Pioneer

PIONEER CORPORATION ANNUAL REPORT 2009

# Giving Our Best

## ANNUAL REPORT 2009

For the Year Ended March 31, 2009

Pioneer Corporation is committed to realizing its group philosophy, "Move the Heart and Touch the Soul," with more people around the world. Ever since its founding in 1938, Pioneer has brought to market numerous breakthrough electronics products.

We currently face an extremely challenging business environment. Pioneer is thus determined to implement drastic business restructuring, while making every effort to achieve the targets of its medium-term business plan. We seek to meet the expectations of all our valued stakeholders by continuing to provide appealing products that only Pioneer can create.


# Giving Our Best

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**Pioneer currently faces an extremely challenging business environment. Nonetheless, we are pressing ahead with drastic restructuring, centered on business portfolio realignment. At the same time, we are doing our utmost to achieve the targets of our medium-term business plan, which revolves around our growth strategy for the core Car Electronics business.**

## We Report Our Fiscal 2009 Performance

Effective from fiscal 2009, the year ended March 31, 2009, Pioneer has changed its accounting principles for preparing consolidated financial statements from U.S. generally accepted accounting principles (GAAP) to Japanese GAAP. Figures for fiscal 2008 have been reclassified based on Japanese GAAP accordingly.

In fiscal 2009, consolidated operating revenue decreased 27.8% year on year to ¥558.8 billion. This was mainly the result of a decline in sales of car audio products, plasma displays and DVD drives, which largely reflected the sharp deterioration in consumer spending worldwide in the wake of the U.S. financial crisis as well as the impact of the Japanese yen's appreciation.

Operating loss was ¥54.5 billion in fiscal 2009, compared with operating income of ¥9.2 billion in fiscal 2008, due to lower operating revenue and deterioration in the gross profit margin. In addition to this operating loss, Pioneer recorded restructuring costs of ¥24.7 billion, a loss on impairment of investment securities of ¥14.9 billion and higher income taxes following an evaluation of deferred tax assets. Consequently,

### Financial Highlights

Pioneer Corporation and Subsidiaries
Years ended March 31

In millions of yen and thousands of U.S. dollars, except per share information

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Operating revenue | **¥558,837** | ¥774,477 | **$5,702,418** |
| Operating income (loss) | **(54,529)** | 9,216 | **(556,418)** |
| Net loss | **(130,529)** | (19,040) | **(1,331,929)** |
| Net loss per share | **(636.68)** | (103.95) | **(6.50)** |
| Cash dividends per share | **0.00** | 7.50 | **0.00** |
| Free cash flows | **(99,855)** | (50,341) | **(1,018,929)** |
| Total assets | **429,093** | 562,276 | **4,378,500** |
| Total equity | **111,848** | 259,355 | **1,141,306** |

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥98=US$1.00, the approximate current rate prevailing on March 31, 2009.

**Susumu Kotani**
President and Representative Director

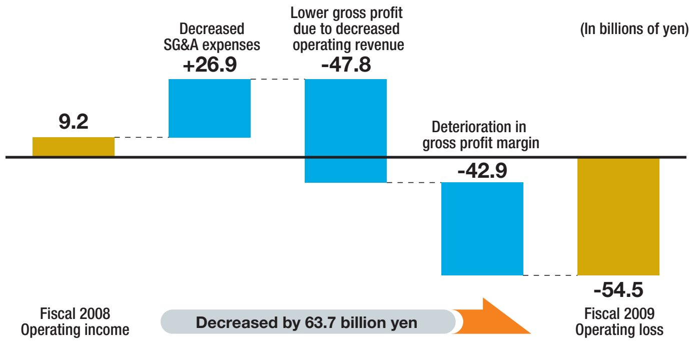
net loss was ¥130.5 billion, compared with a net loss of ¥19.0 billion in the previous fiscal year.

Total assets as of March 31, 2009 were ¥429.1 billion, a decrease of ¥133.2 billion from March 31, 2008. This mainly reflected decreases in trade receivables, inventories, deferred tax assets, and investment securities. Total liabilities were ¥317.2 billion, up ¥14.3 billion from March 31, 2008. This mainly reflected an increase of short-term borrowings. Total equity was ¥111.8 billion, a decrease of ¥147.5 billion from March 31, 2008. This mainly reflected a decrease in retained earnings and a decline of foreign currency translation adjustments due to the impact of the yen's appreciation.

In fiscal 2009, Pioneer used net cash of ¥38.3 billion in investing activities, mainly for capital expenditures in the Car Electronics business, in addition to using net cash of ¥61.6 billion in operating activities. Consequently, free cash flows were a negative ¥99.9 billion. Financing activities provided net cash of ¥85.8 billion mainly through a net increase in short-term borrowings.

In light of the above business results, Pioneer deeply regrets that it has decided to pay no interim or year-end dividend for fiscal 2009. We would like to extend our deepest apologies to stakeholders for any concerns we may have caused over our weak performance and other issues.

**Operating Income (Loss) Structure Breakdown for Fiscal 2009**



## We Are Implementing Drastic Restructuring.

As aforementioned, in fiscal 2009, Pioneer's financial position deteriorated as a result of a sharp drop in operating revenue, large losses and significant net cash used in operating activities. To address this situation, we are implementing drastic restructuring centered on conducting business portfolio realignment, streamlining the business framework of the entire Pioneer Group, and improving the Company's financial position.

### Business Portfolio Realignment

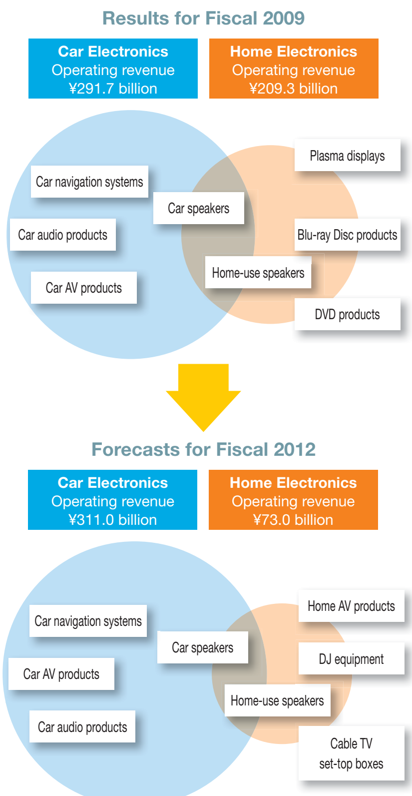
Going forward, Pioneer will position the Car Electronics business, with its outstanding technological expertise and brand power, as a core business. In this business, we will work to build stronger operations that can stay on top of changes in the business environment. Meanwhile, through strategic alliances with other companies, we will strive to actively create new markets and business domains in a timely and cost effective manner.

As part of these efforts, Pioneer has agreed with Mitsubishi Electric Corporation to jointly develop hardware and software for use in car navigation systems and car AV products.

We are also working to expand business in China. Pioneer signed a basic agreement with Shanghai Automotive Industry Corporation (Group) to establish a joint venture specializing in the development and sale of intelligent transport systems and provision of related services as well as in the development and sales of car navigation systems and car AV products.

Looking ahead, we will develop the Home Electronics business in three main areas: home AV products, DJ equipment and cable TV set-top boxes. We will completely withdraw from the display business after ending plasma TV sales by the end of fiscal 2010. In the optical disc business, Pioneer executed an agreement with Sharp Corporation on the establishment of a joint venture in the optical disc business on June 25, 2009, with the aim of restoring this business to profitability by taking advantage of the managerial resources of both companies in the area of optical discs, expanding business especially in the Blu-ray Disc market.

**Business Portfolio Realignment Diagram**




### Streamlining the Business Framework of the Entire Pioneer Group

Pioneer is working to streamline organizations to match the smaller business scale after business portfolio realignment. To this end, we are consolidating our network of production companies, overhauling sales structures, and integrating operating bases with the aim of optimizing the efficiency of headquarters and back office functions. As for the R&D structure, we will select and focus R&D themes in strategic areas. Through this business framework streamlining, we plan to reduce group-wide personnel by approximately 5,800 regular employees and approximately 4,000 temporary and contract employees, compared with our workforce as of December 31, 2008. We also have reduced the number of directors/executive officers by six.

## Improving the Company's Financial Position

Given the funding requirements for projected business restructuring expenses in fiscal 2010 and the redemption of convertible bonds with stock acquisition rights in fiscal 2011, we are working to generate cash and boost equity capital. This is also to ensure that we achieve the targets of our medium-term business plan.

We are working to generate cash mainly by reducing inventories and accelerating trade receivables collections, curbing capital expenditures, cutting directors'/executive officers' remuneration and employees' salaries, and selling idle assets.

In regard to boosting equity capital, Pioneer continues to examine possibilities for financial partnerships through negotiations with potential sponsors. The Board of Directors resolved on April 28, 2009 to raise funds through a third-party allotment of shares to Honda Motor Co., Ltd. Deliberations with Honda Motor Co., Ltd. as to the terms such as issue date and other matters are ongoing as we consider the status of negotiations with other potential sponsors.

## We Have Devised the Following Medium-Term Business Plan.

While steadily implementing this restructuring, we are determined to restore profitability and achieve future growth by executing the following measures based on our medium-term business plan:

## Car Electronics Business

In the core Car Electronics business, in fiscal 2010 we are implementing drastic restructuring to boost our earnings power in existing domains while building an operating structure that can quickly respond to changes in the business environment so that we can expand business when the auto market recovers.

Over the medium term, we aim to expand the Car Electronics business by focusing on products and markets that retain high growth potential. In the consumer-market business overseas, we are looking to introduce affordably priced models of car navigation systems and car AV products, and to actively develop business centered on car AV products in newly emerging economies. In Japan, we aim to stimulate new demand by establishing a telematics business, which was developed through the new *Air Navi* series.

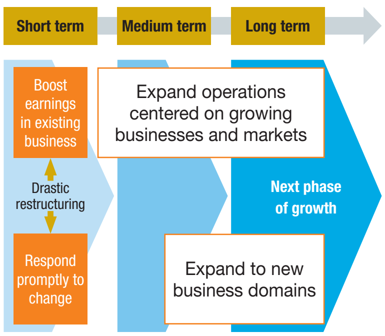
In the OEM business, we will bolster ties with major clients Toyota Motor Corporation and Honda Motor Co., Ltd. By harnessing proposal capabilities honed in the consumer-market business, we will work to expand businesses with an emphasis on car navigation systems. Efforts will also be focused on newly emerging markets mainly in China, where we will launch a joint venture with Shanghai Automotive Industry Corporation (Group).


Overseas, Pioneer seeks to develop new car entertainment by focusing on car AV products.

Air navi

The relaunched *Air Navi* series features enhanced basic functionality, in addition to offering communications functions that realize telematics capabilities.

### Driving Growth in the Car Electronics Business




Over the long term, in addition to conventional car entertainment, we plan to expand business domains in car safety and reliability, and the environment. Aiming to become a leading company in the car electronics fields, we will contribute to the advancement of motorized societies around the world.

Pioneer is positioning car navigation systems as information and communications terminals that provide links to vehicles and the outside world, with the aim of building a safer, more comfortable and reliable motorized society. To this end, we will work towards raising the sophistication of car navigation systems with the aim of enhancing their links with vehicles. We will also work hard to provide business-use services, such as fleet operation and management services as well as to provide real-time contents.

We also recognize our responsibility to help protect the global environment. Eyeing the advent of the electric vehicle era, we will strengthen our hand in increasingly energy-efficient and lighter fields, among other initiatives. In the process, we seek to develop innovative and unique technologies, as we strive to expand our businesses domains.

Through these initiatives, in the Car Electronics business, Pioneer is targeting operating revenue of ¥311.0 billion and operating income of ¥15.0 billion in fiscal 2012. We are determined to achieve these medium-term business plan targets, and advance to the next phase of our growth thereafter.

ACCO*

Based on the concept of creating comfortable living environments filled with sound, the *ACCO* built-in home audio system represents a lifestyle proposal for accentuating the home with sound.
Shown above is the A-IW001 model in-wall amplifier.
iPod touch sold separately.

## Home Electronics Business

Going forward, Pioneer will develop the Home Electronics business centered on home AV products, DJ equipment and cable TV set-top boxes, after completing withdrawal from the display business and starting an optical disc joint venture.

In home AV products, Pioneer is working to bolster its audio products, where it started out as a company, while expanding sales and reducing fixed expenses to restore profitability. We are positioning AV receivers as core products and hope to establish Pioneer as a leading brand in the field to boost sales and generate steady earnings. We are also working to stimulate new demand by creating entirely new markets with audio products based on entirely new concepts. Through collaboration with housing-related companies, we are rolling out the *ACCO* built-in home audio system that caters to living environments within the home.

In the DJ equipment, we aim to expand earnings by revitalizing the market through our outstanding technological expertise and product planning capabilities, which have made Pioneer DJ equipment the *de facto* industry standard, and by stepping up activities in newly emerging markets. In addition, taking full advantage of our brand power, we plan to continue raising our growth potential by entering the facilities business, particularly audio and video facilities.

In cable TV set-top boxes, Pioneer commands a strong position with a large 30% share of the Japanese market. Here, we seek to work steadily, mainly by encouraging more cable TV stations to adopt our products and addressing demand from digitalization, with the aim of maintaining stable earnings.

The Home Electronics business scale will be shrunk in line with business portfolio realignment. However, in fiscal 2012, the Home Electronics business is targeting operating revenue of ¥73.0 billion and operating income of ¥3.0 billion mainly based on projected restructuring benefits and new business creation.

## Medium-Term Consolidated Business Forecasts

Based on the aforementioned restructuring and medium-term business plan, we have set the following medium-term consolidated business forecasts.

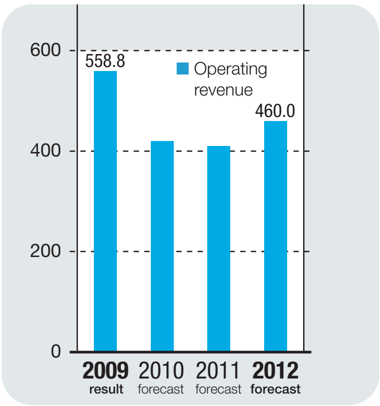
In fiscal 2010, Pioneer is projecting a consolidated operating loss and net loss. However, we expect to complete restructuring during fiscal 2010 and from fiscal 2011 plan to move back into the black in terms of operating income in both the Car Electronics and Home Electronics businesses, while recording consolidated net income. In fiscal 2012, Pioneer aims to achieve consolidated operating revenue of ¥460.0 billion, operating income of ¥22.0 billion and net income of ¥16.0 billion.

In terms of cash flows, based on expectations of improving cash flows in operating activities in fiscal 2011 by restoring earnings, we are also targeting positive net operating cash flows of ¥60.0 billion and free cash flows of ¥29.0 billion in fiscal 2012.

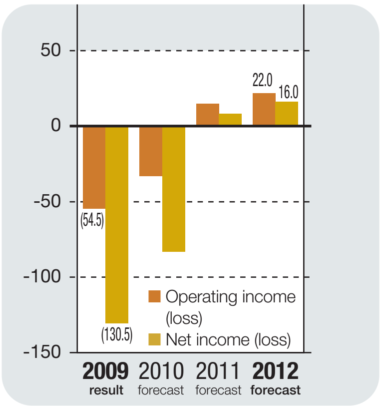
These medium-term consolidated business forecasts do not include the impact of the optical disc joint venture with Sharp Corporation, which is still under examination.

**Consolidated Business Forecasts**

(Billions of Yen)




(Billions of Yen)




## We Will Offer Products Only Pioneer Can Create.

In this manner, we are determined to see drastic restructuring through to the very end, centered on business portfolio realignment, streamlining of the business framework of the entire Pioneer Group, and improving the Company's financial position. At the same time, we will do our utmost to achieve the targets of the medium-term business plan, which is centered on our growth strategy for the Car Electronics business.

Pioneer currently faces an extremely challenging business environment. However, I believe that what is expected of us is to continue to provide appealing products to customers. Going forward, we are committed to developing hallmark Pioneer products featuring innovative technologies and unique added value, especially car navigation systems, car audio products, home AV products, DJ equipment and cable TV set-top boxes. Your continued understanding and support will be vital to this endeavor.

June 25, 2009

Susumu Kotani
President and Representative Director

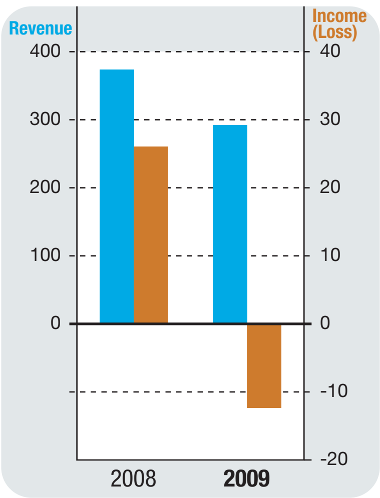
# REVIEW OF OPERATIONS

Pioneer Corporation and Subsidiaries
Year ended March 31, 2009 compared with year ended March 31, 2008

## Business Segments

### Car Electronics

**Revenue and Income (Loss)**
(Billions of Yen)




Operating revenue decreased 22.0% year on year to ¥291.7 billion (US$2,976.6 million) because of lower sales of both car audio products and car navigation systems, partly due to lackluster auto sales worldwide. In car navigation systems, consumer-market sales declined year on year, mainly due to lower sales in North America, Japan and Europe. Meanwhile, OEM sales rose on the back of higher sales in Japan and China, despite lower sales in North America. In car audio products, consumer-market sales decreased, mainly because of lower overseas sales. OEM sales also decreased due to lower sales in Japan and North America. Total OEM sales in this segment accounted for approximately 41% of Car Electronics operating revenue in fiscal 2009, the year ended March 31, 2009, compared with approximately 39% in fiscal 2008.

In terms of geographic operating revenue, operating revenue in Japan decreased 9.8% to ¥114.0 billion (US$1,163.1 million), and overseas operating revenue declined 28.2% to ¥177.7 billion (US$1,813.5 million).

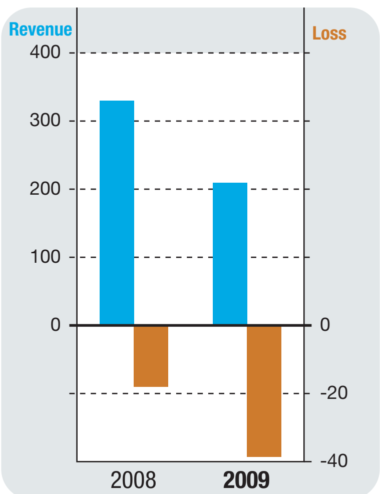
This segment recorded an operating loss of ¥12.3 billion (US$125.9 million) in fiscal 2009, compared with operating income of ¥26.1 billion in fiscal 2008. This was mainly due to the following factors in the car audio products business: lower sales, and deterioration in the gross profit margin due to a drop in production volume and the impact of the stronger yen.

Main Products

- Car Navigation Systems
- Car AV Systems
- Car Stereos
- Car Speakers

### Home Electronics

**Revenue and Loss**
(Billions of Yen)




Operating revenue decreased 36.5% year on year to ¥209.3 billion (US$2,135.3 million). This was largely a result of lower sales of plasma displays and DVD drives. Display product sales accounted for approximately 38% of Home Electronics operating revenue in fiscal 2009, compared with approximately 40% in fiscal 2008.

In terms of geographic operating revenue, operating revenue in Japan declined 33.0% to ¥31.0 billion (US$316.4 million), and overseas operating revenue fell 37.1% to ¥178.2 billion (US$1,818.8 million).

This segment recorded an operating loss of ¥38.6 billion (US$394.1 million), compared with an operating loss of ¥17.9 billion in the previous fiscal year. This was mainly due to lower sales and deterioration in the gross profit margin chiefly in plasma displays.

Main Products

- Plasma Displays
- DVD Players
- Blu-ray Disc Players
- Audio Components
- LCD TVs
- DVD Drives
- Blu-ray Disc Drives
- DJ Equipment
- DVD Recorders
- Blu-ray Disc Recorders
- Audio Systems
- Equipment for Cable-TV Systems

## Others

Operating revenue decreased 18.6% year on year to ¥57.9 billion (US$590.6 million) due principally to lower sales of electronics devices and parts, speaker units for cellular phones, factory automation systems and organic light-emitting diode displays.

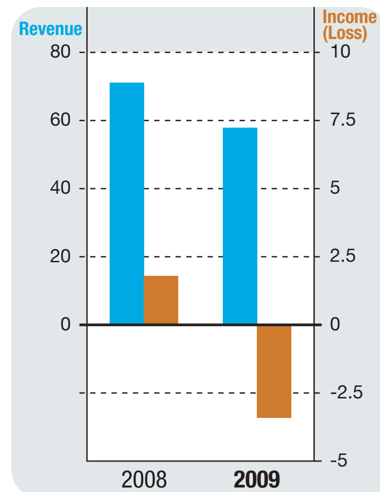
In terms of geographic operating revenue, operating revenue in Japan decreased 12.8% to ¥37.5 billion (US$382.5 million), and overseas operating revenue decreased 27.3% to ¥20.4 billion (US$208.1 million).

This segment posted an operating loss of ¥3.4 billion (US$34.5 million), compared with operating income of ¥1.8 billion in the previous fiscal year, due to lower sales.

Main Products and Services

- Organic Light-Emitting Diode Displays
- Factory Automation Systems
- Speaker Units
- Electronics Devices and Parts
- Telephones
- AV Accessories
- Business-use AV Systems
- Licensing of Patents Related to Laser Optical Disc Technologies

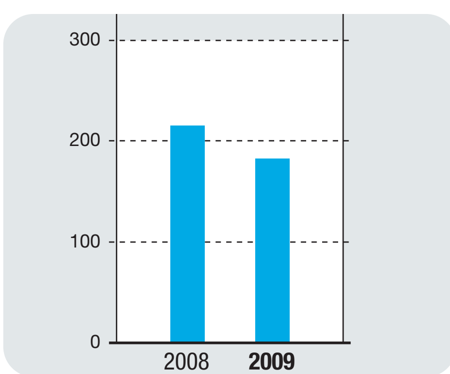
**Revenue and Income (Loss)**
(Billions of Yen)



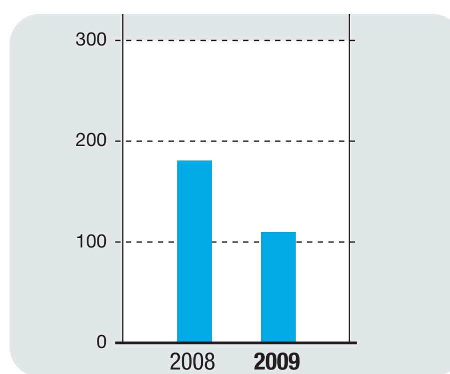

Notes: 1. Effective from fiscal 2009, Pioneer has changed its accounting principles for preparing consolidated financial statements from U.S. generally accepted accounting principles (GAAP) to Japanese GAAP. Figures for fiscal 2008 have been reclassified based on Japanese GAAP accordingly.
2. Operating income (loss) in each business segment represents operating income (loss) before elimination of intersegment transactions.
3. Effective from fiscal 2009, the patent licensing business, which was previously classified as an independent business segment, has been included in the “Others” segment because of its reduced importance to consolidated business results. Figures for fiscal 2008 have been reclassified accordingly.
4. The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥98=$1.00, the approximate current rate prevailing on March 31, 2009.

## Operating Revenue by Geographic Markets

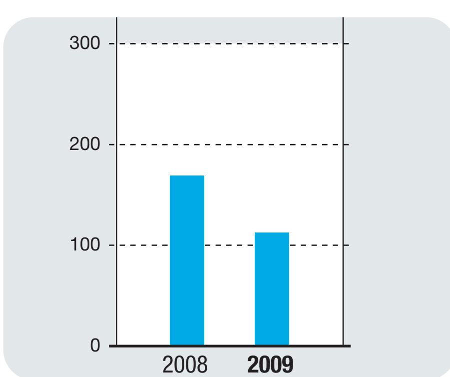
**Japan**
(Billions of Yen)



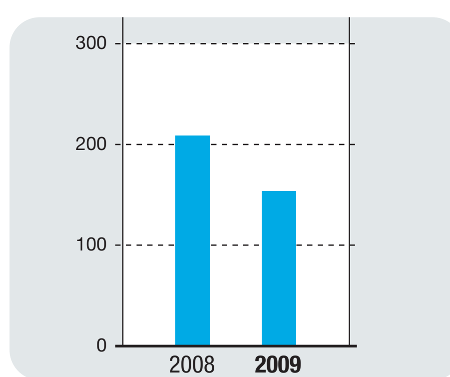

**North America**
(Billions of Yen)




**Europe**
(Billions of Yen)



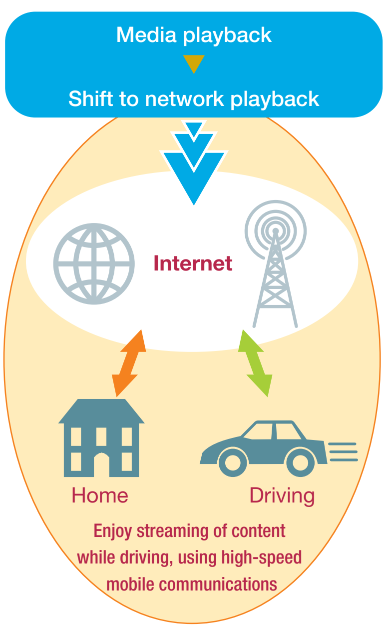

**Other Regions**
(Billions of Yen)



# R&D AND INTELLECTUAL PROPERTIES

**Pioneer is actively engaged in all aspects of R&D, from basic research aimed at realizing new businesses in the future to technology development aimed at adding value to existing products. At the same time, in accordance with business portfolio realignment under its medium-term management plan, Pioneer is prioritizing R&D themes in strategic areas. Going forward, Pioneer will conduct R&D activities with an emphasis on R&D themes related to strategic areas, namely the car electronics and the audio products businesses. The Company is also placing emphasis on the speed of commercialization, giving priority to R&D themes that can be commercialized over the medium term as well as to the discovery of new themes.**

**In the meantime, Pioneer considers its intellectual properties to be an important business resource. Through strategic acquisition and exploitation of these rights, the Company is seeking not only to support its existing businesses, but also to ensure the competitiveness of its businesses in the future.**




## Mobile Network Playback Technology to Transform Car Culture

Mobile network playback technology developed by Pioneer enables people to enjoy content stored on their home servers in their vehicles. Through the development of a new buffer control technology, listeners and viewers can enjoy uninterrupted streaming of their content even when the vehicle enters a tunnel or some other area with poor mobile signal reception.

High-speed and wide-area mobile communications services are set to commence in Japan from summer 2009. Based on these new services, car navigation systems and other devices using this mobile network playback technology will be able to provide seamless playback functions between people's homes and vehicles. These functions will allow people to view or listen to content recorded at home in their vehicles whenever they so desire. With high-speed mobile communications services getting under way overseas as well, the regions in which this mobile network playback technology can be utilized will expand.

Pioneer is committed to promoting the development of vehicle network environments and to continued R&D activities aimed at creating added value in car culture.

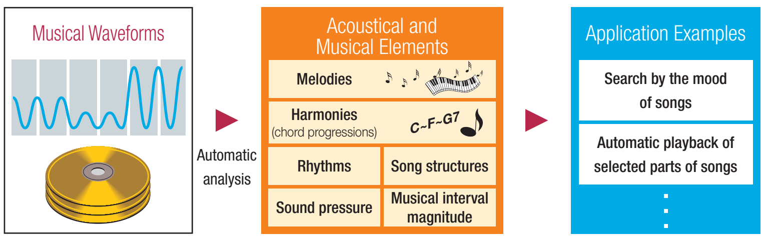
## Music Analysis Technology Offers New Ways to Enjoy Music

The popularization of music distribution services and audio compression formats, such as MP3, has greatly expanded the environment in which one can casually enjoy music.

For providing new ways to enjoy music, Pioneer has developed technology to automatically analyze musical features, such as melodies, chords, and rhythms, from the level of musical waveforms. Applying this technology, the Company is creating new ways to search for and playback music.

This technology is already featured in Pioneer's top-of-the-line car navigation system, *Cyber Navi*. The system provides a variety of playback methods to enrich people's driving experience. People can search the music stored on the music server for their listening preferences using mood keywords, such as "happy" or "quiet," or can continuously replay only the selected parts of songs.

With further progress expected for this technology, Pioneer intends to pursue R&D programs that will enable the technology to contribute to the development of the Company's audio products business and to create new forms of entertainment.

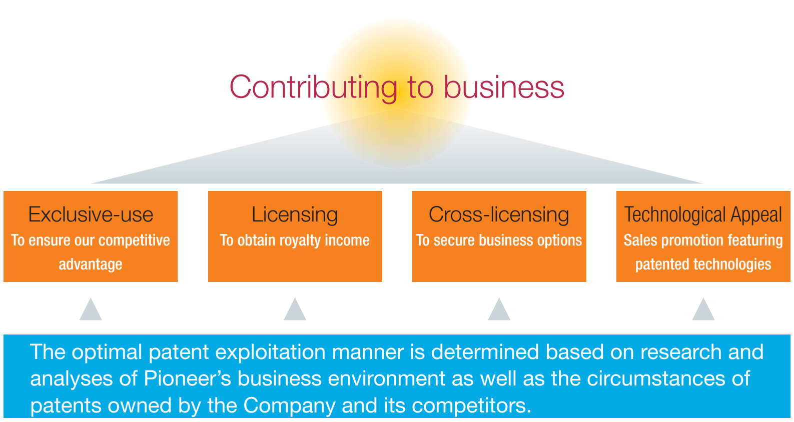



## Intellectual Properties that Support Business

Pioneer owns a large number of patents in such fields as car navigation systems, optical discs, and audio systems, and is continuously filing new patents. As a result, Pioneer ranks 11th among approximately 17,000 companies in Japan in terms of the number of published patent applications in the categories of displays, audios, and information storage. (Source: Japan Patent Office Annual Report 2008, Japan Patent Office)

Furthermore, the Company does not just focus on obtaining patent rights, but also utilizes them proactively to support business activities from the perspective of intellectual properties. Specifically, the Company divides patent utilizing methods into the following four categories: "exclusive-use," "licensing," "cross-licensing," and "technological appeal." Pioneer supports business activities by choosing and implementing the optimum patent exploitation manner among the four categories in each business.

Going forward, we aim to build a patent portfolio that underpins business chiefly by strengthening our patent strategies in the core fields of car electronics and audio products, while supporting the creation of new businesses with intellectual property assets.




CYBER NAVI

Based on Pioneer's music analysis technology, the *Cyber Navi* AVIC-VH9900 model enables users to enjoy music playback modes that select songs stored on the hard disc drive, such as the "Link Gate Play" mode, which selects the user's current favorite songs at random and the "Feeling Play" mode, which automatically selects songs according to song mood and driving situation.

# CORPORATE SOCIAL RESPONSIBILITY

**Pioneer seeks to fulfill its corporate social responsibilities through dialogue with stakeholders including customers, shareholders, employees, vendors and local communities. At the same time, we conduct various corporate citizenship activities with the aim of enhancing our corporate value by earning the trust of society.**

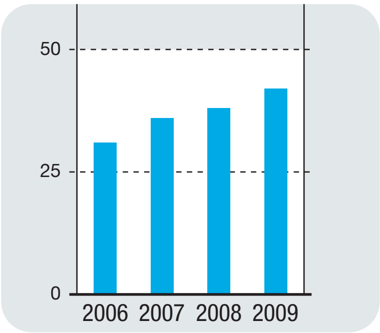
## Social Contribution

Based on Pioneer's group philosophy "Move the Heart and Touch the Soul," Pioneer conducts social contribution activities, with active participation by employees, centered on the themes of "audio/video," "environmental protection," and "educational support." These activities take full advantage of Pioneer's technologies, experience, and expertise. We hope that these activities may help to realize a more fulfilling and sustainable society.

Pioneer offers a varied program of regular "Listen through the Body" concerts featuring performers from many different genres.

The "Listen through the Body" vibrating acoustic system transmits realistic musical vibrations directly to the listener's body through seat cushions and a small pouch with built-in vibration units.

**Number of "Listen through the Body" Concerts**
(Number of concerts)




### "Listen through the Body" Concerts

Since 1992, Pioneer, using vibrating acoustic systems that convert sounds into vibrations, has been holding performances of the "Listen through the Body" concert to bring the joy of music to people who are hearing impaired. In addition to the monthly concert held at the Company's head office with the help of volunteers, Pioneer has been holding these music concerts throughout Japan and overseas in recent years through the cooperation of local volunteers.

In Japan, the Company has held these concerts in Sendai, Shizuoka, Tottori, Hiroshima and Fukuoka. Held in local halls, schools for children with disabilities, and conference rooms in companies, these concerts have touched the hearts of many people with music.

Overseas, in March 2008, Pioneer held its first "Listen through the Body" concert in China at a school for the hearing impaired in Shanghai. In June 2008, the Company held a second performance in the United States, where it fitted 20 seats with the "Listen through the Body" vibrating acoustic system at a concert in Los Angeles given by the famous saxophonist Sadao Watanabe. It is our hope that local students and senior citizens enjoyed the concert. In addition, Pioneer moved the venue to the conference room of a subsidiary in Singapore, inviting students from a school for the hearing impaired to enjoy a film screening. Through these and other concerts, the Company is now actively pursuing this program on a global basis.

In September 2007, Pioneer received the "Mecenat Award for Physical Acoustics" and the "Readers' Choice for Mecenat Award" at the 2007 Japan Mecenat Awards, which honors outstanding support of arts and cultural activities. Pioneer was recognized for using acoustics technology developed in-house to steadily expand its circle of activities, with operations led mainly by employee volunteers and their families.

The "Listen through the Body" concerts are an activity in which all participants—the audience, volunteer Pioneer employees, performers, and others—can hopefully experience the joy of music. Pioneer plans to convey the joy of music to an even broader audience by continuing its programs in various regions around the world.

## Environmental Preservation

Seeking to achieve the true integration of business activities and environmental preservation activities, Pioneer is stepping up its activities on a group-wide basis to reduce greenhouse gas emissions, maintain "zero emission of landfill waste" status, and provide environmentally friendly products. These activities are guided by the slogan "Even in our environmental activities, we endeavor to remain true to the Pioneer spirit."

### Promoting the Use of Photovoltaic Generation

As part of its efforts to reduce greenhouse gas emissions, Pioneer is working to incorporate photovoltaic generation into its operations. Currently, Pioneer is field testing a new photovoltaic generation technology developed through joint research with an Incorporated Administrative Agency, New Energy and Industrial Technology Development Organization (NEDO).

In March 2007, we first introduced a 150kW photovoltaic generation system at our semiconductor subsidiary, Pioneer Micro Technology Corporation. This system is being used to supply part of the electric power needed by the subsidiary's production lines. In another installation, Pioneer introduced a 30kW photovoltaic generation system at its Kawagoe Plant. This system is being used to serve the electric power needs of the plant itself. There is a dedicated line that sends information on the power generation status to NEDO each hour and a power generation monitor located in the plant lobby indicates the photovoltaic amount in real time. These make it possible to verify how they are contributing to the environment.

In this manner, the Company aims to use more clean energy sources, such as photovoltaic generation, and to increase electric power consumption efficiency. Pioneer will continue to proactively pursue the reduction of its greenhouse gas emissions.


Photovoltaic generation system installed at the Kawagoe Plant.

### Car Navigation System Supports Eco-Driving

Praised for its eco-friendly functions, Pioneer's *Cyber Navi* AVIC-VH9000 won the Chairperson's Award, Eco-Products Awards Steering Committee, in the eco-products category of Japan's 5th Eco-Products Awards.

In recent years, public awareness of the need for energy efficiency and for eco-driving to reduce the carbon dioxide emissions of automobiles has heightened considerably. Accordingly, Pioneer has sought to introduce eco-friendly products into its car navigation system lineup.

The *Cyber Navi* car navigation system enables users to benefit from improved traffic congestion avoidance capabilities through the utilization of "Smart Loop," which allows knowledge sharing among drivers; display estimated fuel consumption for each route searched; and utilize the Web service *Smart Loop Drive Report*, which allows drivers to check their eco-driving status based on their driving record, thereby supporting and helping to raise awareness of eco-driving among drivers.

In the future, Pioneer will continue to supply eco-friendly products to the market. This will entail enhancing energy efficiency and eco-driving support services by raising the sophistication of car navigation systems.

CYBER NAVI

eco products awards 2008

Received the Chairperson's Award, Eco-Products Awards Steering Committee, in the eco-products category of Japan's 5th Eco-Products Awards

**Under the Company Law of Japan, Pioneer has elected to structure its corporate governance system as a company with a board of corporate auditors. The Board of Directors, which includes several outside directors, decides on fundamental issues such as management policies and supervises the execution of business activities, while the Board of Corporate Auditors audits the directors' performance of their duties.**

**Based on this institutional structure, Pioneer has adopted an executive officer system to expedite the execution of business activities and clarify the responsibilities for each business. Meanwhile, aiming to enhance the transparency of decision making, Pioneer has established a Group Executive Committee and voluntary advisory committees to the Board of Directors.**

## Board of Directors/Board of Corporate Auditors

Pioneer has adopted a corporate auditor system of corporate governance. The Company has established the Board of Directors as a decision-making body for matters of the highest importance, such as management policies, and as a supervisory body. The representative directors are responsible for business execution, while the Board of Corporate Auditors is responsible for auditing. In fiscal 2009, the year ended March 31, 2009, the Board of Directors held 10 meetings, while the Board of Corporate Auditors held 11 meetings.

Several outside directors with a high degree of independence have been elected to strengthen the supervision of business execution. In addition, Pioneer has shortened the term of office of directors to one year. The purpose behind this action was to further clarify the responsibilities of directors and facilitate prompt responses to changes in the business environment by increasing the opportunities for shareholders to elect directors.

Furthermore, the Company has adopted an executive officer system to expedite business execution and clarify the responsibilities for each business.

## Group Executive Committee

The Group Executive Committee, which was formed to reinforce decision making, is comprised of directors and executive officers chosen by the Board of Directors and holds regular meetings twice per month, in principle. The Group Executive Committee, under the supervision of the Board of Directors, thoroughly discusses issues such as priorities for advancing business activities, investment projects, group realignment, and group-wide management strategies, as well as medium- and long-term policies, and approves these issues or in cases where the Board of Directors has decision-making authority, the Group Executive Committee reports on these issues to the Board of Directors. In fiscal 2009, the Group Executive Committee held 29 meetings and deliberated approximately 110 issues, functioning effectively as part of the management decision-making process in support of the Board of Directors.

## Voluntary Advisory Committees

Pioneer has voluntarily established the following three advisory committees to the Board of Directors, each chaired by an outside director. Their goals are to improve management transparency and strengthen corporate governance. These committees report on the results of their deliberations to the Board of Directors, and make related recommendations. The Board of Directors discusses their reports and recommendations, giving due consideration to their content.

### Nominating Committee

This committee discusses matters concerning the election and dismissal of directors; the election, dismissal, promotion and demotion of executive officers; and the election of corporate auditors. In fiscal 2009, the committee held two meetings.

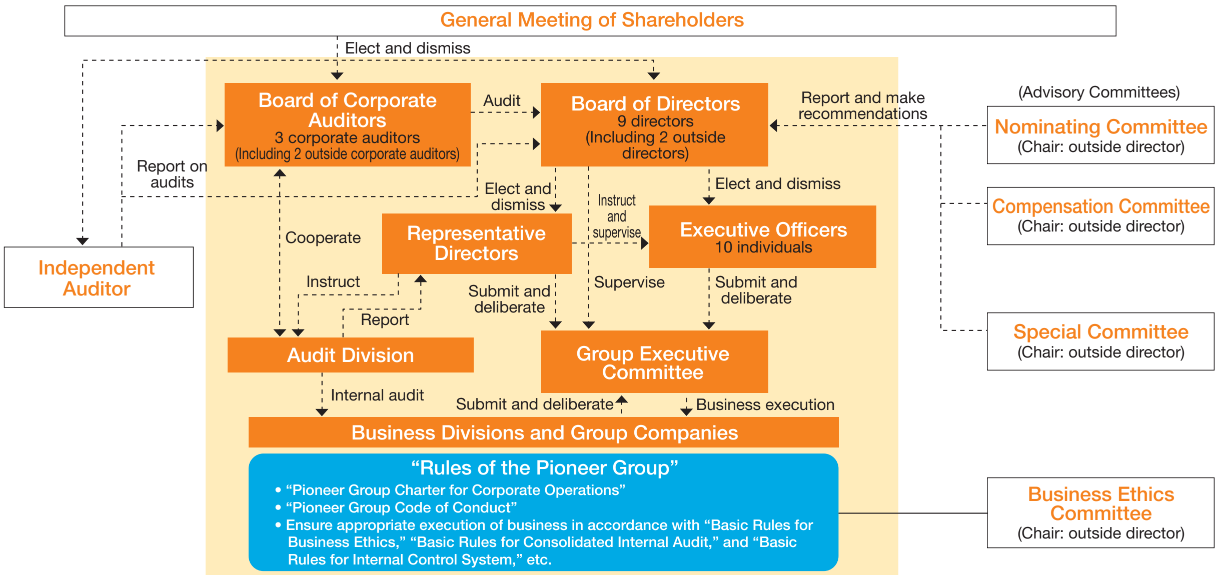
### Compensation Committee

This committee discusses issues such as policies and systems for remuneration and other benefits for directors and executive officers as well as individual evaluations and compensation levels. In fiscal 2009, the committee held two meetings.

### Special Committee

This committee examines and discusses measures to deal with affairs that have a significant impact on corporate value, such as mergers and acquisitions, both when they occur, and when they are likely to occur, from the standpoint of legality, reasonableness, and appropriateness.

**Corporate Governance Structure** (As of June 25, 2009)




## Ensuring Appropriate Execution of Business

To ensure that employees throughout the Group share its corporate philosophy of "Move the Heart and Touch the Soul," Pioneer has determined a "Group Vision Structure" and formulated the "Rules of the Pioneer Group."

Aimed at ensuring that the Company will remain trusted and respected as a good corporate citizen, the "Pioneer Group Charter for Corporate Operations" is foremost in importance. The "Rules of the Pioneer Group" also consist of the "Pioneer Group Code of Conduct," which stipulates specific decision-making and behavioral standards, rules outlining the scope of responsibility and authority for each Group company, and rules related to compliance.

In regard to compliance, based on its "Basic Rules for Business Ethics," the Company has established a Business Ethics Committee chaired by an outside director to ensure legal compliance as well as thorough observance of the "Pioneer Group Code of Conduct." We have also established an internal reporting system called the "Business Ethics Hotline" that is independent of the normal corporate reporting channels. All reports on violations of the "Pioneer Group Code of Conduct" received by this hotline are dealt with in good faith.

In addition, the Audit Division, Pioneer's internal auditing unit, audits the Group's business activities in accordance with the "Basic Rules for Consolidated Internal Audit," to ensure compliance with laws and internal regulations.

Pioneer's policy regarding the elimination of anti-social forces that threaten social order and security is stipulated by the "Pioneer Group Charter for Corporate Operations." In the spirit of pursuing fair-minded corporate activities that respect social justice, the Company resists anti-social forces in a systematic and resolute manner in accordance with the "Pioneer Group Code of Conduct."

To ensure appropriate disclosure of corporate information and the accuracy of financial reporting, Pioneer has formulated the "Basic Rules on Disclosure" and the "Basic Rules for Consolidation Accounting" with the aim of strengthening its information management system.

Based on its "Basic Rules for Internal Control System," Pioneer has established an Internal Control Committee, which is chaired by a representative director of the Company, to enhance and bolster the risk management system for risks associated with the Group's businesses. The committee devises measures to identify risks and prevent crises. Response policies for material risks are set out in the "Rules of the Pioneer Group" and managed systematically.

Furthermore, based on the "Basic Rules for Crisis Controls," we have established a crisis control structure for the Pioneer Group and strive to ensure proper responses in the event of a crisis. We have also formulated the "Basic Rules for Authority of Group Companies" to clarify authority, responsibility, and approval procedures with respect to decision making on important matters for each Group company.

# MANAGEMENT

(As of June 25, 2009)

## Directors

**Susumu Kotani**

President and Representative Director

**Akira Haeno**

Senior Managing Director and Representative Director
General Manager of Mobile Entertainment Business Group
and in charge of Procurement Group

**Hideki Okayasu**

Senior Managing Director and Representative Director
General Manager of Finance and Accounting Division, and
Chief Financial Officer, and General Manager of Corporate
Communications Division

**Satoshi Matsumoto**

Managing Director
In charge of Quality Control Division and
Creative Sound & Voice Business Group

**Masanori Koshoubu**

Managing Director
General Manager of Research & Development Group and in
charge of Network Media Platform Business Department

**Tatsuo Takeuchi**

Managing Director
General Manager of Human Resources Division,
General Administration Division, and
Human Resource Development Center

**Mikio Ono**

Managing Director
General Manager of Corporate Planning Division and
in charge of general export management and
Strategic IT Division

**Shunichi Sato**

Director

**Takashi Oizumi**

Director
Attorney-at-law

## Corporate Auditors

**Michiyoshi Ogawa**

Corporate Auditor (full time)

**Keiichi Nishikido**

Corporate Auditor
Attorney-at-law

**Shinichi Yamada**

Corporate Auditor
Certified public accountant

## Senior Executive Officers

**Haruyuki Inohana** **Toshiyuki Ito** **Masanori Kurosaki**

## Executive Officers

**Keiichi Yamauchi** **Kazumi Kuriyama** **Hiroyuki Mineta** **Takashige Nakano**

**Yasuhiko Danjo** **Gen Inoshita** **Harumitsu Saito**

Notes 1. Messrs. Shunichi Sato and Takashi Oizumi are outside directors pursuant to the Company Law of Japan.
2. Messrs. Keiichi Nishikido and Shinichi Yamada are outside corporate auditors pursuant to the Company Law of Japan.

# FINANCIAL SECTION

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# FIVE-YEAR SUMMARY OF OPERATIONS

Pioneer Corporation and Subsidiaries
Years ended March 31

| | U.S. GAAP (Yen) | | | Japanese GAAP (Yen) | | (U.S. Dollars) |
|---|---|---|---|---|---|---|
| In millions of yen and thousands of U.S. dollars | 2005 | 2006 | 2007 | 2008 | **2009** | **2009** |
| Operating revenue | ¥ 711,042 | ¥ 754,964 | ¥ 797,102 | ¥ 774,477 | **¥ 558,837** | **$ 5,702,418** |
| Operating income (loss) | 691 | (16,409) | 12,487 | 9,216 | **(54,529)** | **(556,418)** |
| Loss from continuing operations before income taxes | (2,067) | (71,165) | (7,717) | – | **–** | **–** |
| Loss from continuing operations | (10,112) | (85,758) | (9,536) | – | **–** | **–** |
| Income from discontinued operations, after income tax effect | 1,323 | 772 | 2,775 | – | **–** | **–** |
| Net loss | (8,789) | (84,986) | (6,761) | (19,040) | **(130,529)** | **(1,331,929)** |
| Total equity | 332,239 | 273,250 | 268,116 | 259,355 | **111,848** | **1,141,306** |
| Total assets | 725,167 | 678,046 | 635,474 | 562,276 | **429,093** | **4,378,500** |
| Total equity per share (yen) | 1,904.73 | 1,566.60 | 1,537.22 | 1,258.40 | **538.98** | **5.50** |
| Basic net loss per share (yen) | (50.11) | (487.23) | (38.76) | (103.95) | **(636.68)** | **(6.50)** |
| Diluted net income per share based on Japanese GAAP (yen) | – | – | – | – | **–** | **–** |
| Diluted net loss per share based on U.S. GAAP (yen) | (50.11) | (487.23) | (38.76) | – | **–** | **–** |
| Equity ratio (%) | 45.8 | 40.3 | 42.2 | 45.9 | **25.8** | |
| Return on equity (ROE) (%) | (2.6) | (28.1) | (2.5) | (7.2) | **(70.8)** | |
| Price earnings ratio (PER) (times) | – | – | – | – | **–** | |
| Cash flows from operating activities | 19,946 | 68,329 | 16,752 | 42,220 | **(61,563)** | **(628,194)** |
| Cash flows from investing activities | (93,516) | (29,759) | (16,468) | (92,561) | **(38,292)** | **(390,735)** |
| Cash flows from financing activities | (4,019) | (38,551) | (21,673) | 35,932 | **85,833** | **875,847** |
| Cash and cash equivalents at end of year | 116,681 | 121,680 | 101,820 | 81,180 | **63,746** | **650,469** |
| Number of employees | 33,409 | 38,826 | 37,622 | 42,775 | **32,115** | |

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥98=US$1.00, the approximate current rate prevailing on March 31, 2009.

2. Pioneer had adopted U.S. generally accepted accounting principles (GAAP), as stipulated in the “Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements” (Ministry of Finance Ordinance of Japan No. 28, 1976; hereinafter the “Regulation for Consolidated Financial Statements”), Supplementary Provisions, Paragraph 3 (Cabinet Office Ordinance of Japan No. 11, 2002). Effective from fiscal 2009, the year ended March 31, 2009, however, Pioneer has prepared consolidated financial statements based on Japanese GAAP. This change was made in line with not only the decision to shift from U.S. GAAP to Japanese GAAP for financial reporting on financing activities, but also Pioneer’s delisting from the New York Stock Exchange and its deregistration from the U.S. Securities and Exchange Commission. The consolidated financial statements of fiscal 2008 are prepared based on the pre-revised Regulation for Consolidated Financial Statements to facilitate a comparison with those of fiscal 2009. Please note that, for fiscal 2005, 2006 and 2007, figures were not calculated in accordance with Japanese GAAP. Therefore, published figures prepared in previous years based on U.S. GAAP are shown.

3. Operating revenue is presented net of consumption taxes.

4. Amounts less than presentation units are rounded.

5. Operating income (loss) for fiscal 2005, 2006 and 2007 represents operating revenue less cost of sales and selling, general and administrative expenses in accordance with Japanese GAAP.

6. Diluted net loss per share based on U.S. GAAP represents net loss per share after adjusting dilutive effects in accordance with U.S. Statement of Financial Accounting Standards (SFAS) No. 128, “Earnings per Share.”

7. Total equity per share, basic net loss per share and diluted net loss per share based on U.S. GAAP are calculated by deducting the number of treasury stock from the number of issued shares.

8. In fiscal 2006, Pioneer sold a subsidiary engaged in the development of cable TV software and, in fiscal 2007, sold subsidiaries involved in the electronics devices and parts business. For these, Pioneer applied SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Consequently, operating revenue and loss from continuing operations before income taxes have been reclassified accordingly.

9. Price earnings ratio for fiscal 2005, 2006 and 2007 are not presented because a net loss per share was recorded in each of those fiscal years. Diluted net income per share based on Japanese GAAP and price earnings ratio for fiscal 2008 and 2009 are not presented because a net loss per share was recorded in each of those fiscal years.

10. In fiscal 2006, Pioneer revised its standard for counting the number of employees. Contract employees with a contract period of less than one year and temporary employees previously included in the number of employees have been excluded. As a result, the number of employees for fiscal 2005 has been adjusted accordingly.

# FINANCIAL REVIEW

Year ended March 31, 2009,
compared with year ended March 31, 2008

## Management's Discussion and Analysis of Financial Position, Results of Operations and Cash Flows

### Significant Accounting Policies and Estimates

Effective from fiscal 2009, the year ended March 31, 2009, Pioneer has changed its accounting principles for preparing consolidated financial statements from U.S. generally accepted accounting principles (GAAP) to Japanese GAAP. Figures for fiscal 2008 have been reclassified based on Japanese GAAP accordingly.

Details of significant accounting policies and estimates are shown in the Notes to Consolidated Financial Statements.

### Financial Position

Total assets as of March 31, 2009 were ¥429.1 billion, a decrease of ¥133.2 billion from March 31, 2008. This mainly reflected decreases in trade receivables, inventories, deferred tax assets, and investment securities. Trade receivables decreased ¥34.5 billion to ¥61.0 billion, mainly due to lower sales. Inventories declined ¥20.0 billion to ¥84.9 billion, mainly due to production cutbacks centered on plasma displays and car audio products in response to lower sales. Current and noncurrent deferred tax assets decreased ¥22.8 billion to ¥19.6 billion, mainly in line with an increase in the valuation allowance. Meanwhile, investment securities declined ¥16.9 billion to ¥19.0 billion, mainly due to falling prices of shares held by the Company.

Total liabilities as of March 31, 2009 were ¥317.2 billion, up ¥14.3 billion from March 31, 2008. This mainly reflected an increase of ¥95.2 billion in short-term borrowings, and decreases of ¥45.4 billion and ¥16.5 billion in trade payables, and accrued expenses, respectively.

Total equity was ¥111.8 billion, a decrease of ¥147.5 billion from March 31, 2008. This mainly reflected a decrease of ¥131.1 billion in retained earnings. Another factor was a decline of ¥13.9 billion in foreign currency translation adjustments from March 31, 2008, due to the impact of the yen's appreciation.

### Results of Operations

#### Operating revenue

In fiscal 2009, consolidated operating revenue decreased 27.8% year on year to ¥558.8 billion. This was mainly the result of a decline in sales of car audio products, plasma displays and DVD drives, which largely reflected the sharp deterioration in consumer spending worldwide in the wake of the U.S. financial crisis as well as the impact of the Japanese yen's appreciation.

Car Electronics operating revenue decreased 22.0% year on year to ¥291.7 billion because of lower sales of both car audio products and car navigation systems, partly due to lackluster auto sales worldwide. In car navigation systems, consumer-market sales declined year on year, mainly due to lower sales in North America, Japan and Europe. Meanwhile, OEM sales rose on the back of higher sales in Japan and China, despite lower sales in North America. In car audio products, consumer-market sales decreased, mainly because of lower overseas sales. OEM sales also decreased due to lower sales in Japan and North America. Total OEM sales in this segment accounted for approximately 41% of Car Electronics operating revenue in fiscal 2009, compared with approximately 39% in fiscal 2008. In terms of geographic operating revenue, operating revenue in Japan decreased 9.8% to ¥114.0 billion, mainly due to declines in consumer-market sales of car navigation systems and OEM sales of car audio products, despite higher OEM sales of car navigation systems in Japan. Overseas operating revenue declined 28.2% to ¥177.7 billion, mainly due to weak car audio product sales.

Home Electronics operating revenue decreased 36.5% year on year to ¥209.3 billion. This was largely as a result of lower sales of plasma displays and DVD drives. Display product sales accounted for approximately 38% of Home Electronics operating revenue in fiscal 2009, compared with approximately 40% in fiscal 2008. In terms of geographic operating revenue, operating revenue in Japan declined 33.0% to ¥31.0 billion, due mainly to deterioration in the sales of DVD-related devices. Overseas operating revenue fell 37.1% to ¥178.2 billion, due to lower sales of plasma displays and DVD drives.

In the Others segment, operating revenue decreased 18.6% year on year to ¥57.9 billion due principally to lower sales of electronics devices and parts, speaker units for cellular phones, factory automation systems and organic light-emitting diode displays. In terms of geographic operating revenue, operating revenue in Japan decreased 12.8% to ¥37.5 billion, due to lower sales of OLED displays and electronics devices and parts. Overseas operating revenue decreased 27.3% to ¥20.4 billion, mainly due to lower sales of speaker units for cellular phones, and electronics devices and parts.

### Operating income (loss)

Cost of sales decreased to ¥478.0 billion from ¥602.9 billion a year earlier. Cost of sales accounted for 85.5% of operating revenue, worsening by 7.7 percentage points from 77.8% in fiscal 2008. This decrease was due to the Japanese yen's appreciation and lower production volume of car audio and other products in line with decreased sales.

Selling, general and administrative (SG&A) expenses fell to ¥135.4 billion from ¥162.3 billion in fiscal 2008. The decrease resulted from the impact of the Japanese yen's appreciation and decreases in marketing expenses, patent fees, and personnel expenses.

As a result, Pioneer reported an operating loss of ¥54.5 billion in fiscal 2009, compared with operating income of ¥9.2 billion in fiscal 2008. R&D expenses included in cost of sales and SG&A expenses decreased 7.8%, to ¥54.8 billion, representing 9.8% of operating revenue. R&D expenses were mostly incurred to enhance our technological advantage in our strategic products, such as car navigation systems.

### Other income (expenses)

In fiscal 2008, gain on sale and disposal of property, plant and equipment was recorded ¥11.9 billion, reflecting a gain on sale of all land and buildings at the Tokorozawa Plant and some at the Omori Plant. In addition, an impairment loss primarily on plasma display production facilities was recorded ¥22.7 billion. In fiscal 2009, Pioneer recorded other expenses, net, of ¥45.4 billion, compared with ¥7.1 billion a year earlier, due to restructuring costs of ¥24.7 billion mainly reflecting special termination benefits and expenses related to withdrawal from plasma display business, and a loss of ¥14.9 billion on impairment of investment securities mainly due to falling prices of shares held by the Company.

### Income (loss) before income taxes and minority interests

As a result the foregoing, Pioneer posted a loss before income taxes and minority interests of ¥99.9 billion in fiscal 2009, compared with income before income taxes and minority interests of ¥2.1 billion in fiscal 2008.

### Income taxes

Income taxes for fiscal 2008 and fiscal 2009 were ¥20.7 billion and ¥30.4 billion, respectively, reflecting the valuation of the deferred tax assets of the parent company and certain subsidiaries.

### Net loss

Consequently, Pioneer reported a net loss of ¥130.5 billion, an increase of ¥111.5 billion compared with a net loss of ¥19.0 billion in the previous fiscal year.

### Cash Flows

Net cash used in operating activities in fiscal 2009 totaled ¥61.6 billion, compared with net cash provided by operating activities of ¥42.2 billion in the previous fiscal year. The reversal in cash flows was primarily due to the loss before income taxes and minority interests of ¥99.9 billion posted in fiscal 2009, compared with income before income taxes and minority interests of ¥2.1 billion in fiscal 2008. Another factor was a decrease in trade payables of ¥40.5 billion in fiscal 2009, compared with ¥0.4 billion a year earlier.

Net cash used in investing activities was ¥38.3 billion, down from ¥92.6 billion in fiscal 2008. This was mainly due to a payment for the purchase of investment securities of ¥20.5 billion in fiscal 2008, primarily for the purchase of Sharp Corporation shares as part of a business and capital alliance with Sharp; a payment for the purchase of shares of consolidated subsidiaries of ¥14.7 billion, chiefly for making Tohoku Pioneer Corporation a wholly-owned subsidiary in the previous fiscal year; and a decline in purchase of property, plant and equipment from ¥62.2 billion in fiscal 2008 to ¥45.8 billion in fiscal 2009.

Net cash provided by financing activities was ¥85.8 billion, an increase from ¥35.9 billion a year earlier. The increase was mainly a reflection of a net increase in short-term borrowings of ¥99.8 billion, compared with ¥3.1 billion in fiscal 2008, despite proceeds of ¥41.4 billion from a third-party allotment of newly issued Pioneer shares to Sharp in fiscal 2008.

Consequently, cash and cash equivalents as of March 31, 2009 were ¥63.7 billion, down ¥17.4 billion from March 31, 2008.

# CONSOLIDATED BALANCE SHEETS

Pioneer Corporation and Subsidiaries
March 31, 2009 and 2008

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | **2009** | 2008 | **2009** |
| **Current Assets:** | | | |
| Cash and cash equivalents | **¥ 63,746** | ¥ 81,180 | **$ 650,469** |
| Receivables (Note 6): | | | |
| Trade receivables | **60,989** | 95,449 | **622,337** |
| Allowance for doubtful receivables | **(2,035)** | (2,381) | **(20,765)** |
| Inventories (Notes 4 and 6) | **84,886** | 104,876 | **866,184** |
| Deferred tax assets (Note 10) | **7,097** | 17,089 | **72,418** |
| Other current assets | **17,419** | 21,749 | **177,745** |
| Total current assets | **232,102** | 317,962 | **2,368,388** |
| **Property, Plant and Equipment** (Notes 5 and 6)**:** | | | |
| Land | **33,705** | 33,801 | **343,929** |
| Buildings and structures | **102,285** | 104,524 | **1,043,724** |
| Machinery, equipment and others | **82,080** | 115,264 | **837,551** |
| Construction in progress | **373** | 5,317 | **3,806** |
| Others | **94,513** | 98,367 | **964,418** |
| Total | **312,956** | 357,273 | **3,193,428** |
| Accumulated depreciation | **(200,789)** | (234,521) | **(2,048,867)** |
| Net property, plant and equipment | **112,167** | 122,752 | **1,144,561** |
| **Investments and Other Assets:** | | | |
| Investments securities (Notes 3 and 6) | **18,972** | 35,871 | **193,592** |
| Deferred tax assets (Note 10) | **12,484** | 25,250 | **127,387** |
| Software | **39,215** | 40,113 | **400,153** |
| Goodwill | **1,420** | 1,497 | **14,490** |
| Other assets | **12,740** | 18,940 | **130,000** |
| Allowance for doubtful accounts | **(7)** | (109) | **(71)** |
| Total investments and other assets | **84,824** | 121,562 | **865,551** |
| **Total** | **¥ 429,093** | ¥ 562,276 | **$ 4,378,500** |

| LIABILITIES AND EQUITY | Millions of Yen 2009 | Millions of Yen 2008 | Thousands of U.S. Dollars (Note 1) 2009 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Short-term borrowings (Note 6) | **¥110,000** | ¥ 14,812 | **$1,122,449** |
| Current portion of long-term debt (Note 6) | **2,808** | 13,672 | **28,653** |
| Trade payables | **40,798** | 86,195 | **416,306** |
| Accrued income taxes | **4,153** | 5,601 | **42,378** |
| Accrued expenses | **50,763** | 67,227 | **517,990** |
| Warranty reserve | **4,222** | 5,265 | **43,082** |
| Other current liabilities | **19,676** | 27,070 | **200,775** |
| Total current liabilities | **232,420** | 219,842 | **2,371,633** |
| **Long-term Liabilities:** | | | |
| Long-term debt (Note 6) | **67,242** | 71,762 | **686,143** |
| Accrued pension and severance costs (Note 7) | **12,704** | 8,554 | **129,632** |
| Other long-term liabilities (Note 10) | **4,879** | 2,763 | **49,786** |
| Total long-term liabilities | **84,825** | 83,079 | **865,561** |
| **Equity** (Note 8)**:** | | | |
| Common stock, no par value Authorized, 400,000,000 shares; Issued: 210,063,836 shares in 2009 and 2008 | **69,824** | 69,824 | **712,490** |
| Capital surplus | **102,054** | 102,054 | **1,041,367** |
| Retained earnings | **13,250** | 144,370 | **135,204** |
| Unrealized gain on available-for-sale securities | **1,552** | 2,351 | **15,837** |
| Deferred gain on derivatives under hedge accounting | **42** | 51 | **429** |
| Foreign currency translation adjustments | **(63,549)** | (49,699) | **(648,459)** |
| Pension adjustments recognized by foreign consolidated subsidiaries | **(1,551)** | 166 | **(15,827)** |
| Treasury stock—at cost, 5,051,933 shares in 2009 and 5,046,888 shares in 2008 | **(11,124)** | (11,124) | **(113,510)** |
| Total | **110,498** | 257,993 | **1,127,531** |
| Minority interests | **1,350** | 1,362 | **13,775** |
| Total equity | **111,848** | 259,355 | **1,141,306** |
| **Total** | **¥429,093** | ¥562,276 | **$4,378,500** |

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS

Pioneer Corporation and Subsidiaries
Years ended March 31, 2009 and 2008

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| **Operating Revenue:** | | | |
| Net sales | **¥ 558,236** | ¥772,478 | **$ 5,696,286** |
| Other operating revenue | **601** | 1,999 | **6,132** |
| Total operating revenue | **558,837** | 774,477 | **5,702,418** |
| **Cost of Sales** | **477,965** | 602,917 | **4,877,194** |
| Gross profit | **80,872** | 171,560 | **825,224** |
| **Selling, General and Administrative Expenses** (Notes 11 and 12) | **135,401** | 162,344 | **1,381,642** |
| Operating income (loss) | **(54,529)** | 9,216 | **(556,418)** |
| **Other Income (Expenses):** | | | |
| Interest and dividend income | **3,696** | 6,922 | **37,714** |
| Interest expense | **(2,840)** | (2,507) | **(28,979)** |
| Gain (loss) on sale and disposal of property, plant and equipment—net | **(1,895)** | 11,871 | **(19,337)** |
| Loss on impairment of property, plant and equipment (Note 5) | **(4,132)** | (22,692) | **(42,163)** |
| Exchange loss | **(243)** | (1,385) | **(2,480)** |
| Equity in earnings (losses) of affiliated companies—net | **(132)** | 136 | **(1,347)** |
| Loss on impairment of investment securities | **(14,871)** | (99) | **(151,745)** |
| Restructuring costs (Note 13) | **(24,744)** | – | **(252,490)** |
| Others—net | **(249)** | 636 | **(2,541)** |
| Other expenses—net | **(45,410)** | (7,118) | **(463,368)** |
| Income (loss) before income taxes and minority interests | **(99,939)** | 2,098 | **(1,019,786)** |
| **Income Taxes** (Note 10)**:** | | | |
| Current | **4,805** | 8,600 | **49,031** |
| Deferred | **25,620** | 12,135 | **261,428** |
| Total income taxes | **30,425** | 20,735 | **310,459** |
| **Minority Interests** | **165** | 403 | **1,684** |
| Net loss | **¥(130,529)** | ¥ (19,040) | **$(1,331,929)** |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| **Per Share of common stock** (Note 15)**:** | | | |
| Basic net loss | **¥(636.68)** | ¥(103.95) | **$(6.50)** |
| Cash dividends, applicable to the year | **¥ 0.0** | ¥ 7.5 | **$ 0.0** |

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Pioneer Corporation and Subsidiaries
Years ended March 31, 2009 and 2008

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| **Common Stock** | | | |
| Balance, beginning of year | **¥ 69,824** | ¥ 49,049 | **$ 712,490** |
| Issuance of new shares | **–** | 20,775 | **–** |
| Balance, end of year | **¥ 69,824** | ¥ 69,824 | **$ 712,490** |
| **Capital Surplus** | | | |
| Balance, beginning of year | **¥ 102,054** | ¥ 81,279 | **$ 1,041,367** |
| Issuance of new shares | **–** | 20,775 | **–** |
| Balance, end of year | **¥ 102,054** | ¥102,054 | **$ 1,041,367** |
| **Retained Earnings** | | | |
| Balance, beginning of year | **¥ 144,370** | ¥166,497 | **$ 1,473,163** |
| Adjustment to initially applied FIN No. 48 | **–** | (996) | **–** |
| Adjustment to initially applied SFAS No. 158 | **(75)** | – | **(765)** |
| Net loss | **(130,529)** | (19,040) | **(1,331,929)** |
| Disposal of treasury stock | **(3)** | (347) | **(30)** |
| Cash dividends (¥2.5 per share in 2009 and ¥10.0 per share in 2008) | **(513)** | (1,744) | **(5,235)** |
| Balance, end of year | **¥ 13,250** | ¥144,370 | **$ 135,204** |
| **Unrealized Gain on Available-for-Sale Securities** | | | |
| Balance, beginning of year | **¥ 2,351** | ¥ 7,852 | **$ 23,990** |
| Net change in the year | **(799)** | (5,501) | **(8,153)** |
| Balance, end of year | **¥ 1,552** | ¥ 2,351 | **$ 15,837** |
| **Deferred Gain (Loss) on Derivatives Under Hedge Accounting** | | | |
| Balance, beginning of year | **¥ 51** | ¥ (121) | **$ 520** |
| Net change in the year | **(9)** | 172 | **(91)** |
| Balance, end of year | **¥ 42** | ¥ 51 | **$ 429** |
| **Foreign Currency Translation Adjustments** | | | |
| Balance, beginning of year | **¥ (49,699)** | ¥ (19,180) | **$ (507,133)** |
| Net change in the year | **(13,850)** | (30,519) | **(141,326)** |
| Balance, end of year | **¥ (63,549)** | ¥ (49,699) | **$ (648,459)** |
| **Pension Adjustments Recognized by Foreign Consolidated Subsidiaries** | | | |
| Balance, beginning of year | **¥ 166** | ¥ (740) | **$ 1,693** |
| Net change in the year | **(1,717)** | 906 | **(17,520)** |
| Balance, end of year | **¥ (1,551)** | ¥ 166 | **$ (15,827)** |
| **Treasury Stock** | | | |
| Balance, beginning of year | **¥ (11,124)** | ¥ (12,453) | **$ (113,510)** |
| Purchase of treasury stock | **(4)** | (9) | **(41)** |
| Disposal of treasury stock | **4** | 1,338 | **41** |
| Balance, end of year | **¥ (11,124)** | ¥ (11,124) | **$ (113,510)** |
| **Minority Interests** | | | |
| Balance, beginning of year | **¥ 1,362** | ¥ 14,469 | **$ 13,897** |
| Net change in the year | **(12)** | (13,107) | **(122)** |
| Balance, end of year | **¥ 1,350** | ¥ 1,362 | **$ 13,775** |

| | Number of shares | |
|---|---|---|
| | **2009** | 2008 |
| **Number of Shares of Common Stock Issued** | | |
| Balance, beginning of year | **210,063,836** | 180,063,836 |
| Issuance of new shares | **–** | 30,000,000 |
| Balance, end of year | **210,063,836** | 210,063,836 |

| | Number of shares | |
|---|---|---|
| | **2009** | 2008 |
| **Number of Shares of Treasury Stock** | | |
| Balance, beginning of year | **5,046,888** | 5,647,513 |
| Purchase in the year | **6,816** | 6,216 |
| Disposal in the year | **(1,771)** | (606,841) |
| Balance, end of year | **5,051,933** | 5,046,888 |

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Pioneer Corporation and Subsidiaries
Years ended March 31, 2009 and 2008

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| **Operating Activities:** | | | |
| Income (loss) before income taxes and minority interests | **¥(99,939)** | ¥ 2,098 | **$(1,019,786)** |
| Adjustments for: | | | |
| Income taxes—paid | **(9,115)** | (11,236) | **(93,010)** |
| Depreciation and amortization | **43,187** | 44,270 | **440,684** |
| Loss on impairment of property, plant and equipment | **4,132** | 22,692 | **42,163** |
| Loss (gain) on sale and disposal of property, plant and equipment—net | **1,895** | (11,871) | **19,337** |
| Loss on impairment of investment securities | **14,871** | 99 | **151,745** |
| Changes in assets and liabilities: | | | |
| Decrease in receivables | **27,213** | 18,869 | **277,684** |
| Decrease (increase) in inventories | **8,500** | (7,318) | **86,735** |
| Decrease in trade payables | **(40,536)** | (358) | **(413,633)** |
| Decrease in accrued expenses | **(12,258)** | (8,405) | **(125,082)** |
| Decrease (increase) in interest and dividend receivable | **370** | (310) | **3,775** |
| Increase (decrease) in interest payable | **(170)** | 248 | **(1,735)** |
| Other—net | **287** | (6,558) | **2,929** |
| Net cash provided by (used in) operating activities | **(61,563)** | 42,220 | **(628,194)** |
| **Investing Activities:** | | | |
| Purchase of property, plant and equipment | **(45,849)** | (62,177) | **(467,847)** |
| Proceeds from sale of property, plant and equipment | **1,846** | 3,251 | **18,837** |
| Purchase of investment securities | **–** | (20,539) | **–** |
| Proceeds from sale of investment securities | **161** | 2,483 | **1,643** |
| Payment for additional investments in subsidiaries | **–** | (14,732) | **–** |
| Proceeds from cancellation of insurance policy | **5,515** | – | **56,275** |
| Other—net | **35** | (847) | **357** |
| Net cash used in investing activities | **(38,292)** | (92,561) | **(390,735)** |
| **Financing Activities:** | | | |
| Net increase in short-term borrowings | **99,842** | 3,092 | **1,018,796** |
| Repayment of long-term debt | **(13,064)** | (4,072) | **(133,306)** |
| Dividends paid | **(513)** | (1,744) | **(5,235)** |
| Proceeds from issuance of new shares | **–** | 41,358 | **–** |
| Other—net | **(432)** | (2,702) | **(4,408)** |
| Net cash provided by financing activities | **85,833** | 35,932 | **875,847** |
| **Effect of Exchange Rate Changes on Cash and Cash Equivalents** | **(3,412)** | (6,231) | **(34,816)** |
| **Net Decrease in Cash and Cash Equivalents** | **(17,434)** | (20,640) | **(177,898)** |
| **Cash and Cash Equivalents, Beginning of Year** | **81,180** | 101,820 | **828,367** |
| **Cash and Cash Equivalents, End of Year** | **¥ 63,746** | ¥ 81,180 | **$ 650,469** |

See notes to consolidated financial statements.

## 1. BASIS OF PRESENTATIONS

### a. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Pioneer Corporation (Pioneer Kabushiki Kaisha; the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥98 to $1.00, the approximate rate of exchange at March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### b. 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 car electronics and audio/video. The principal production activities of the Company are carried out in Asia including Japan, the United States, 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, 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 OEM (original equipment manufacturing) basis, the Company markets certain products, such as car electronics products, to other companies.

In the year ended March 31, 2009, the Company's financial position deteriorated as a result of a sharp drop in operating revenue, large losses and significant net cash used in operating activities. To address this situation, the Company is implementing a drastic restructuring centered on conducting business portfolio realignment. Going forward, the Company will position the Car Electronics business as a core business. In addition, the Company will develop the Home Electronics business in three main areas: home AV products, DJ equipment and cable TV set-top boxes. In the display business, the Company will completely withdraw the business after ending plasma TV sales by the end of the year ending March 31, 2010.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Consolidation

The consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 116 significant (120 in 2008) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in six (six in 2008) affiliated companies are accounted for by the equity method.

Investments in the remaining affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

### b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either IFRS or U.S. GAAP tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income (loss) is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of research and development costs; 4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior year's effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated: and 6) exclusion of minority interests from net income (loss), if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. The adoption of this standard did not have any material impact on the Company's consolidated statements of operations or financial position.

### c. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits which become due within three months of the date of acquisition.

### d. Marketable and Investment Securities

Available-for-sale securities for which market quotations are available are stated fair value. Unrealized gain on these securities is stated at net of tax effect and minority interests as "unrealized gain on available-for-sale securities" on a separate component of equity.

Available-for-sale securities for which market quotations are unavailable are stated at cost by using the moving average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

### e. Allowance for Doubtful Receivables

The Group has provided the allowance for doubtful receivables by the method based on the percentage of its own historical bad debt loss against the balance of total receivables, plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

### f. Inventories

In 2008, inventories are valued at the lower of cost 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.

In July 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change on the accompanying consolidated financial statements is immaterial.

### g. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is computed principally using the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to property, plant and equipment of foreign consolidated subsidiaries (excluding leased property in 2009).

Property, plant and equipment of the Company and its domestic consolidated subsidiaries acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective for fiscal years beginning on or after April 1, 2007. The effect of this change on the accompanying consolidated financial statements is immaterial.

Property, plant and equipment of the Company and its domestic consolidated subsidiaries had been depreciated up to 95% of acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment is systematically amortized over five years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised Corporate Tax Law.

The effect of this change on the accompanying consolidated financial statements is immaterial.

### h. Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

### i. Stock Issuance Costs

Stock issuance costs are amortized by the straight-line method over three years.

### j. Warranty Reserve

Provisions for warranty costs are recognized at the date of sale of the relevant products, at the best estimate of the expenditure required to settle the Company's after-sales service obligation.

### k. Retirement and Pension Plans

The Group sponsors both defined benefit pension plans and defined contribution pension plans.

With respect to the defined benefit pension plan, the Group accounts for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. Part of the changes in projected benefit obligations and plan assets are not recognized when incurred, but deferred and amortized on predetermined assumptions. Net transitional obligation is being amortized in equal amounts mainly over 15 years. Prior service cost is amortized using the straight-line method over the average of the estimated remaining service years (mainly 10–15 years). Actuarial gain or loss is primarily amortized using the straight-line method over the average of the estimated remaining service years. The Group records net periodic pension costs consisted of service cost, interest cost, expected return on plan assets and amortization of such deferred amounts.

With respect to the defined contribution plans, the Group records net pension cost as the amount the contribution is called for.

### l. Research and Development Costs and Intangible Assets

Research and development costs are charged to income as incurred. Software for sale is amortized by the straight-line method over 2–3 years, while software used by the Company is amortized by the straight-line method over the estimated useful life of five years. Intangible assets other than software are amortized using the straight-line method.

### m. Leases

"Accounting Standard for Lease Transactions" and related Guidance was applied and finance lease transactions without title transfer were formerly accounted for as operating leases. On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the former accounting standard for lease transactions issued on June 17, 1993, and ASBJ Guidance No. 16, "Guidance on accounting Standard for Lease Transactions," which revised the former Guidance issued on January 18, 1994. The adoption of the revised accounting standard is permitted for fiscal years beginning on or after April 1, 2008. Accordingly, the Company has applied the revised accounting standard from April 1, 2008. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. Since the Group has been capitalizing all finance leases from the year ended March 31, 2008, the impact of this change on operating loss and loss before income taxes and minority interests is immaterial.

### n. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences. A valuation allowance is established to reduce deferred tax assets if it is considered not to be recoverable.

### o. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

### p. Foreign Currency Financial Statements

The balance sheet accounts of the foreign consolidated subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translations were shown as "Foreign currency translation adjustments" in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

### q. Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate and currency swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks associated with assets and liabilities denominated in foreign currencies and debt obligations. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts, currency option and currency swaps are utilized to hedge foreign currency exposures in export sales and procurements from overseas suppliers. Trade receivable and trade payables denominated in foreign currencies are translated at the contracted rates if the foreign currency forward contracts, currency option and currency swaps qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

### r. Per Share Information

Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. Diluted net income (loss) per share is not disclosed because of the Company's net loss position.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

### s. New Accounting Pronouncements

*Business Combinations—*

On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.

(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

*Asset Retirement Obligations—*

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

## 3. MARKETABLE AND INVESTMENT SECURITIES

Cost, unrealized gains and losses and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | | | 2008 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | | | | | |
| with market quotation | | | | | | | | |
| Equity securities | **¥13,332** | **¥3,147** | **¥456** | **¥16,023** | ¥28,245 | ¥7,316 | ¥3,285 | ¥32,276 |
| Bonds | **–** | **–** | **–** | **–** | 80 | – | 2 | 78 |
| Unlisted securities | **2,949** | **–** | **–** | **2,949** | 3,517 | – | – | 3,517 |
| Total | **¥16,281** | **¥3,147** | **¥456** | **¥18,972** | ¥31,842 | ¥7,316 | ¥3,287 | ¥35,871 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2009 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| with market quotation | | | | |
| Equity securities | **$136,041** | **$32,112** | **$4,653** | **$163,500** |
| Bonds | **–** | **–** | **–** | **–** |
| Unlisted securities | **30,092** | **–** | **–** | **30,092** |
| Total | **$166,133** | **$32,112** | **$4,653** | **$193,592** |

Unlisted securities of affiliated companies amounting to ¥1,635 million ($16,684 thousand) at March 31, 2009 and ¥2,226 million at March 31, 2008, respectively, were included in investment securities in the accompanying consolidated balance sheets.

Available-for-sale securities and bonds that the Group sold during the year ended March 31, 2009 and 2008 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Proceeds from Sales: | | | |
| Equity securities | **¥ 97** | ¥ 671 | **$ 990** |
| Bonds | **64** | – | **653** |
| Others | **–** | 1,812 | **–** |
| Total | **¥161** | ¥2,483 | **$1,643** |
| Gains on Sales: | | | |
| Equity securities | **¥ 25** | ¥ 331 | **$ 255** |
| Bonds | **–** | – | **–** |
| Others | **–** | 259 | **–** |
| Total | **¥ 25** | ¥ 590 | **$ 255** |
| Losses on Sales: | | | |
| Equity securities | **–** | – | **–** |
| Bonds | **¥ 14** | – | **$ 143** |
| Others | **–** | – | **–** |
| Total | **¥ 14** | – | **$ 143** |

## 4. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Finished products | **¥45,169** | ¥ 54,404 | **$460,908** |
| Work in process | **14,699** | 21,818 | **149,990** |
| Raw materials and supplies | **25,018** | 28,654 | **255,286** |
| Total | **¥84,886** | ¥104,876 | **$866,184** |

## 5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2009 and 2008. As a result, the Group recognized an impairment loss as other expenses for certain processing machinery group related to plasma display panels, DVD recorders and idle assets due to decline of market value and the prospect of future profit.

For the year ended March 31, 2009, the Group recognized impairment losses of ¥4,132 million ($42,163 thousand), as summarized in the table below:

| | | | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|---|---|
| Application | Type | Location | | Impairment loss |
| Plasma display related facilities | Machinery and equipment, etc. | Fukuroi, Shizuoka, etc. | **¥1,585** | **$16,174** |
| DVD recorder related facilities | Machinery and equipment, etc. | Kawasaki, Kanagawa, etc. | **1,089** | **11,112** |
| Assets held for sale (idle assets) | Buildings, machinery and equipment, etc. | California, USA, etc. | **300** | **3,061** |
| Idle assets | Land, buildings, etc. | Adachi, Fukushima | **363** | **3,704** |
| Idle assets | Land | Minami Alps, Yamanashi | **795** | **8,112** |
| Total | | | **¥4,132** | **$42,163** |

In principle, business assets are grouped based on management classification. However, idle assets whose disposal is planned or whose future use is not forecasted are grouped individually in the smallest cash-flow generating unit independent of each other.

The Group determined in the year ended March 31, 2009 to withdraw from the display business by March 2010 as part of its Business Restructuring Plans. In the DVD recorder business, the establishment of a new joint venture in the optical disc business field is being considered.

In light of the above, concerning the group of business assets relating to plasma displays and DVD recorders to be disposed, the group of assets held for sale to be disposed and the group of idle assets whose land value is falling, each individual asset group was reduced to the net selling price and the amount of decrease was recorded in other income (expenses) as loss on impairment of property, plant and equipment.

The book value of the business-use asset group and for-sale asset group was reduced to nominal value. As for the idle asset group, the market price information was obtained on the basis of values provided by real estate appraisers and other specialists.

For the year ended March 31, 2008, the Group recognized impairment losses of ¥22,692 million, as summarized in the table below:

| Application | Type | Location | Millions of Yen<br>Impairment Loss |
|---|---|---|---|
| Plasma display related facilities | Buildings, machinery and equipment, etc. | Fukuroi, Shizuoka, etc. | ¥21,344 |
| DVD recorder related facilities | Buildings, machinery and equipment, etc. | Kawasaki, Kanagawa, etc. | 1,117 |
| Patent rights of plasma display panels | Patent rights | | 231 |
| Total | | | ¥22,692 |

In principle, business assets are grouped based on management classification. However, patent rights of plasma display panels for production were grouped individually in the smallest cash-flow generating unit independent of each other.

The Group anticipated difficulty to restore the profitability in the plasma display and DVD recorder businesses. As to patent rights of plasma display panels, on March 7, 2008, the Board of Directors decided to cease inhouse production of plasma display panels as soon as the production runs for the next model series are completed.

In light of the above, concerning the group of business assets, each individual asset group was reduced to the value in use and the amount of decrease was recorded in other income (expenses) as loss on impairment of property, plant and equipment.

The impairment losses of ¥21,344 million of plasma display related facilities are comprised as follows: ¥7,285 million of buildings, ¥13,526 million of machinery and equipment, and ¥533 million of others.

The book value of the business-use asset group was reduced to nominal value because negative net future cash flows were expected. The discount rate used for computing the value of patent rights of plasma display panels was 18.59%.

## 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2009 and 2008 are comprised as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Short-term borrowings: | | | |
| Weighted-average interest rate of 2.70% at March 31, 2009 and 1.50% at March 31, 2008 | | | |
| Collateralized | **¥ 99,814** | ¥ 276 | **$1,018,510** |
| Uncollateralized | **10,186** | 14,536 | **103,939** |
| Total | **¥110,000** | ¥14,812 | **$1,122,449** |

Long-term debts at March 31, 2009 and 2008 are comprised as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Long-term debt: | | | |
| Collateralized | **¥ 9,179** | ¥ 1,628 | **$ 93,664** |
| Uncollateralized | **–** | 10,615 | **–** |
| 2.80% uncollateralized bonds due 2008 | **–** | 10,000 | **–** |
| Zero coupon convertible bonds due 2011 | **60,600** | 60,600 | **618,367** |
| Long-term capital lease obligations, due principally 2011 | **271** | 2,591 | **2,765** |
| Total | **70,050** | 85,434 | **714,796** |
| Less—Portion due within one year | **2,808** | 13,672 | **28,653** |
| Long-term debt, less current portion | **¥67,242** | ¥71,762 | **$686,143** |

On March 5, 2004, the 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 the defined conversion price. The original conversion price of ¥4,022 was adjusted to ¥3,963 in December 2007, and is subject to further adjustment in certain events in the future. Market price of common stock at the date of issuance of the Bonds was ¥3,220.

The 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 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 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 Company (a) for any consolidation or amalgamation of the Company with any company, or (b) for any split of the Company's business, or (c) for the Company to become a wholly owned subsidiary of another company. The Company has an obligation to redeem the outstanding Bonds at 100% of their principal amount on March 4, 2011.

Annual maturities of long-term debts and long-term capital lease obligations as of March 31, 2009 for the next five years and thereafter were as follows:

| Years ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2011 | ¥63,391 | $646,847 |
| 2012 | 2,664 | 27,184 |
| 2013 | 1,176 | 12,000 |
| 2014 | 11 | 112 |
| Total | ¥67,242 | $686,143 |

At March 31, 2009 and 2008, the following assets were pledged as collateral for short-term borrowings and long-term debt of the Group:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Receivables | **–** | ¥ 276 | **–** |
| Finished products | **¥11,440** | – | **$116,735** |
| Building and structures | **31,473** | 2,586 | **321,153** |
| Land | **24,366** | 4,606 | **248,632** |
| Investments securities | **4,615** | – | **47,092** |
| Total | **¥71,894** | ¥7,468 | **$733,612** |

The Company has revolving credit facility contract totaling ¥70,000 million ($714,286 thousand) with five banks as of March 31, 2009, out of which loan payable outstanding amounted to ¥57,700 million ($588,776 thousand). These include certain financial covenants which require the Company to maintain certain levels of equity and operating income. Also, the Company's business performance for the year ended March 31, 2009 comes into conflict with financial covenants stipulated by loan agreements with multiple banks. However, the banks have agreed to maintain their existing loans to Pioneer in recognition of the Company's situation. Furthermore, Pioneer has received additional loans chiefly from its main banks, which have pledged their intention to continue providing financial support to the Company.

Although the revolving credit facility contract expired on May 19, 2009, the amount of the loan payable outstanding described above is loan payable balance which will expire between July 21 and July 27 based on the contracts. The Company is currently negotiating new credit facilities with the banks.

## 7. RETIREMENT AND PENSION PLANS

The 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 accumulated based on years of service, job class and conditions under which termination occurs.

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. Certain other foreign subsidiaries sponsor defined contribution pension plans or lump-sum payment plans.

The reserve for retirement benefits for the years ended March 31, 2009 and 2008 was analyzed as follows:

**Domestic**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Projected benefit obligation | **¥(93,818)** | ¥(95,608) | **$(957,327)** |
| Fair value of plan assets | **50,348** | 67,916 | **513,755** |
| Unfunded retirement obligation | **(43,470)** | (27,692) | **(443,572)** |
| Unrecognized prior service gain | **(758)** | (1,053) | **(7,735)** |
| Unrecognized actuarial loss | **40,776** | 24,784 | **416,082** |
| Unrecognized transitional obligation | **1,758** | 2,401 | **17,939** |
| Net retirement obligations | **(1,694)** | (1,560) | **(17,286)** |
| Prepaid pension cost | **5,068** | 4,363 | **51,714** |
| Accrued pension and severance costs | **¥ (6,762)** | ¥ (5,923) | **$ (69,000)** |

Net periodic pension costs related to the retirement benefits for the years ended March 31, 2009 and 2008 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Service cost | **¥ 4,082** | ¥ 4,136 | **$ 41,653** |
| Interest cost | **2,366** | 2,287 | **24,143** |
| Expected return on plan assets | **(2,703)** | (3,336) | **(27,582)** |
| Amortization of prior service gain | **(103)** | (113) | **(1,051)** |
| Recognized actuarial loss | **2,172** | 1,292 | **22,163** |
| Amortization of transitional obligation | **317** | 345 | **3,235** |
| Net periodic pension costs | **¥ 6,131** | ¥ 4,611 | **$ 62,561** |

| | **2009** | 2008 |
|---|---|---|
| Discount rate | **2.50%** | 2.50% |
| Expected rate of return on plan assets | **4.00%** | 4.50% |
| Method of attributing the projected benefits to periods of service | **Straight-line** | Straight-line |
| Amortization period of prior service gain or cost | **10 to 15 years** | 10 to 15 years |
| Recognition period of actuarial gain or loss | **10 to 18 years** | 10 to 18 years |
| Amortization period of transitional obligation | **15 years** | 15 years |

**Overseas**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Projected benefit obligation | **¥(13,728)** | ¥(15,410) | **$(140,082)** |
| Fair value of plan assets | **7,786** | 12,786 | **79,449** |
| Unfunded retirement obligation | **(5,942)** | (2,624) | **(60,633)** |
| Unrecognized prior service gain (Note) | **–** | – | **–** |
| Unrecognized actuarial loss (Note) | **–** | – | **–** |
| Unrecognized transition obligation (Note) | **–** | – | **–** |
| Net retirement obligations | **(5,942)** | (2,624) | **(60,633)** |
| Prepaid pension cost | **–** | 7 | **–** |
| Accrued pension and severance costs | **¥ (5,942)** | ¥ (2,631) | **$ (60,633)** |

Note: In accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 158 “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans,” applicable amounts, net of tax basis, are presented as “Pension adjustments recognized by foreign consolidated subsidiaries,” in the Equity section of the accompanying consolidated balance sheets.

Net periodic pension costs related to the retirement benefits for the years ended March 31, 2009 and 2008 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Service cost | **¥ 310** | ¥ 388 | **$ 3,163** |
| Interest cost | **792** | 922 | **8,082** |
| Expected return on plan assets | **(803)** | (940) | **(8,194)** |
| Amortization of prior service gain | **(4)** | (5) | **(41)** |
| Recognized actuarial (gain) loss | **(12)** | 18 | **(122)** |
| Amortization of transition obligation | **–** | 1 | **–** |
| Curtailment gain | **(228)** | – | **(2,327)** |
| Net periodic pension costs | **¥ 55** | ¥ 384 | **$ 561** |

| | **2009** | 2008 |
|---|---|---|
| Discount rate | **5.8%–7.4%** | 4.3%–6.8% |
| Expected rate of return on plan assets | **2.0%–7.5%** | 3.8%–7.5% |
| Method of attributing the projected benefits to periods of service | **Projected unit credit method** | Projected unit credit method |
| Amortization period of prior service gain or cost | **Average remaining service period of employees** | Average remaining service period of employees |
| Recognition period of actuarial gain or loss | **Average remaining service period of employees** | Average remaining service period of employees |

## 8. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Company Law of Japan (the "Company Law"). 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 of the shareholders meeting. For companies that meet certain criteria such as; (1) having a board of directors, (2) having independent auditors, (3) having a board of corporate auditors, and (4) the term of service of directors is prescribed as one year rather than two years by its articles of incorporation, the board of directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Company Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Company Law requires that an amount equal to 10% of dividends must be appropriated as an additional paid-in capital (a component of capital surplus) or as a legal reserve (a component of retained earnings) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid in capital 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 limitation. The Company Law also provides that common stock, legal reserve, additional paid in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### c. Treasury Stock and Treasury Stock Acquisition Rights

The Company Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specified formula. Under the Company Law, stock acquisition rights are presented as a separate component of equity. The Company Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 9. STOCK OPTIONS

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 29, 2004, and June 29, 2005, the Company granted share acquisition rights to directors, executive officers and certain employees of the parent company and director of the consolidated subsidiaries. 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.

The ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The Company does not have stock options granted on and after May 1, 2006.

A summary of information for the Company's stock option plans as of March 31, 2009 is as follows:

| Years ended March 31 | Persons Granted | Exercisable Period | Yen<br>Weighted-Average Exercise Price | Number of Shares |
|---|---|---|---|---|
| 2005 | 420 | From July 3, 2006 to June 30, 2009 | 2,944 | 315,900 |
| 2006 | 436 | From July 2, 2007 to June 30, 2010 | 1,828 | 315,100 |

A summary of the status of the Company's stock options at March 31, 2009, and the changes during the year then ended is as follows:

| | Number of Shares | | |
|---|---|---|---|
| | 2004 Stock Option | 2005 Stock Option | 2006 Stock Option |
| Non-vested | | | |
| March 31, 2008 (Outstanding) | – | – | – |
| Granted | – | – | – |
| Canceled | – | – | – |
| Vested | – | – | – |
| March 31, 2009 (Outstanding) | – | – | – |
| Vested | | | |
| March 31, 2008 (Outstanding) | 312,600 | 315,900 | 315,100 |
| Vested | – | – | – |
| Exercised | – | – | – |
| Expired | 312,600 | – | – |
| March 31, 2009 (Outstanding) | – | 315,900 | 315,100 |

## 10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2009 and 2008.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Deferred tax assets: | | | |
| Write-down of inventories | **¥ 9,529** | ¥ 7,259 | **$ 97,235** |
| Accrued expenses | **11,540** | 15,989 | **117,755** |
| Excess depreciation | **6,135** | 6,634 | **62,602** |
| Loss on impairment of property, plant and equipment | **15,231** | 23,669 | **155,418** |
| Loss on impairment of investment securities | **8,720** | 1,873 | **88,980** |
| Tax loss carryforwards | **95,227** | 48,167 | **971,704** |
| Others | **7,392** | 7,012 | **75,429** |
| Valuation allowance | **(132,987)** | (65,084) | **(1,357,011)** |
| Total | **20,787** | 45,519 | **212,112** |
| Deferred tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | **(868)** | (1,182) | **(8,857)** |
| Others | **(3,055)** | (2,279) | **(31,173)** |
| Total | **(3,923)** | (3,461) | **(40,030)** |
| Net deferred tax assets | **¥ 16,864** | ¥ 42,058 | **$ 172,082** |

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of operations for the years ended March 31, 2009 and 2008 was as follows:

| | **2009** | 2008 |
|---|---|---|
| Normal effective statutory tax rate | **(41.0)%** | 41.0% |
| Expenses not deductible for income tax purposes | **1.2** | 28.2 |
| Revenue not taxable for income tax purposes | **(0.4)** | (6.0) |
| Difference in foreign and Japanese tax rates | **(0.1)** | (119.7) |
| Valuation allowance | **71.7** | 1,048.4 |
| Others—net | **(0.9)** | (3.6) |
| Actual effective tax rate | **30.5%** | 988.3% |

Net deferred tax assets for the years ended March 31, 2009 and 2008 were included in the following accounts:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Current Assets: | | | |
| Deferred tax assets | **¥ 7,097** | ¥17,089 | **$ 72,418** |
| Investments and Other Assets: | | | |
| Deferred tax assets | **12,484** | 25,250 | **127,387** |
| Long-term Liabilities: | | | |
| Other long-term liabilities | **(2,717)** | (281) | **(27,724)** |

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥54,790 million ($559,082 thousand) and ¥59,420 million for the years ended March 31, 2009 and 2008, respectively.

## 12. LEASES

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

The minimum rental commitments under noncancellable operating leases at March 31, 2009 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2009** | **2009** |
| Operating leases: | | |
| Within one year | **¥2,777** | **$28,337** |
| Over one year | **5,037** | **51,398** |
| Total | **¥7,814** | **$79,735** |

## 13. RESTRUCTURING COSTS

A breakdown of restructuring costs for the year ended March 31, 2009 was as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2009** | **2009** |
| Special termination benefits | **¥16,898** | **$172,429** |
| Expected amount payable for settlement of retirement benefit obligations of which benefit will be succeeded by the another Group company | **1,620** | **16,531** |
| Loss on settlement of retirement benefit obligations | **1,098** | **11,204** |
| Expenses related to withdrawal from plasma display business | **3,382** | **34,510** |
| Others | **1,746** | **17,816** |
| Total | **¥24,744** | **$252,490** |

## 14. DERIVATIVES

The Group enters into foreign currency forward contracts and currency options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap and currency swap contracts to manage its interest rate exposure on certain liabilities. All derivative transactions are entered into to hedge interest and foreign currency exposure. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Group had the following derivatives contracts outstanding at March 31, 2009 and 2008:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2009** | | | 2008 | | |
| | Contract Amount | Fair Value | Unrealized Gain/Loss | Contract Amount | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts: | | | | | | |
| Buying U.S. dollars | **¥ 731** | **¥ 766** | **¥35** | ¥ 8,927 | ¥ 8,906 | ¥ (21) |
| Buying Sterling pound | **3,929** | **3,924** | **(5)** | 4,305 | 4,925 | (10) |
| Selling U.S. dollars | **1,343** | **1,328** | **15** | 2,712 | 2,647 | 65 |
| Selling Euro | **–** | **–** | **–** | 2,495 | 2,451 | 44 |
| Currency Option contracts: | | | | | | |
| Euro call | **–** | **–** | **–** | 10,970 | (176) | ¥(176) |
| Euro put | **–** | **–** | **–** | 5,485 | 180 | 180 |
| Swap contracts: | | | | | | |
| Receiving Japanese yen, paying U.S. dollars | **–** | **–** | **–** | 2,923 | (101) | (101) |
| Receiving Australian dollars, paying U.S. dollars | **2,857** | **8** | **8** | 2,323 | 22 | 22 |
| Total | **¥8,860** | **¥6,026** | **¥53** | ¥40,140 | ¥18,854 | ¥ 3 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | **2009** | | |
| | Contract Amount | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts: | | | |
| Buying U.S. dollars | **$ 7,459** | **$ 7,816** | **$357** |
| Buying Sterling pound | **40,092** | **40,041** | **(51)** |
| Selling U.S. dollars | **13,704** | **13,551** | **153** |
| Selling Euro | **–** | **–** | **–** |
| Currency Option contracts: | | | |
| Euro call | **–** | **–** | **–** |
| Euro put | **–** | **–** | **–** |
| Swap contracts: | | | |
| Receiving Japanese yen, paying U.S. dollars | **–** | **–** | **–** |
| Receiving Australian dollars, paying U.S. dollars | **29,153** | **82** | **82** |
| Total | **$90,408** | **$61,490** | **$541** |

Notes: 1. Fair value of foreign currency forward contracts was calculated by quotations obtained from the forward exchange market.
2. Derivative transactions that qualify for hedge accounting are excluded from disclosure.
3. The above information does not include derivative transactions executed to hedge existing foreign currency receivables and payables.

## 15. NET INCOME (LOSS) PER SHARE

Reconciliation of the differences between basic net income (loss) per share ("EPS") for the years ended March 31, 2009 and 2008 was as follows. Diluted net income (loss) per share is not disclosed because of the Company's net loss position:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollars |
|---|---|---|---|---|
| | Net Loss | Weighted Average Shares | | EPS |
| **For the year ended March 31, 2009:** | | | | |
| Basic EPS | | | | |
| Net loss attributable to common shareholders | **¥(130,529)** | **205,014** | **¥(636.68)** | **$(6.50)** |
| For the year ended March 31, 2008: | | | | |
| Basic EPS | | | | |
| Net loss attributable to common shareholders | ¥ (19,040) | 183,159 | ¥(103.95) | |

## 16. SEGMENT INFORMATION

Information about business segments, geographic segments and sales to overseas customers of the Group for the years ended March 31, 2009 and 2008 was as follows:

### a. Business Segments

*(1) Sales and operating loss*

| | | | | | Millions of Yen |
|---|---|---|---|---|---|
| | | | | | **2009** |
| | Car Electronics | Home Electronics | Others | Corporate Eliminations | Consolidated |
| Sales to customers | **¥291,704** | **¥209,257** | **¥57,876** | **–** | **¥558,837** |
| Intersegment sales | **1,797** | **556** | **27,304** | **¥(29,657)** | **–** |
| Operating revenue | **293,501** | **209,813** | **85,180** | **(29,657)** | **558,837** |
| Operating expenses | **305,838** | **248,435** | **88,557** | **(29,464)** | **613,366** |
| Operating loss | **¥ (12,337)** | **¥ (38,622)** | **¥ (3,377)** | **¥ (193)** | **¥ (54,529)** |

*(2) Total assets, depreciation, impairment loss and capital expenditures*

| | | | | | Millions of Yen |
|---|---|---|---|---|---|
| | | | | | **2009** |
| | Car Electronics | Home Electronics | Others | Corporate Eliminations | Consolidated |
| Total assets | **¥142,546** | **¥102,766** | **¥62,950** | **¥120,831** | **¥429,093** |
| Depreciation | **25,240** | **7,768** | **6,709** | **3,470** | **43,187** |
| Impairment loss | **–** | **2,673** | **–** | **1,459** | **4,132** |
| Capital expenditures | **29,774** | **12,484** | **5,448** | **2,089** | **49,795** |

*(1) Sales and operating income (loss)*

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2008 | | | | |
| | Car Electronics | Home Electronics | Others | Corporate Eliminations | Consolidated |
| Sales to customers | ¥373,883 | ¥329,530 | ¥ 71,064 | – | ¥774,477 |
| Intersegment sales | 2,002 | 670 | 33,553 | ¥(36,225) | – |
| Operating revenue | 375,885 | 330,200 | 104,617 | (36,225) | 774,477 |
| Operating expenses | 349,784 | 348,121 | 102,861 | (35,505) | 765,261 |
| Operating income (loss) | ¥ 26,101 | ¥ (17,921) | ¥ 1,756 | ¥ (720) | ¥ 9,216 |

*(2) Total assets, depreciation, impairment loss and capital expenditures*

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2008 | | | | |
| | Car Electronics | Home Electronics | Others | Corporate Eliminations | Consolidated |
| Total assets | ¥199,878 | ¥165,562 | ¥74,792 | ¥122,044 | ¥562,276 |
| Depreciation | 22,211 | 10,709 | 7,524 | 3,826 | 44,270 |
| Impairment loss | – | 22,461 | – | 231 | 22,692 |
| Capital expenditures | 27,262 | 14,550 | 6,106 | 3,827 | 51,745 |

*(1) Sales and operating income (loss)*

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2009 | | | | |
| | Car Electronics | Home Electronics | Others | Corporate Eliminations | Consolidated |
| Sales to customers | **$2,976,571** | **$2,135,276** | **$590,571** | **–** | **$5,702,418** |
| Intersegment sales | **18,337** | **5,673** | **278,612** | **$(302,622)** | **–** |
| Operating revenue | **2,994,908** | **2,140,949** | **869,183** | **(302,622)** | **5,702,418** |
| Operating expenses | **3,120,796** | **2,535,051** | **903,642** | **(300,653)** | **6,258,836** |
| Operating loss | **$ (125,888)** | **$ (394,102)** | **$ (34,459)** | **$ (1,969)** | **$ (556,418)** |

*(2) Total assets, depreciation, impairment loss and capital expenditures*

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2009 | | | | |
| | Car Electronics | Home Electronics | Others | Corporate Eliminations | Consolidated |
| Total assets | **$1,454,551** | **$1,048,633** | **$642,347** | **$1,232,969** | **$4,378,500** |
| Depreciation | **257,551** | **79,266** | **68,459** | **35,408** | **440,684** |
| Impairment loss | **–** | **27,275** | **–** | **14,888** | **42,163** |
| Capital expenditures | **303,816** | **127,388** | **55,592** | **21,316** | **508,112** |

Note: The Group's business is classified into three segments: "Car Electronics," "Home Electronics," and "Others." Principal products and services included in each segment are as follows:

Car Electronics: Car navigation systems, car stereos, car AV systems and car speakers

Home Electronics: Plasma displays, LCD TVs, DVD recorders, DVD players, DVD drives, Blu-ray Disc recorders, Blu-ray Disc players, Blu-ray Disc drives, audio systems, audio components, DJ equipment and equipment for cable TV systems

Others: Organic light-emitting diode displays, factory automation systems, speaker units, electronics devices and parts, telephones, AV accessories, business-use AV systems and licensing of patents related to laser optical disc technologies

### b. Geographic Segments

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2009** | | | | | |
| | Japan | North America | Europe | Other Regions | Corporate Eliminations | Consolidated |
| Sales to customers | **¥222,451** | **¥109,394** | **¥111,717** | **¥115,275** | **–** | **¥558,837** |
| Interarea transfer | **216,656** | **4,046** | **375** | **170,288** | **¥(391,365)** | **–** |
| Operating revenue | **439,107** | **113,440** | **112,092** | **285,563** | **(391,365)** | **558,837** |
| Operating expenses | **499,800** | **117,134** | **117,012** | **281,401** | **(401,981)** | **613,366** |
| Operating income (loss) | **¥ (60,693)** | **¥ (3,694)** | **¥ (4,920)** | **¥ 4,162** | **¥ 10,616** | **¥ (54,529)** |
| Total assets | **¥165,843** | **¥ 23,568** | **¥ 44,079** | **¥ 87,491** | **¥ 108,112** | **¥429,093** |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | | | |
| | Japan | North America | Europe | Other Regions | Corporate Eliminations | Consolidated |
| Sales to customers | ¥278,243 | ¥179,393 | ¥166,905 | ¥149,936 | – | ¥774,477 |
| Interarea transfer | 352,153 | 5,504 | 437 | 241,397 | ¥(599,491) | – |
| Operating revenue | 630,396 | 184,897 | 167,342 | 391,333 | (599,491) | 774,477 |
| Operating expenses | 638,546 | 184,257 | 166,213 | 377,075 | (600,830) | 765,261 |
| Operating income (loss) | ¥ (8,150) | ¥ 640 | ¥ 1,129 | ¥ 14,258 | ¥ 1,339 | ¥ 9,216 |
| Total assets | ¥232,973 | ¥ 34,303 | ¥ 66,719 | ¥122,284 | ¥ 105,997 | ¥562,276 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | **2009** | | | | | |
| | Japan | North America | Europe | Other Regions | Corporate Eliminations | Consolidated |
| Sales to customers | **$2,269,908** | **$1,116,265** | **$1,139,969** | **$1,176,276** | **–** | **$5,702,418** |
| Interarea transfer | **2,210,776** | **41,286** | **3,827** | **1,737,631** | **$(3,993,520)** | **–** |
| Operating revenue | **4,480,684** | **1,157,551** | **1,143,796** | **2,913,907** | **(3,993,520)** | **5,702,418** |
| Operating expenses | **5,100,000** | **1,195,245** | **1,194,000** | **2,871,439** | **(4,101,847)** | **6,258,837** |
| Operating income (loss) | **$ (619,316)** | **$ (37,694)** | **$ (50,204)** | **$ 42,469** | **$ 108,327** | **$ (556,418)** |
| Total assets | **$1,692,275** | **$ 240,490** | **$ 449,786** | **$ 892,765** | **$ 1,103,184** | **$4,378,500** |

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

### c. Sales to Overseas Customers

Sales to overseas customers for the years ended March 31, 2009 and 2008 amounted to ¥376,359 million ($3,840,398 thousand) and ¥558,834 million, respectively.

## 17. SUBSEQUENT EVENTS

### a. Third-party Allotment of New Shares for Honda Motor Co., Ltd.

The Company has resolved to issue new shares through a third-party allotment for Honda Motor Co., Ltd. at the Board of Directors' meeting held on April 28, 2009. The funds to be raised through the issuance of new shares will be applied to working capital. In particular, the funds will be applied to a part of research and development expenses for the Car Electronics business, which will be positioned as a core business of the Company. The Company planned to issue 14,700 thousand shares of common stock at an issue price of ¥170 per share (of which ¥85 per share was to be accounted for as stated capital), or in the aggregate of ¥2,499 million. It is also possible that the terms and conditions of issuance may be modified as a result of future discussions with Honda.

While considering all funding options, the Company is continuing to examine possible financial partnerships and is now negotiating with potential sponsors other than Honda. Under these circumstances, based on the status of negotiations with the potential sponsors and as a result of the discussions with Honda, the issuance of new shares is expected to be postponed from that which was initially scheduled, end of June 2009. The schedule of the issuance of new shares is to be fixed by the time the financial partnerships have been finally agreed upon with the potential sponsors.

Please note that Honda still intends to subscribe for the new shares in the above aggregate amount.

### b. Transfer of Patents for Plasma Display Panels to Panasonic Corporation

The Company resolved to transfer its patents for plasma display panels and modules to Panasonic Corporation at the Board of Directors' meeting held on April 28, 2009. The two companies had executed the agreement on May 15, 2009. This constitutes part of the business restructuring effort in accordance with plans for a full withdrawal from the display business.

### c. Joint Venture Agreement on Optical Disc Business with Sharp Corporation

The Company executed an agreement with Sharp Corporation on the establishment of a joint venture in the optical disc business on June 25, 2009. On April 9, 2009, the Company and Sharp previously executed a basic agreement on this business. The goal of the joint venture is to make more effective use of the management resources of the two companies in the optical disc business field, and to further expand the business in this area, especially in the highly promising Blu-ray Disc market.

Outline of the new company is as follows.

| | |
|---|---|
| Company name: | Pioneer Digital Design and Manufacturing Corporation |
| Headquarters: | Kawasaki-shi, Kanagawa, Japan |
| Main businesses: | Development, design, manufacture and sale of optical-disc-related products and parts |

# INDEPENDENT AUDITORS' REPORT

Deloitte.

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To the Board of Directors of Pioneer Corporation:

We have audited the accompanying consolidated balance sheets of Pioneer Corporation (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pioneer Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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.

Deloitte Touche Tohmatsu

June 25, 2009

Member of
**Deloitte Touche Tohmatsu**

# GENERAL INFORMATION ON SHARES

**Stock Listing**

Tokyo Stock Exchange (Since 1961)

**Transfer Agent**

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

**Share Information** (As of March 31, 2009)

| | |
|---|---|
| Number of Shares Issued | 210,063,836 shares |
| Number of Shareholders of Common Stock | 50,332 shareholders |

Distribution of Share Ownership

| | Number of shareholders | Number of shares held (thousand) | Shareholdings (%) |
|---|---|---|---|
| Japanese financial institutions | 42 | 66,510 | 31.66 |
| Japanese securities companies | 42 | 5,428 | 2.59 |
| Other Japanese business corporations | 319 | 36,156 | 17.21 |
| Foreign corporations and individuals | 320 | 33,973 | 16.17 |
| Japanese individuals and others | 49,609 | 67,994 | 32.37 |

Note: Japanese individuals and others include 5,017 thousand shares (2.38%) as treasury stock held by the Company.

Principal Shareholders (Ten Largest Shareholders)

| Name of Shareholder | Number of shares held (thousand) | Shareholdings (%) |
|---|---|---|
| Sharp Corporation | 30,000 | 14.28 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 12,797 | 6.09 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 12,436 | 5.92 |
| Japan Trustee Services Bank, Ltd. (Trust Account 4G) | 7,495 | 3.56 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 6,490 | 3.08 |
| Mizuho Bank, Ltd. | 4,000 | 1.90 |
| Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Trust Account Re-entrusted by Mizuho Trust & Banking Co., Ltd. | 3,955 | 1.88 |
| Pioneer Employee Share Ownership Plan | 3,499 | 1.66 |
| Sumitomo Mitsui Banking Corporation | 2,589 | 1.23 |
| State Street Bank and Trust Company 505041 | 2,459 | 1.17 |

Note: The Company holds 5,017 thousand shares (2.38%) as treasury stock.

## For further information, please contact:

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Other information is available at: http://pioneer.jp/ir-e/

## Cautionary Statement with Respect to Forward-Looking Statements

Statements made in Annual Report 2009 with respect to our current plans, estimates, strategies and beliefs, and other statements that are not historical facts are forward-looking statements about our future performance. These statements are based on management's assumptions and beliefs in light of the information currently available to it. We caution that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. It is not our obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We disclaim any such obligation. Risks and uncertainties that might affect us include, but are not limited to: (i) general economic conditions in our markets, particularly levels of consumer spending; (ii) exchange rates, particularly between the Japanese yen and the U.S. dollar, the euro, and other currencies in which we make significant sales or in which our assets and liabilities are denominated; (iii) our ability to continuously design and develop highly rated products and services in extremely competitive markets, which are characterized by continual product launches, rapid technological development, intense price-based competition, subjective and changing consumer preferences and other factors; (iv) our ability to successfully implement our business strategies; (v) our ability to compete, as well as develop and implement successful sales and distribution strategies, in light of technological developments in and affecting our businesses; (vi) our continued ability to devote sufficient resources to research and development, and capital expenditure; (vii) our ability to continuously enhance our brand image; (viii) the success of our joint ventures and alliances; (ix) the success of our business restructuring plans; and (x) the outcome of contingencies.

**PIONEER CORPORATION**

http://pioneer.jp/e/

Printed in Japan with soy ink
on environmentally friendly paper.