognized net actuarial loss	3,225	52	2,211	45	1,453	81	12,314	686
Amortization of unrecognized net assets at date of application	(504)	–	(504)	–	(421)	–	(3,568)	–
Amortization of unrecognized prior service (gain) loss	(899)	4	(1,573)	3	(1,607)	(4)	(13,619)	(34)
Settlement loss	51,893	–	–	–	1,959	32	16,602	271
Curtailment (gain) loss	–	26	(15)	–	–	–	–	–
Derecognition of previously accrued salary progression	(2,402)	–	–	–	–	–	–	–
Net periodic benefit cost	¥57,348	¥ 760	¥ 4,719	¥ 536	¥ 4,871	¥ 567	\$ 41,280	\$ 4,805

**Actuarial assumptions used to determine net periodic pension cost:**

Discount rate	3.4%	5.6%	2.5%	5.4%	2.5%	4.9%
Rate of salary increase	2.6%	4.0%	–*	4.0%	–*	2.5%
Long-term rate of return on plan assets	3.9%	7.0%	3.9%	7.2%	3.9%	7.0%

\* The net periodic pension costs are determined using cumulative points and not salaries. The net periodic pension costs for the years ended March 31, 2006 and 2007 were calculated on the basis of an annual increase in points of 3.0%.

Reconciliations of beginning and ending balances of benefit obligations and the fair value of the plan assets of the domestic and foreign defined benefit pension plans are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2006		2007		2007	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
<b>Change in benefit obligation:</b>						
Benefit obligation at beginning of year	¥ 94,410	¥13,595	¥ 97,068	¥ 17,061	\$ 822,611	\$ 144,585
Service cost	4,552	417	4,074	436	34,525	3,695
Interest cost	2,361	755	2,427	857	20,568	7,263
Plan participants' contribution	–	113	–	113	–	958
Actuarial (gain) loss	1,222	1,784	1,421	(1,392)	12,042	(11,797)
Lump-sum cash payments/Settlements	(2,462)	–	(11,214)	(106)	(95,034)	(898)
Benefits paid	(1,655)	(298)	(2,265)	(710)	(19,195)	(6,017)
Plan amendment	(1,219)	–	–	–	–	–
Curtailement	(141)	–	–	–	–	–
Translation adjustments	–	695	–	1,339	–	11,347
Benefit obligation at end of year	¥ 97,068	¥17,061	¥ 91,511	¥ 17,598	\$ 775,517	\$ 149,136
<b>Change in plan assets:</b>						
Fair value of plan assets at beginning of year	¥ 59,325	¥ 9,330	¥ 77,254	¥ 11,748	\$ 654,695	\$ 99,559
Actual return on plan assets	14,385	1,339	3,415	1,422	28,941	12,051
Employer contribution	7,661	726	6,386	895	54,119	7,585
Plan participants' contribution	–	113	–	113	–	958
Lump-sum cash payments/Settlements	(2,462)	–	(10,638)	(92)	(90,153)	(780)
Benefits paid	(1,655)	(298)	(2,265)	(710)	(19,195)	(6,017)
Translation adjustments	–	538	–	868	–	7,356
Fair value of plan assets at end of year	¥ 77,254	¥11,748	¥ 74,152	¥ 14,244	\$ 628,407	\$ 120,712
Funded status	¥(19,814)	¥(5,313)	¥(17,359)	¥(3,354)	\$(147,110)	\$(28,424)
Unrecognized actuarial loss	31,770	2,775	–	–	–	–
Unrecognized net assets at the date of application	(431)	–	–	–	–	–
Unrecognized prior service cost (gain)	(20,258)	55	–	–	–	–
Net amount recognized	¥ (8,733)	¥(2,483)	–	–	–	–
<b>Amounts recognized in the statement of financial position consist of:</b>						
Accrued benefit liabilities	¥(15,893)	¥(4,106)	–	–	–	–
Accumulated other comprehensive income	7,160	1,623	–	–	–	–
Net amount recognized	¥ (8,733)	¥(2,483)	–	–	–	–
Other assets	–	–	¥ 644	¥ 95	\$ 5,458	\$ 805
Other current liabilities	–	–	(4)	–	(34)	–
Accrued pension and severance cost	–	–	(17,999)	(3,449)	(152,534)	(29,229)
Net amount recognized	–	–	¥(17,359)	¥(3,354)	\$(147,110)	\$(28,424)
Accumulated benefit obligation at end of year	¥ 92,161	¥15,435	¥(88,670)	¥(16,590)	\$(751,441)	\$(140,593)
<b>Actuarial assumptions used to determine benefit obligations:</b>						
Discount rate	2.5%	4.9%	2.5%	5.3%		
Rate of salary increase	–*	2.5%	–*	2.1%		

\* The benefit obligations are determined using cumulative points and not salaries. The benefit obligations at March 31, 2006 and 2007 were calculated on the basis of an annual increase in points of 3.0%.

The amounts recognized in accumulated other comprehensive loss as of March 31, 2007 consists of:

	Millions of Yen		Thousands of U.S. Dollars	
	<b>2007</b>		<b>2007</b>	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Net actuarial loss	<b>¥ 28,798</b>	<b>¥1,207</b>	<b>\$ 244,051</b>	<b>\$10,229</b>
Net assets at the date of application	<b>(6)</b>	<b>–</b>	<b>(51)</b>	<b>–</b>
Prior service gain	<b>(18,651)</b>	<b>(45)</b>	<b>(158,059)</b>	<b>(382)</b>
Total	<b>¥ 10,141</b>	<b>¥1,162</b>	<b>\$ 85,941</b>	<b>\$ 9,847</b>

The amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost in the year ending March 31, 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
	Net actuarial loss	¥ 1,294	¥25	\$ 10,966
Net assets at the date of application	(6)	–	(51)	–
Prior service gain	(1,607)	(6)	(13,618)	(51)
Total	¥ (319)	¥19	\$ (2,703)	\$161

The aggregate projected benefit obligations, the aggregate accumulated benefit obligations and the aggregate fair value of plan assets for the domestic pension plans for which both projected benefit obligations and accumulated benefit obligations exceed plan assets are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	<b>2007</b>	<b>2007</b>
	Projected benefit obligations	¥90,741	<b>¥87,579</b>
Accumulated benefit obligations	87,035	<b>85,050</b>	<b>720,763</b>
Fair value of plan assets	70,872	<b>69,576</b>	<b>589,627</b>

The aggregate projected benefit obligations and the aggregate fair value of plan assets for the foreign plans for which projected benefit obligations exceed plan assets are ¥11,672

million (\$98,915 thousand) and ¥8,223 million (\$69,686 thousand) at March 31, 2007.

The aggregate accumulated benefit obligations and the aggregate fair value of plan assets for the foreign pension plans for which accumulated benefit obligations exceed plan assets are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	<b>2007</b>	<b>2007</b>
	Accumulated benefit obligations	¥15,161	<b>¥9,562</b>
Fair value of plan assets	11,447	<b>6,844</b>	<b>58,000</b>

The unrecognized prior service gain/cost, the unrecognized actuarial loss and the unrecognized net assets at the date of initial application are being amortized over the average remaining service period of employees.

The Company determines the expected long-term rate of return on pension plan assets based on the weighted average of expected long-term returns on various categories of plan assets, reflecting the current and target allocation of pension plan assets. Expected long-term return by asset category is derived from historical studies by investment advisors.

The pension plan weighted-average asset allocation by asset category at March 31, 2006 and 2007 is as follows:

Asset Category	2006	2007
Equity securities	57%	<b>56%</b>
Debt securities	35	<b>39</b>
Other	8	<b>5</b>
Total	100%	<b>100%</b>

The Company's investment policy is to maintain a diversified portfolio of asset classes with the primary goal of producing an adequate return that, when combined with the Company's contribution, will maintain the fund's ability to meet future cash requirements for pension benefit payments. For primary

domestic pension plans, the target asset allocation is established based on long-term pension plan asset/liability studies, and the weighted-average target asset allocation for these plans at March 31, 2007 is: equity securities 56%, debt securities 41% and other 3%. All the assets are externally managed and investment managers have discretion to carry out investment operations within their respective mandates specified by the Company.

With respect to directors, provision is made for lump-sum severance indemnities on a basis considered adequate for such future payments as may be approved by the shareholders.

The Company expects to contribute ¥7,145 million (\$60,551 thousand) to its defined benefit plans in the year ending March 31, 2008.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 2,869	\$ 24,314
2009	3,233	27,398
2010	3,517	29,805
2011	4,320	36,610
2012	4,346	36,831
Years 2013–2017	25,849	219,059

### 13. Income taxes:

The Company is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate of approximately 41% for the years ended March 31, 2005, 2006 and 2007 in Japan.

The Company's provision for income taxes differed from the provision for income taxes at the statutory tax rates in Japan as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Computed tax expense at normal statutory tax rate	¥ (847)	¥(29,178)	<b>¥(3,164)</b>	<b>\$ (26,813)</b>
Increase (decrease) resulting from:				
Loss operations	6,137	39,814	<b>6,900</b>	<b>58,475</b>
Realization of tax benefit of operating loss carryforwards	(671)	(1,005)	<b>(1,797)</b>	<b>(15,229)</b>
Expenses not deductible for tax purpose:				
Domestic	243	192	<b>200</b>	<b>1,695</b>
Foreign	413	205	<b>213</b>	<b>1,805</b>
Difference in foreign and Japanese tax rates	(1,784)	(1,383)	<b>(1,110)</b>	<b>(9,407)</b>
Liquidation of ELDis, Inc.	–	(13,503)	–	–
Tax credit for research and development expenses	(232)	(141)	<b>(97)</b>	<b>(822)</b>
Other	1,028	339	<b>613</b>	<b>5,195</b>
Provision for income taxes	¥ 4,287	¥ (4,660)	<b>¥ 1,758</b>	<b>\$ 14,899</b>

Total income taxes provided for the years ended March 31, 2005, 2006 and 2007 were classified as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Provision (benefit) for income taxes on income from continuing operations	¥ 4,287	¥(4,660)	¥ 1,758	\$ 14,899
Provision for income taxes on income from discontinued operations	555	482	37	314
Shareholders' equity—directly charged (credited):				
Minimum pension liability adjustments	8,225	5,505	170	1,441
Net unrealized gains on securities	(593)	1,460	(2,091)	(17,721)
Total	¥12,474	¥ 2,787	¥ (126)	\$ (1,067)

Income from continuing operations before income taxes and income taxes are comprised of the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Income (loss) from continuing operations before income taxes:				
Domestic	¥ 2,649	¥(69,834)	¥(23,845)	\$(202,076)
Foreign	(4,716)	(1,331)	16,128	136,678
Total	¥(2,067)	¥(71,165)	¥ (7,717)	\$ (65,398)
Income taxes—Current:				
Domestic	¥ 6,260	¥ 5,232	¥ 4,171	\$ 35,348
Foreign	909	2,842	5,009	42,449
Total	¥ 7,169	¥ 8,074	¥ 9,180	\$ 77,797
Income taxes—Deferred:				
Domestic	¥(1,659)	¥(13,854)	¥ (6,585)	\$ (55,805)
Foreign	(1,223)	1,120	(837)	(7,093)
Total	¥(2,882)	¥(12,734)	¥ (7,422)	\$ (62,898)

The significant components of the deferred tax assets and liabilities at March 31, 2006 and 2007 are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2006		2007		2007	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Inventories	¥ 6,198	–	¥ 5,957	–	\$ 50,483	–
Marketable equity securities	2,092	¥ 7,074	1,873	¥4,979	15,873	\$42,195
Allowance for notes and accounts receivable	871	–	598	–	5,068	–
Accrued expenses	22,549	–	19,936	–	168,949	–
Warranty reserve	1,969	–	1,578	–	13,373	–
Tax loss carryforwards	52,832	–	51,360	–	435,254	–
Pension and severance cost	8,905	–	8,333	–	70,619	–
Property	17,981	–	28,138	–	238,458	–
Depreciation	4,119	342	5,928	227	50,237	1,924
Royalty receivable	472	–	136	–	1,152	–
Other	2,275	4,718	4,063	3,438	34,432	29,135
Total	120,263	12,134	127,900	8,644	1,083,898	73,254
Valuation allowance	(53,112)	–	(53,393)	–	(452,483)	–
Total	¥ 67,151	¥12,134	¥ 74,507	¥8,644	\$ 631,415	\$73,254

The changes in the valuation allowance for the years ended March 31, 2005, 2006 and 2007 are as follows:

Valuation Allowance	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Balance at beginning of year	¥11,591	¥20,605	¥53,112	\$450,102
Addition*	12,851	35,118	5,710	48,390
Deduction	(3,963)	(2,948)	(5,731)	(48,568)
Translation adjustments	126	337	302	2,559
Balance at end of year	¥20,605	¥53,112	¥53,393	\$452,483

\* "Addition" of the year ended March 31, 2005 includes valuation allowance of ¥7,953 million recognized by PPD at the time of acquisition at September 30, 2004.

The valuation allowance principally relates to deferred tax assets for tax loss carryforwards of subsidiaries.

Increase in valuation allowance for the year ended March 31, 2005 was mainly due to losses incurred at certain subsidiaries for which the realization of the related deferred tax assets was not determined to be more likely than not. The increase in valuation allowance for the year ended March 31, 2006 was mainly due to losses incurred at the parent company and certain subsidiaries.

At March 31, 2007, the Company had tax loss carryforwards which are available to reduce taxable income in subsequent periods. If not utilized, such loss carryforwards expire as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 293	\$ 2,483
2009	29	246
2010	2,671	22,636
2011	4,662	39,508
2012	21,907	185,652
Thereafter	101,564	860,712
Total	¥131,126	\$1,111,237

No provision for income taxes is recognized on undistributed earnings of foreign subsidiaries that are not expected to be remitted in the foreseeable future. Undistributed earnings of foreign subsidiaries (including related foreign currency translation adjustments) at March 31, 2006 and 2007 amounted to approximately ¥134,148 million and approximately ¥151,089

million (\$1,280,415 thousand), respectively. It is not practical to estimate the amount of taxes that might be payable on the eventual remittance of such earnings.

The domestic undistributed earnings would not, under the present Japanese tax laws, be subject to additional taxation.

## 14. Shareholders' equity:

On and after May 1, 2006, Japanese companies are subject to the new Company Law of Japan, which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant provisions in the Company Law that affect financial and accounting matters are summarized below;

### (a) Dividends

Under the Company Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend, upon resolution at the general meeting of shareholders. For companies that meet certain criteria such as; (1) having the board of directors, (2) having independent auditors, (3) having the board of corporate auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by the articles of incorporation, the board of directors may declare dividends (except for dividends in kind) at any time during the fiscal year, if such companies have prescribed so in the articles of incorporation. The parent company, however, shall not pay such dividends by resolution of the Board of Directors, since it has not prescribed so in its articles of incorporation. On the other hand, semiannual interim dividends may be paid once a year upon resolution by the board of directors if the articles of incorporation so stipulate. See (d) below for restrictions for dividends.

### (b) Increases/decreases and transfer of common stock, capital surplus and retained earnings

The Company Law requires that an amount equal to 10% of dividends must be appropriated as additional paid-in capital (a component of capital surplus) or a legal reserve (a component of retained earnings) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of additional paid-in capital and legal reserve

equals 25% of the common stock. Under the Company Law, the total amount of additional paid-in capital and legal reserve may be reversed without restriction. The Company Law also provides that common stock, additional paid-in capital, legal reserve, other capital surplus and other retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury stock

The Company Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors.

### (d) Restrictions for distribution

The Company Law imposes certain restrictions on the amounts available for distribution including dividends and the purchase of treasury stock. The restriction is based on other capital surplus and other retained earnings with certain adjustments, but the amount of net assets after distribution must be maintained at no less than ¥3 million (\$25 thousand). Such amount available for distribution under the Company Law was ¥54,019 million (\$457,788 thousand) at March 31, 2007, which is subject to changes in certain specific accounts of equity through the effective date of distribution in the following fiscal year, based on the amount recorded in the parent company's general books and records maintained in accordance with generally accepted Japanese accounting practices. The adjustments included in the accompanying consolidated financial statements to conform to U.S. GAAP are not recorded in the books, and have no effect on the determination of the amount available for distribution under the Company Law.

As permitted by the Code prior to April 1, 1991, the parent company had made free share distributions which were accounted for by a transfer from capital surplus to common stock or without any transfers in the capital accounts. Companies

in the United States issuing shares in similar transactions would be required to account for them as stock dividends. Had the distributions been accounted for in the manner adopted by companies in the United States, ¥179,076 million (\$1,517,593 thousand) would have been transferred from retained earnings to appropriate capital accounts at March 31, 2007.

## 15. Stock-based compensation plans:

The Company has incentive stock option plans for directors, executive officers and selected employees.

In accordance with approval at the ordinary general meetings of shareholders on June 27, 2002, June 27, 2003, June 29, 2004, and June 29, 2005, the Company granted share

The appropriation of retained earnings for the year ended March 31, 2007, which has been incorporated in the accompanying consolidated financial statements, was approved at the ordinary general meeting of shareholders held on June 28, 2007.

acquisition rights to directors, executive officers and certain employees of the parent company. These stock options become exercisable two years after the date of grant and the exercisable period is three years. The Company recorded the fair value of the stock options as a part of their remuneration.

A summary of information for the Company's stock option plans is as follows:

Years ended March 31	Plan	Exercisable Period	Yen		Number of Shares (Thousands)
			Weighted-Average Exercise Price	Weighted-Average Grant Date Share Price	
2003	Stock option	From July 1, 2004 to June 29, 2007	2,477	2,170	564
2004	Stock option	From July 1, 2005 to June 30, 2008	2,951	2,845	313
2005	Stock option	From July 3, 2006 to June 30, 2009	2,944	2,660	316
2006	Stock option	From July 2, 2007 to June 30, 2010	1,828	1,658	315

Remuneration costs recognized for stock option plans for the years ended March 31, 2005, 2006 and 2007 were ¥270 million, ¥175 million and ¥73 million (\$619 thousand), respectively.

The weighted-average fair value per share on the date of grant of the stock option issued during the years ended March 31, 2005 and 2006 were ¥654 and ¥306, respectively. The fair value of the stock option on the date of grant, which is amortized to expense over the period from the granting through the commencement of the exercisable period, is estimated using

the Black-Scholes option-valuation model with the following weighted-average assumptions:

	2005	2006
Risk-free interest rate	0.50%	0.23%
Expected lives	3.48 years	3.48 years
Expected volatility	40.02%	31.98%
Expected dividends	0.93%	0.90%

A summary of the status of the Company's stock options at March 31, 2007, and the changes during the year then ended is as follows:

	Number of Shares (Thousands)	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price per Share		Aggregate Intrinsic Value Thousands of U.S. Dollars
			Yen	U.S. Dollars	
Outstanding at March 31, 2006	1,695	2.3	¥2,679		
Expired	<b>(191)</b>		<b>3,791</b>	<b>\$32.13</b>	
Outstanding at March 31, 2007	<b>1,504</b>	<b>1.5</b>	<b>¥2,538</b>	<b>\$21.51</b>	–
Exercisable at March 31, 2006	1,064		¥2,852		
Exercisable at March 31, 2007	<b>1,189</b>	<b>1.0</b>	<b>¥2,726</b>	<b>\$23.10</b>	–

## 16. Other comprehensive income (loss):

Changes in accumulated other comprehensive income (loss) are as follows:

	Millions of Yen				
	Minimum Pension Liability Adjustments	Pension Liability Adjustments	Net Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2004	¥(22,930)	–	¥ 9,103	¥(48,002)	¥(61,829)
Adjustments for the year	11,744	–	(853)	3,269	14,160
Balance at March 31, 2005	(11,186)	–	8,250	(44,733)	(47,669)
Adjustments for the year	7,506	–	2,102	17,969	27,577
Balance at March 31, 2006	(3,680)	–	10,352	(26,764)	(20,092)
Adjustments for the year	<b>454</b>	–	<b>(2,947)</b>	<b>7,584</b>	<b>5,091</b>
Adjustment to initially apply SFAS No. 158, net of tax of ¥1,222 million	<b>¥ 3,226</b>	<b>¥(5,009)</b>	–	–	<b>(1,783)</b>
Balance at March 31, 2007	–	<b>¥(5,009)</b>	<b>¥ 7,405</b>	<b>¥(19,180)</b>	<b>¥(16,784)</b>

	Thousands of U.S. Dollars				
	Minimum Pension Liability Adjustments	Pension Liability Adjustments	Net Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2006	\$(31,186)	–	\$ 87,728	\$(226,813)	\$(170,271)
Adjustments for the year	<b>3,847</b>	–	<b>(24,974)</b>	<b>64,271</b>	<b>43,144</b>
Adjustment to initially apply SFAS No. 158, net of tax of \$10,356 thousand	<b>\$ 27,339</b>	<b>\$(42,449)</b>	–	–	<b>(15,110)</b>
Balance at March 31, 2007	–	<b>\$(42,449)</b>	<b>\$ 62,754</b>	<b>\$(162,542)</b>	<b>\$(142,237)</b>

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments are as follows:

	Millions of Yen			
	Before-Tax Amount	Tax (Expenses) Benefits	Minority Interest	Net-of-Tax Amount
2005:				
Minimum pension liability adjustments	¥20,003	¥(8,225)	¥ (34)	¥11,744
Net unrealized gains on securities:				
Unrealized holding gains arising during year	843	(347)	4	500
Less—Reclassification adjustment for gains realized in net income	(2,293)	940	–	(1,353)
Net unrealized losses	(1,450)	593	4	(853)
Foreign currency translation adjustments	3,292	–	(23)	3,269
Other comprehensive income (loss)	¥21,845	¥(7,632)	¥ (53)	¥14,160
2006:				
Minimum pension liability adjustments	¥13,171	¥(5,505)	¥ (160)	¥ 7,506
Net unrealized gains on securities:				
Unrealized holding gains arising during year	9,534	(3,904)	(10)	5,620
Less—Reclassification adjustment for gains realized in net income	(5,962)	2,444	–	(3,518)
Net unrealized gains	3,572	(1,460)	(10)	2,102
Foreign currency translation adjustments:				
Foreign currency translation adjustments arising during year	18,986	–	(865)	18,121
Less—Reclassification adjustment for gains realized in net income	(152)	–	–	(152)
Net foreign currency translation adjustments	18,834	–	(865)	17,969
Other comprehensive income (loss)	¥35,577	¥(6,965)	¥(1,035)	¥27,577
2007:				
Minimum pension liability adjustments	¥ 624	¥ (170)	–	¥ 454
Net unrealized gains on securities:				
Unrealized holding losses arising during year	(5,027)	2,087	¥ (2)	(2,942)
Less—Reclassification adjustment for gains realized in net income	(9)	4	–	(5)
Net unrealized losses	(5,036)	2,091	(2)	(2,947)
Foreign currency translation adjustments:				
Foreign currency translation adjustments arising during year	8,090	–	(434)	7,656
Less—Reclassification adjustment for gains realized in net income	(72)	–	–	(72)
Net foreign currency translation adjustments	8,018	–	(434)	7,584
Other comprehensive income (loss)	¥ 3,606	¥ 1,921	¥ (436)	¥ 5,091

	Thousands of U.S. Dollars			
	Before-Tax Amount	Tax (Expenses) Benefits	Minority Interest	Net-of-Tax Amount
2007:				
Minimum pension liability adjustments	\$ 5,288	\$ (1,441)	–	\$ 3,847
Net unrealized gains on securities:				
Unrealized holding losses arising during year	(42,602)	17,687	\$ (17)	(24,932)
Less—Reclassification adjustment for gains realized in net income	(76)	34	–	(42)
Net unrealized losses	(42,678)	17,721	(17)	(24,974)
Foreign currency translation adjustments:				
Foreign currency translation adjustments arising during year	68,559	–	(3,678)	64,881
Less—Reclassification adjustment for gains realized in net income	(610)	–	–	(610)
Net foreign currency translation adjustments	67,949	–	(3,678)	64,271
Other comprehensive income (loss)	\$ 30,559	\$16,280	\$(3,695)	\$ 43,144

## 17. Restructuring plans:

As part of its effort to improve the performance of the various businesses, the Company has implemented a number of restructuring initiatives. The following is a summary of significant restructuring activities:

During the year ended March 31, 2005, the Company decided to withdraw from the sale of set-top boxes for cable TV providers in the United States in order to shift its research and development resources toward products for the open cable market. The Company continues to manufacture and sell cable TV set-top boxes in Japan; and there was no separate financial reporting for the distribution of the cable TV set-top boxes to the U.S. market. As a result of this decision, the Company recognized an impairment loss of ¥587 million related to software used in the manufacture of cable TV set-top boxes to the U.S. market; and, in addition to the impairment loss, recorded ¥1,758 million for asset disposal and contract termination costs and ¥25 million for special termination benefits in "Other" and "Special termination benefits" of other deductions of cost and expenses in the consolidated statements of operations for the year ended March 31, 2005.

During the year ended March 31, 2005, the Company made a decision to close a car electronics plant in Mexico as part of the integration plan in foreign manufacturing companies. As a result of this closure, this subsidiary recognized an impairment loss of ¥477 million for the year ended March 31, 2005 and recorded involuntary special termination benefits of ¥197 million for the year ended March 31, 2006. These were recorded in "Impairment of long-lived assets" and "Special termination benefits" of other deductions of cost and expenses, respectively. This restructuring activity was substantially completed in the year ended March 31, 2006 and no liability existed at March 31, 2006.

During the year ended March 31, 2006, the Company decided to close a car electronics plant in Belgium as part of the integration plan in foreign manufacturing companies. As a result of this decision, this subsidiary recorded involuntary special termination benefits of ¥2,977 million and an impairment loss of ¥557 million related to property and equipment for the year ended March 31, 2006. These were included in "Special termination benefits" and "Impairment of long-lived assets" of other deductions of cost and expenses, respectively. Furthermore, the Company recorded contract termination costs of ¥253 million and other associated costs of ¥595 million which were included in "Other" of other deductions of cost and expenses for the year ended March 31, 2006. The remaining liability balances at March 31, 2006 and 2007 was ¥2,754

million and ¥684 million (\$5,797 thousand), respectively. This restructuring activity was substantially completed.

In addition to the restructuring efforts discussed above, the Company has undergone several head count reduction programs to further reduce operating costs. In Japan, 12 Pioneer Group domestic companies, including the parent company, implemented voluntary early retirement programs in February 2006. In relation to these programs, the Company recorded special termination benefits of ¥10,760 million for the year ended March 31, 2006 when employees accepted the offer and the amount could be reasonably estimated. The remaining liability balance at March 31, 2006 of ¥10,760 million was paid during the year ended March 31, 2007. In addition, certain foreign subsidiaries recorded voluntary special termination benefits of ¥161 million for the year ended March 31, 2006. These were all included in "Special termination benefits" of other deductions of cost and expenses in the consolidated statements of operations. With regard to the head count reduction programs, lump-sum cash payments made during the year ended March 31, 2007 to certain retired employees of the parent company and a domestic subsidiary resulted in settlement losses of ¥1,959 million (\$16,602 thousand) being recognized in loss from continuing operations for the year ended March 31, 2007 (See Note 12).

In connection with the restructuring plan, during the year ended March 31, 2006, the Company decided to withdraw from the TFT substrate business which had been carried out by ELDis, Inc., an equity method investee, which was 47.5% owned by Tohoku Pioneer Corporation (itself, a 67.1% owned subsidiary of the parent company). ELDis, Inc. was liquidated in March 2006 with the Company assuming its long-term debt amounting to ¥25,357 million. The Company recorded losses of ¥24,139 million in "Equity in losses of affiliated companies" in the consolidated statements of operations for the year ended March 31, 2006; which included the long-term debt assumed of ¥25,357 million and gain on disposal and others of ¥1,922 million.

During the year ended March 31, 2007, the Company reached an agreement with a third party real estate developer to sell all land and buildings at the Tokorozawa Plant and part of them at the Omori Plant in conjunction with the transfer and concentration of planning, development and design departments in the home electronics business at the newly established Kawasaki Plant. Net book value of ¥489 million of land and ¥2,980 million of buildings, which are subject to the sales contract, were included in the property, plant and

equipment while title of those properties has passed to the buyer as of March 31, 2007. The Company received a deposit on the sales contract of ¥14,112 million (\$119,593 thousand), equivalent of 90% to the sales price, for these sales during the year ended March 31, 2007. The gain on these sales will

be recorded during the year ending March 31, 2008 upon completion of contract obligations including vacation and hand-over of those properties, which is scheduled to occur by the end of June 2007.

## 18. Supplemental information:

Supplemental information for the years ended March 31, 2005, 2006 and 2007 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Research and development expenses charged to cost and expenses	¥55,858	¥63,442	<b>¥59,222</b>	<b>\$501,881</b>
Advertising costs charged to expense as incurred	11,587	10,961	<b>14,048</b>	<b>119,051</b>

Others of revenues and other income for the years ended March 31, 2005, 2006 and 2007 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Gain on sale of available-for-sale securities and sundry investments	¥2,309	¥5,711	<b>¥1,154</b>	<b>\$ 9,780</b>
Foreign exchange gain, net	480	–	–	–
Dividend income	378	481	<b>397</b>	<b>3,364</b>
Other	257	597	<b>712</b>	<b>6,034</b>
Total	¥3,424	¥6,789	<b>¥2,263</b>	<b>\$19,178</b>

Other deductions of cost and expenses for the years ended March 31, 2005, 2006 and 2007 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Impairment of long-lived assets	¥4,460	¥41,422	<b>¥22,711</b>	<b>\$192,466</b>
Special termination benefits	25	14,095	–	–
Write-down of available-for-sale securities and sundry investments	51	133	<b>38</b>	<b>322</b>
Foreign exchange loss, net	–	2,326	<b>2,558</b>	<b>21,678</b>
Other	1,800	2,044	<b>226</b>	<b>1,915</b>
Total	¥6,336	¥60,020	<b>¥25,533</b>	<b>\$216,381</b>

## 19. Leased assets:

The Company leases certain land, machinery and equipment, office space, warehouses, computer equipment and employees' residential facilities.

An analysis of assets under capital leases was as follows:

	Millions of Yen		Thousands of
	2006	2007	U.S. Dollars
Machinery and equipment	¥13,041	<b>¥13,033</b>	<b>\$110,449</b>
Accumulated depreciation	(5,066)	<b>(8,143)</b>	<b>(69,008)</b>
Total	¥ 7,975	<b>¥ 4,890</b>	<b>\$ 41,441</b>

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments at March 31, 2007:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥2,590	\$21,949
2009	650	5,508
2010	640	5,424
2011	629	5,331
2012	499	4,229
Thereafter	292	2,474
Total minimum lease payments	5,300	44,915
Less—Amount representing interest	198	1,678
Present value of net minimum lease payment	5,102	43,237
Less—Current obligations	2,506	21,237
Long-term capital lease obligations	¥2,596	\$22,000

Rental expenses under operating leases for the years ended March 31, 2005, 2006 and 2007 aggregated ¥8,123 million, ¥7,520 million and ¥6,497 million (\$55,059 thousand), respectively. Such rentals relate principally to cancelable leases which are renewable upon expiration.

The net minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2007 are as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 3,212	\$27,220
2009	2,406	20,390
2010	1,541	13,059
2011	970	8,220
2012	623	5,280
Thereafter	1,754	14,865
Total	¥10,506	\$89,034

## 20. Financial instruments:

### Derivatives—

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates and interest rates. Derivative financial instruments are utilized by the Company to reduce those risks but are not held or issued for trading purposes.

To hedge certain purchase and sale commitments and anticipated but not yet committed transactions denominated in other than functional currencies, the Company enters into forward exchange contracts and purchases and writes currency options. Written options are entered into only with purchased options.

The notional amounts of forward exchange contracts at March 31, 2006 and 2007 were ¥38,864 million and ¥18,992 million (\$160,949 thousand), respectively. The notional amounts of currency options purchased at March 31, 2006 were ¥9,128 million. The notional amounts of currency options written at March 31, 2006 were ¥9,128 million. There were no currency options for the year ended March 31, 2007.

To change currency and interest rate features of intercompany finance transactions, the Company enters into currency swap contracts with banks. Currency swap contracts effectively change, in substance, the U.S. dollar floating interest rate intercompany borrowings into Japanese yen fixed and floating interest rate borrowings and euro fixed interest rate borrowings.

The notional amounts of currency swap contracts at March 31, 2006 and 2007 were ¥55,667 million and ¥ 82,125 million (\$695,975 thousand), respectively.

### Concentration of Credit Risk—

The Company distributes its products to a diverse group of domestic and foreign customers. Trade receivables arising from these sales represent credit risk to the Company. However, due to the large size and diversity of the Company's customer base, concentration of credit risk with respect to trade receivables is limited. The Company performs ongoing credit evaluation of its customers' financial condition and, generally, requires no collateral from its customers.

Derivative financial instruments that the Company holds may expose the Company to credit risks if the counterparties are unable to meet the terms of such contracts.

The Company minimizes credit risk exposure of these derivatives by limiting the counterparties to major international banks and financial institutions as well as avoiding concentration with certain counterparties, and also by making frequent credit reviews of these counterparties. Management does not expect to incur any significant losses as the result of counterparty default.

## 21. Fair value of financial instruments:

The following table presents the carrying amounts and fair values of the Company's financial instruments at March 31, 2006 and 2007:

	Millions of Yen				Thousands of U.S. Dollars	
	2006		2007		2007	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
<b>Assets:</b>						
Available-for-sale securities	¥ 24,733	¥ 24,733	¥ 22,265	¥ 22,265	\$ 188,686	\$ 188,686
Sundry investments	396	479	352	418	2,983	3,542
Long-term receivables	145	140	99	96	839	814
Other financial instruments:						
Forward exchange contracts	105	105	55	55	466	466
Currency swap	2,706	2,706	1,693	1,693	14,347	14,347
Currency option	69	69	—	—	—	—
<b>Liabilities:</b>						
Long-term debt, including current maturity	(100,135)		(92,592)		(784,678)	
Less—Capital lease obligations	8,251		5,102		43,237	
Long-term debt—net	(91,884)	(86,316)	(87,490)	(82,687)	(741,441)	(700,737)
Other financial instruments:						
Forward exchange contracts	(352)	(352)	(381)	(381)	(3,229)	(3,229)
Currency swap	(125)	(125)	(22)	(22)	(186)	(186)
Currency option	(60)	(60)	—	—	—	—

### Estimation of Fair Values—

The following notes summarize the major methods and assumptions used in estimating the fair values of financial instruments.

Short-term financial instruments are valued at their carrying amounts included in the consolidated balance sheets, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach is applied to cash and cash equivalents, trade receivables, short-term borrowings and trade payables.

The carrying amounts and the fair values of available-for-sale securities are disclosed in Note 5.

Sundry investments included non-marketable equity securities, amounting to ¥2,793 million and ¥2,505 million (\$21,229 thousand) at March 31, 2006 and 2007, respectively, and memberships amounting to ¥396 million and ¥352 million (\$2,983 thousand) at March 31, 2006 and 2007, respectively. The corresponding fair values of non-marketable equity securities at those dates were not computed as such estimation is not practicable. The fair values of memberships were estimated based on the market price.

The fair values of long-term receivables were estimated by discounting estimated future cash flows using current interest rates.

The fair values of long-term debt were estimated using a discounted cash flow analysis based on incremental borrowing rates for similar types of borrowing arrangements.

The fair values of forward exchange contracts were estimated based on the quoted market rates of similar contracts. The currency swap and the interest rate swap were valued at estimated current replacement cost.

The fair values of contingent liabilities for guarantees of loans are not significant.

## 22. Basic and diluted net income (loss) per share:

A reconciliation of the numerators and denominators of basic and diluted net income (loss) per share computation for the years ended March 31, 2005, 2006 and 2007 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Loss from continuing operations	¥(10,112)	¥(85,758)	¥(9,536)	\$(80,814)
Effect of dilution—Zero coupon convertible bonds	—	—	—	—
Loss from continuing operations—diluted	¥(10,112)	¥(85,758)	¥(9,536)	\$(80,814)
Income from discontinued operations, net of tax	¥ 1,323	¥ 772	¥ 2,775	\$ 23,517
Net loss	¥ (8,789)	¥(84,986)	¥(6,761)	\$(57,297)
Effect of dilution—Zero coupon convertible bonds	—	—	—	—
Net loss—diluted	¥ (8,789)	¥(84,986)	¥(6,761)	\$(57,297)

	Number of Shares (Thousands)		
Weighted-average common shares outstanding	175,389	174,426	174,419
Effect of dilutive convertible bonds	—	—	—
Effect of stock options	—	—	—
Diluted common shares outstanding	175,389	174,426	174,419

	Yen			U.S. Dollars
Basic net income (loss) per share of common stock:				
Loss from continuing operations	¥(57.65)	¥(491.66)	¥(54.67)	\$(0.46)
Income from discontinued operations, net of tax	7.54	4.43	15.91	0.13
Net loss	¥(50.11)	¥(487.23)	¥(38.76)	\$(0.33)
Diluted net income (loss) per share of common stock:				
Loss from continuing operations	¥(57.65)	¥(491.66)	¥(54.67)	\$(0.46)
Income from discontinued operations, net of tax	7.54	4.43	15.91	0.13
Net loss	¥(50.11)	¥(487.23)	¥(38.76)	\$(0.33)

## 23. Supplemental schedule:

The changes in the allowance for doubtful receivables for the years ended March 31, 2005, 2006 and 2007 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Allowance for Doubtful Receivables				
Balance at beginning of year	¥3,534	¥2,610	¥3,165	\$26,822
Charged (credited) to costs and expenses	(515)	850	183	1,551
Deductions for accounts written off	(497)	(517)	(547)	(4,636)
Translation adjustments	88	222	86	729
Balance at end of year	¥2,610	¥3,165	¥2,887	\$24,466

The changes in the warranty reserve for the years ended March 31, 2005, 2006 and 2007 are as follows:

Warranty Reserve	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Balance at beginning of year	¥ 5,419	¥ 5,722	¥ 6,603	\$ 55,958
Provision	8,030	9,506	7,908	67,017
Payments	(7,844)	(8,972)	(7,942)	(67,305)
Translation adjustments	117	347	274	2,322
Balance at end of year	¥ 5,722	¥ 6,603	¥ 6,843	\$ 57,992

## 24. Commitments and contingent liabilities:

Commitments outstanding at March 31, 2007 for the purchase of property, plant and equipment and raw materials, and other payments approximated ¥35,526 million (\$301,068 thousand).

Contingent liabilities at March 31, 2007 principally for loans guaranteed in the ordinary course of business amounted to ¥236 million (\$2,000 thousand).

Loans guaranteed at March 31, 2007 are as follows:

Guarantee for	Guaranteed until	Guaranteed Amount	
		Millions of Yen	Thousands of U.S. Dollars
Affiliated company	April 1, 2007–December 31, 2007	¥236	\$2,000

The Company entered into this guarantee agreement to sustain the business relationships. The Company will be required to pay the guaranteed amounts if the affiliated company is unable to repay.

## 25. Remuneration of directors, executive officers and corporate auditors:

The aggregate remuneration (including bonuses and stock-based compensation [see Note 15]) charged to income by the parent company for directors, executive officers and corporate

auditors for the years ended March 31, 2005, 2006 and 2007 totaled ¥1,136 million, ¥974 million and ¥699 million (\$5,924 thousand), respectively.

## 26. Subsequent event:

A resolution has been made at the parent company's meeting of the Board of Directors held on May 14, 2007, to make Tohoku Pioneer Corporation (a 67.1% owned subsidiary) a wholly-owned subsidiary by acquiring its minority-held shares and its stock acqui-

sition rights, through a tender offer followed by a share exchange. The period of the tender offer was from May 15, 2007 to June 19, 2007 and the parent company acquired 30.5% shares for ¥13,506 million, totaling 97.6% shares held as a result.

# Independent Auditors' Report

# Deloitte.

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To the Board of Directors and Shareholders of Pioneer Corporation:

We have audited the accompanying consolidated balance sheets of Pioneer Corporation and subsidiaries (the "Company") as of March 31, 2006 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2007 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements do not present segment information concerning the Company's operations which, in our opinion, is required for a complete presentation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of segment information disclosures, such consolidated financial statements present fairly, in all material respects, the financial position of Pioneer Corporation and subsidiaries as of March 31, 2006 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.



June 28, 2007

Member of  
**Deloitte Touche Tohmatsu**