Pioneer

PIONEER CORPORATION
4-1, MEGURO 1-CHOME, MEGURO-KU
TOKYO 153-8654, JAPAN

News Release

For Immediate Release
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Pioneer Announces Business Results for 1Q Fiscal 2010

TOKYO — Pioneer Corporation today announced its consolidated first-quarter business results for the period ended June 30, 2009.

Consolidated Financial Highlights

(In millions of yen except per share information)

	Three months ended June 30		
	2009	2008	% to prior year
Net Sales	¥95,757	¥160,966	59.5%
Operating loss	(8,756)	(6,825)	–
Ordinary loss	(8,941)	(5,517)	–
Net loss	¥ (4,099)	¥ (9,487)	–%
Net loss per share	¥(19.99)	¥(46.27)	

Consolidated Business Results

For the first quarter of fiscal 2010, the three months ended June 30, 2009, consolidated net sales decreased 40.5% from the first quarter of fiscal 2009 to ¥95,757 million (US$997.5 million). This was mainly the result of a decline in sales of car audio products, DVD drives, plasma displays and car navigation systems, which largely reflected the sharp deterioration in consumer spending worldwide and the impact of the yen's appreciation.

Pioneer recorded an operating loss of ¥8,756 million (US$91.2 million), compared with an operating loss of ¥6,825 million in the first quarter of fiscal 2009, reflecting the drop in net sales and deterioration in the gross profit margin, despite lower selling, general and administrative expenses, mainly owing to restructuring benefits and the recording of a lump-sum fee income from patents related to plasma displays. The net loss improved from ¥9,487 million in the first quarter of fiscal 2009 to ¥4,099 million (US$42.7 million). This improvement mainly reflected the recording of a gain on sales of noncurrent assets such as patents related to plasma displays, and decreased income taxes.

During the first quarter of fiscal 2010, the average value of the Japanese yen appreciated 7.4% against the U.S. dollar and 23.3% against the euro, compared with the first quarter of fiscal 2009.

For further information, please contact:
Investor Relations Department, Corporate Communications Division
Pioneer Corporation, Tokyo
Phone: +81-3-3495-6773 / Fax: +81-3-3495-4301
E-mail: pioneer_ir@post.pioneer.co.jp
IR Website: http://pioneer.jp/ir-e/

Car Electronics sales decreased 38.4% year on year to ¥54,235 million (US$564.9 million) because of lower sales of both car audio products and car navigation systems, mainly due to lackluster auto sales worldwide. In car navigation systems, consumer-market sales declined year on year, due to lower sales in Japan. OEM sales decreased because of lower sales in North America and Japan. In car audio products, consumer-market sales declined, mainly due to lower overseas sales. OEM sales decreased because of lower sales in Japan and North America. Total OEM sales in this segment accounted for approximately 39% of Car Electronics sales, compared with approximately 41% in the first quarter of fiscal 2009.

In terms of geographic sales, sales in Japan decreased 29.4% to ¥24,630 million (US$256.6 million), and overseas sales declined 44.4% to ¥29,605 million (US$308.4 million).

This segment recorded an operating loss of ¥8,693 million (US$90.6 million), compared with operating income of ¥1,704 million in the first quarter of fiscal 2009. This was mainly due to lower net sales, as well as deterioration in the gross profit margin caused by a decline in production volume and the yen's appreciation, primarily in the car audio products business.

Home Electronics sales decreased 48.2% year on year to ¥29,705 million (US$309.4 million). Despite increased sales of Blu-ray Disc players due to favorable sales of new models, the decrease in Home Electronics sales largely reflected a drop in DVD drive sales mainly for PC manufacturers, as well as lower overseas sales in the plasma display business, from which Pioneer will withdraw by the end of fiscal 2010.

In terms of geographic sales, sales in Japan increased 17.1% year on year to ¥7,762 million (US$80.9 million) due to higher sales of Blu-ray Disc drives, while overseas sales decreased 56.7% to ¥21,943 million (US$228.6 million).

Operating income in this segment was ¥1,020 million (US$10.6 million) compared with an operating loss of ¥7,394 million in the first quarter of fiscal 2009. Despite the drop in net sales, the main reasons for this improvement were that in plasma displays there were the recording of a lump-sum fee income from patents, improvement in the gross profit margin, and reduced operating expenses.

In the **Others** segment, sales decreased 23.9% year on year to ¥11,817 million (US$123.1 million) due principally to lower sales of factory automation systems, electronics devices and parts, speaker units for cellular phones and organic light-emitting diode displays.

In terms of geographic sales, sales in Japan decreased 20.3% to ¥8,269 million (US$86.1 million), and overseas sales decreased 31.2% to ¥3,548 million (US$37.0 million).

The operating loss in this segment was ¥1,615 million (US$16.8 million) compared with ¥264 million in the first quarter of fiscal 2009. The larger operating loss mainly resulted from the drop in net sales and deterioration in the gross profit margin.

Note: Operating income (loss) in each business segment represents operating income (loss) before elimination of intersegment transactions.

Consolidated Financial Position

Total assets as of June 30, 2009 were ¥418,236 million (US$4,356.6 million), a decrease of ¥10,857 million from March 31, 2009, mainly reflecting decreases in inventories, and cash and deposits. Inventories declined ¥8,393 million from March 31, 2009 to ¥76,493 million (US$796.8 million), as we pressed ahead with inventory reductions centered on car audio products. Cash and deposits decreased ¥3,776 million from the previous fiscal year-end to ¥59,969 million (US$624.7 million).

Total liabilities as of June 30, 2009 were ¥307,034 million (US$3,198.3 million), down ¥10,211 million from March 31, 2009. This mainly reflected a decrease of ¥9,652 million in accrued expenses, chiefly due to the payment of special retirement benefits for the early retirement programs implemented in fiscal 2009.

Total equity was ¥111,202 million (US$1,158.4 million), a decrease of ¥646 million. This chiefly reflected a decline of ¥4,099 million in retained earnings due to the recording of a net loss, despite an increase of ¥4,012 million in unrealized gain on available-for-sale securities, resulting from a rise in the market value of investment securities compared with March 31, 2009.

Cash Flows

During the first quarter of fiscal 2010, operating activities used net cash of ¥7,409 million (US$77.2 million). The main factors reducing cash were a loss before income taxes and minority interests of ¥4,021 million (US$41.9 million); a decrease in accrued expenses of ¥10,122 million (US$105.4 million), mainly reflecting the payment of special retirement benefits; as well as a decrease in accrued pension and severance costs of ¥2,758 million (US$28.7 million). These factors outweighed the addback of non-cash expenses, namely depreciation and amortization of ¥10,487 million (US$109.2 million). Investing activities provided net cash of ¥3,342 million (US$34.8 million). This mainly reflected proceeds of ¥9,045 million (US$94.2 million) from sales of noncurrent assets, such as patents related to plasma displays, despite capital expenditures of ¥5,890 million (US$61.4 million) mainly in the Car Electronics business. Financing activities provided net cash of ¥1 million (US$0.01 million), mainly due to a net increase in short-term borrowings, despite the repayment of long-term debt.

Consequently, cash and cash equivalents at June 30, 2009 were ¥59,969 million (US$624.7 million), down ¥3,777 million from March 31, 2009.

Business Forecasts for Fiscal 2010

Consolidated business forecasts for fiscal 2010, ending March 31, 2010, have not been changed from those announced on May 13, 2009, as shown below.

In the first quarter of fiscal 2010, net sales and losses were both better than our plan mainly due to a smaller-than-expected drop in plasma display prices and weaker-than-expected yen exchange rates. However, we have conservatively estimated consumption trends and the competitive environment from the second quarter of fiscal 2010 onward. The average yen-U.S. dollar and yen-euro exchange rates for these consolidated business forecasts are ¥90 and ¥115, respectively. The figures below do not include the impact of the optical disc joint venture business with Sharp Corporation.

(In millions of yen)

	First half			Full year		
	Forecasts for fiscal 2010	Results for fiscal 2009	Percent changes	Forecasts for fiscal 2010	Results for fiscal 2009	Percent changes
Net sales	¥195,000	¥327,042	–40.4%	¥420,000	¥ 558,837	–24.8%
Operating loss	(32,000)	(14,340)	–	(33,000)	(54,529)	–
Ordinary loss	(35,000)	(13,540)	–	(37,500)	(54,420)	–
Net loss	¥ (47,000)	¥ (44,071)	–%	¥ (83,000)	¥(130,529)	–%

Progress with Restructuring

Pioneer is currently implementing drastic restructuring comprising measures to realign the business portfolio, streamline the business framework of the entire Pioneer group, and improve the Company's financial position.

Regarding business portfolio realignment, in its core Car Electronics business, Pioneer has entered into a memorandum of understanding with Mitsubishi Electric Corporation concerning joint development of car navigation platforms and has begun development work. We are also proceeding with discussions to start a joint venture in October 2009 with Shanghai Automotive Industry Corporation (Group) of China. In the display business, Pioneer plans to completely withdraw from this business after ending plasma TV sales by March 31, 2010, as scheduled. Regarding the optical disc joint venture with Sharp Corporation, Pioneer decided, at a meeting of its Board of Directors held today, to transfer its optical disc business to the new company and preparations are under way to begin operations at the joint venture from October 1, 2009.

Regarding streamlining the business framework of the entire Pioneer group, we are consolidating our current network of production companies around the world. Four companies have already been closed. Going forward, we plan to close two additional companies and downsize the operations of three companies by December 31, 2009. Plans also call for closing three additional companies and downsizing the operations of three more companies by March 31, 2010. Regarding our sales structures in Japan, from October 1, 2009, we plan to integrate domestic sales divisions and companies into two sales companies, one each for the Car Electronics and Home Electronics businesses, in order to raise efficiency. Regarding streamlining overseas sales structures, we plan to implement measures in North America and Europe from the fall to the end of December 2009. We have already completed such measures in other regions. Furthermore, aiming to optimize the efficiency of Headquarters and back office functions, we are planning to conduct organizational changes on October 1, 2009 and we expect to integrate Pioneer's network of five operating bases in Japan into two locations at Kawasaki and Kawagoe by March 31, 2010. With regard to readjustments of personnel levels accompanying these measures, in Japan, we are implementing special early retirement programs with a retirement date of September 30, 2009. Overseas, we plan to implement personnel reductions by March 31, 2010.

Regarding improving the Company's financial position, Pioneer has worked to generate cash mainly through inventory reductions and the sales of noncurrent assets such as patents related to plasma displays. In regard to boosting equity capital, Pioneer has agreed with Honda Motor Co., Ltd. to conduct a ¥2.5 billion third-party allotment of shares to this company, and discussions are proceeding on the implementation period. Furthermore, Pioneer is currently conducting negotiations on new financial partnerships with potential sponsors, with the aim of raising funds of around ¥40 billion.

In this manner, restructuring is proceeding largely on schedule. Going forward, we will continue making every effort to complete restructuring by the end of fiscal 2010.

Material Events Regarding Going Concern Assumption

Pioneer's financial position has deteriorated due to a sharp drop in net sales, large losses and significant net cash used in operating activities. As a result, conditions have given rise to material uncertainty about Pioneer's ability to continue its business activities into the future. However, Pioneer believes that this uncertainty can be avoided by steadily implementing the drastic restructuring that is currently under way.

Also, from fiscal 2009, the Company's business performance has triggered breaches of financial covenants stipulated by loan agreements with multiple banks. However, in recognition of the Company's situation as described above, the banks have agreed to maintain their existing loans to Pioneer based on loan agreements. Furthermore, Pioneer has received loans on an ongoing basis chiefly from its main banks, which have pledged their intention to continue providing financial support to the Company. Pioneer remains committed to improving its performance by implementing restructuring, while working hard to ensure the continued support of the banks.

Details of progress with restructuring are provided in the "Progress with Restructuring" shown above.

Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this release 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 is a leading global manufacturer of consumer- and business-use electronics products such as car electronics, audio and video products. Its shares are traded on the Tokyo Stock Exchange.

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The U.S. dollar amounts in this release represent translations of Japanese yen, for convenience only, at the rate of ¥96=US$1.00, the approximate rate prevailing on June 30, 2009.

Attached are consolidated financial statements for the three months ended June 30, 2009.

(1) CONSOLIDATED BALANCE SHEETS

(In millions of yen)

	June 30, 2009	March 31, 2009
ASSETS		
Current assets:		
Cash and deposits	¥ 59,969	¥ 63,745
Trade receivables	62,784	60,989
Merchandise and finished goods	41,224	45,169
Work in process	12,763	14,699
Raw materials and supplies	22,506	25,018
Deferred tax assets	6,709	7,097
Other current assets	20,559	17,420
Allowance for doubtful receivables	(2,004)	(2,035)
Total current assets	224,510	232,102
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	102,526	102,285
Machinery, vehicles, tools, furniture and fixtures	175,639	176,593
Others	33,780	34,078
Accumulated depreciation	(202,674)	(200,789)
Total property, plant and equipment	109,271	112,167
Intangible assets:		
Goodwill	1,400	1,420
Software	36,244	39,215
Others	1,727	4,163
Total intangible assets	39,371	44,798
Investments and other assets:		
Investment securities	22,724	18,972
Deferred tax assets	13,580	12,484
Others	8,696	8,470
Allowance for doubtful accounts	(7)	(7)
Total investments and other assets	44,993	39,919
Total noncurrent assets	193,635	196,884
Deferred assets	91	107
Total assets	¥418,236	¥429,093

(In millions of yen)

	June 30, 2009	March 31, 2009
LIABILITIES		
Current liabilities:		
Trade payables	¥ 49,104	¥ 40,798
Short-term borrowings	111,020	110,000
Current portion of long-term debt	2,664	2,664
Accrued income taxes	3,344	4,153
Accrued expenses	41,111	50,763
Warranty reserve	4,090	4,222
Other current liabilities	13,841	19,820
Total current liabilities	225,174	232,420
Long-term liabilities:		
Bonds payable	60,600	60,600
Long-term debt	5,910	6,515
Accrued pension and severance costs	10,320	12,704
Other long-term liabilities	5,030	5,006
Total long-term liabilities	81,860	84,825
Total liabilities	307,034	317,245
EQUITY		
Shareholders' equity:		
Common stock	69,824	69,824
Capital surplus	102,054	102,054
Retained earnings	9,151	13,250
Treasury stock	(11,124)	(11,124)
Total shareholders' equity	169,905	174,004
Valuation and translation adjustments:		
Unrealized gain on available-for-sale securities	5,564	1,552
Deferred gain (loss) on derivatives under hedge accounting	(193)	42
Foreign currency translation adjustments	(63,745)	(63,549)
Pension adjustments recognized by foreign consolidated subsidiaries	(1,605)	(1,551)
Total valuation and translation adjustments	(59,979)	(63,506)
Minority interests	1,276	1,350
Total equity	111,202	111,848
Total liabilities and equity	¥418,236	¥429,093

(2) CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions of yen)

	Three months ended June 30	
	2008	2009
Net sales	¥160,966	¥95,757
Cost of sales	129,396	86,351
Gross profit	31,570	9,406
Selling, general and administrative expenses	38,395	18,162
Operating loss	(6,825)	(8,756)
Non-operating income:		
Interest income	1,035	173
Dividends income	–	213
Foreign exchange income	865	381
Others	421	126
Total non-operating income	2,321	893
Non-operating loss:		
Interest expenses	755	765
Others	258	313
Total non-operating loss	1,013	1,078
Ordinary loss	(5,517)	(8,941)
Extraordinary income:		
Gain on sales of noncurrent assets	538	5,954
Others	67	8
Total extraordinary income	605	5,962
Extraordinary loss:		
Impairment loss	859	–
Loss on valuation of investment securities	–	347
Restructuring costs	–	638
Others	93	57
Total extraordinary loss	952	1,042
Loss before income taxes and minority interests	(5,864)	(4,021)
Income taxes—current	2,641	670
Income taxes—deferred	934	(524)
Total income taxes	3,575	146
Minority interests in income (loss)	48	(68)
Net loss	¥ (9,487)	¥ (4,099)

(3) CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of yen)

	Three months ended June 30	
	2008	2009
I. Cash flows from operating activities:		
Loss before income taxes and minority interests	¥ (5,864)	¥ (4,021)
Depreciation and amortization	9,672	10,487
Impairment loss	859	–
Decrease in accrued pension and severance costs	–	(2,758)
Interest and dividends income	(1,333)	(386)
Interest expenses	755	765
Gain on sales and disposal of noncurrent assets	(454)	(5,899)
Increase in trade receivables	(10,618)	(1,071)
Decrease (increase) in inventories	(14,419)	8,784
Increase in trade payables	13,386	8,137
Decrease in accrued expenses	(8,166)	(10,122)
Other, net	(3,993)	(8,794)
Subtotal	(20,175)	(4,878)
Interest and dividends income received	1,070	326
Interest expenses paid	(563)	(772)
Income taxes paid	(4,534)	(2,085)
Net cash used in operating activities	(24,202)	(7,409)
II. Cash flows from investing activities:		
Purchase of noncurrent assets	(13,148)	(5,890)
Proceeds from sales of noncurrent assets	768	9,045
Proceeds from sales of investment securities	89	181
Other, net	(264)	6
Net cash provided by (used in) investing activities	(12,555)	3,342
III. Cash flows from financing activities:		
Net increase in short-term borrowings	32,298	643
Repayment of long-term debt	(1,005)	(605)
Dividends paid	(513)	–
Other, net	(156)	(37)
Net cash provided by financing activities	30,624	1
Effect of exchange rate changes on cash and cash equivalents	4,337	289
Net decrease in cash and cash equivalents	(1,796)	(3,777)
Cash and cash equivalents, beginning of period	81,180	63,746
Cash and cash equivalents, end of period	¥ 79,384	¥ 59,969

(4) SEGMENT INFORMATION

<Net Sales by Segment>

(In millions of yen)

	Three months ended June 30				
	2008		2009		% to prior year
	Amount	% to total	Amount	% to total	
Domestic	¥ 34,892	21.7%	¥24,630	25.7%	70.6%
Overseas	53,203	33.0	29,605	30.9	55.6
Car Electronics	88,095	54.7	54,235	56.6	61.6
Domestic	6,628	4.1	7,762	8.1	117.1
Overseas	50,715	31.5	21,943	22.9	43.3
Home Electronics	57,343	35.6	29,705	31.0	51.8
Domestic	10,369	6.4	8,269	8.7	79.7
Overseas	5,159	3.3	3,548	3.7	68.8
Others	15,528	9.7	11,817	12.4	76.1
Domestic	51,889	32.2	40,661	42.5	78.4
Overseas	109,077	67.8	55,096	57.5	50.5
Total	¥160,966	100.0%	¥95,757	100.0%	59.5%

<Business Segments>

(In millions of yen)

Three months ended June 30, 2008	Car Electronics	Home Electronics	Others	Total	Corporate and Eliminations	Consolidated
Net sales:						
Unaffiliated customers	¥88,095	¥57,343	¥15,528	¥160,966	–	¥160,966
Inter-segment	469	113	8,470	9,052	¥(9,052)	–
Total	88,564	57,456	23,998	170,018	(9,052)	160,966
Operating income (loss)	¥ 1,704	¥ (7,394)	¥ (264)	¥ (5,954)	¥ (871)	¥ (6,825)

(In millions of yen)

Three months ended June 30, 2009	Car Electronics	Home Electronics	Others	Total	Corporate and Eliminations	Consolidated
Net sales:						
Unaffiliated customers	¥54,235	¥29,705	¥11,817	¥95,757	–	¥95,757
Inter-segment	385	182	3,570	4,137	¥(4,137)	–
Total	54,620	29,887	15,387	99,894	(4,137)	95,757
Operating income (loss)	¥ (8,693)	¥ 1,020	¥ (1,615)	¥ (9,288)	¥ 532	¥ (8,756)

Note: Business segments are determined according to type of products and similarity of sales markets.

Notes:

1. Effective from fiscal 2010, “Other operating revenue” (Royalty revenue), which was previously composed of “Operating revenue” with “Net sales,” has been included in “Net sales” because of its reduced importance to consolidated business results. Accordingly, effective from this fiscal year, only “Net sales” has been reported. Figures for the previous year have been reclassified to conform to this presentation.
2. The Company’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:
     audio systems, audio components, DJ equipment, equipment for cable-TV systems, Blu-ray Disc players, Blu-ray Disc recorders, Blu-ray Disc drives, DVD players, DVD recorders, DVD drives and Plasma displays
   - Others:
     factory automation systems, speaker units, electronics devices and parts, organic light-emitting diode displays, telephones, AV accessories, business-use AV systems and licensing of patents related to laser optical disc technologies

Note relating to going concern assumption:

Not applicable.