

# News Release

**For Immediate Release  
November 7, 2018**

## **Pioneer Announces Business Results for 2Q Fiscal 2019**

Pioneer Corporation today announced its consolidated second-quarter and six-month business results for the period ended September 30, 2018.

### **Consolidated Financial Highlights**

(In millions of yen except per share information)

	Three months ended September 30			Six months ended September 30		
	2017	2018	Percent change	2017	2018	Percent change
Net sales	¥ 92,851	¥ 87,117	-6.2%	¥ 176,170	¥ 170,928	-3.0%
Operating income (loss)	2,292	(113)	-	2,049	(1,688)	-
Ordinary income (loss)	870	(1,618)	-	(360)	(3,631)	-
Net income (loss) *	¥ (614)	¥ (3,270)	-%	¥ (2,649)	¥ (9,933)	-%
Net income (loss) * per share	¥(1.67)	¥(8.64)		¥(7.21)	¥(26.26)	

\* Net income (loss) attributable to owners of Pioneer Corporation

### **Consolidated Business Results**

For the second quarter of fiscal 2019, the three months ended September 30, 2018, consolidated net sales declined 6.2% year on year, to ¥87,117 million, mainly from decreases both in the consumer market business and the OEM business in Car Electronics.

Operating loss was ¥113 million this quarter, compared with an operating income of ¥2,292 million for the second quarter of fiscal 2018. This reflected a deterioration in the cost of sales ratio, mainly as a result of an increase in depreciation and amortization in the OEM business and foreign exchange rate movements, and the decrease in net sales, despite reduced selling, general and administrative (SG&A) expenses. Net loss attributable to owners of Pioneer was ¥3,270 million, compared with a net loss of ¥614 million for the second quarter of fiscal 2018. This was mainly due to the increase in operating loss.

During the second quarter of fiscal 2019, the average value of the Japanese yen declined 0.4% against the U.S. dollar year on year, to ¥111.46=1 U.S. dollar, and rose 0.6% against the euro, to ¥129.63=1 euro.

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**Car Electronics** sales declined 5.6% year on year, to ¥70,367 million, due to decreases both in the consumer market business and the OEM business, despite an increase in sales of telematics services.

Sales of the consumer market business declined year on year. Car audio product sales decreased primarily due to a decline in emerging markets and Europe. Car navigation system sales decreased due mainly to a decline in Japan. Sales of telematics services increased owing to favorable performance in those for automobile insurance in Japan.

Sales of the OEM business declined year on year. Car audio product sales were almost unchanged year on year because of higher sales mainly in Japan, China and Southeast Asia, despite a decrease in North America. Car navigation system sales decreased, due mainly to lower sales in North America and China, despite higher sales in emerging markets.

OEM business sales accounted for 58% of total Car Electronics sales, compared with 57% a year earlier.

By geographic region, sales in Japan increased 3.9%, to ¥28,319 million, and overseas sales decreased 11.2%, to ¥42,048 million.

Operating loss was ¥1,115 million, compared with an operating income of ¥1,838 million for the second quarter of fiscal 2018. This was mainly due to a deterioration in the cost of sales ratio, as a result of an increase in depreciation and amortization in the OEM business and foreign exchange rate movements, and the decrease in sales.

In the **Others** segment, sales declined 8.3% year on year, to ¥16,750 million, because of lower sales of home AV products and factory automation systems.

By geographic region, sales in Japan increased 10.1%, to ¥11,596 million, and overseas sales decreased 33.4%, to ¥5,154 million.

Operating income increased by 2.1 times year on year to ¥1,046 million, mainly due to an improvement in the cost of sales ratio, although sales declined.

For the first half of fiscal 2019, the six months ended September 30, 2018, consolidated net sales declined 3.0% year on year, to ¥170,928 million. This was due to a decrease in Car Electronics and lower sales of home AV products.

Operating loss was ¥1,688 million, compared with an operating income of ¥2,049 million for the first half of fiscal 2018. This was due to a deterioration in the cost of sales ratio, mainly as a result of an increase in depreciation and amortization in the OEM business and foreign exchange rate movements, and the decrease in net sales, despite reduced SG&A expenses. Net loss attributable to owners of Pioneer was ¥9,933 million, compared with a net loss of ¥2,649 million for the first half of fiscal 2018. This mainly reflected the increase in operating loss and a recording of exchange loss of ¥1,186 million, as well as the recordings of ¥2,021 million in loss related to litigation concerning patent license and ¥1,323 million in loss related to competition law during the first quarter of fiscal 2019.

During the first half of fiscal 2019, the average value of the Japanese yen rose 0.7% year on year against the U.S. dollar, to ¥110.26=1 U.S. dollar, and declined 2.7% against the euro, to ¥129.85=1 euro.

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

## **Consolidated Financial Position**

Total assets as of September 30, 2018 were ¥275,480 million, a decrease of ¥12,026 million from March 31, 2018, mainly due to decreases in cash and deposits and trade receivables, despite an increase in intangible assets. Intangible assets increased ¥3,328 million, to ¥77,825 million, reflecting an increase in software, despite a decrease in software in progress. Meanwhile, cash and deposits decreased ¥7,616 million, to ¥28,026 million. Trade receivables decreased ¥7,167 million, to ¥52,927 million.

Total liabilities were ¥196,948 million, a ¥5,624 million decrease from March 31, 2018. This was primarily due to a decrease of ¥4,750 million in trade payables, and a decrease of ¥2,690 million in accrued expenses, despite an increase of ¥3,201 million in borrowings.

Total equity was ¥78,532 million, a ¥6,402 million decline from March 31, 2018. This mainly reflected the recording of ¥9,933 million in net loss attributable to owners of Pioneer for the first half of fiscal 2019.

## **Consolidated Business Forecasts for Fiscal 2019**

For fiscal 2019, ending March 31, 2019, the forecast for net sales has been revised downward from the previous forecast announced on May 14, 2018. This reflects factors including a decrease in sales of Car Electronics, which is expected to fall below the initial forecast for the second quarter onward of fiscal 2019 mainly in the consumer market business, primarily due to the impact of sluggish emerging markets, and sales of certain subsidiaries.

The forecast for operating loss remains unchanged as a decline in net sales is to be covered by a decrease in depreciation and amortization, mainly owing to reviews of investment periods, and cost reduction efforts including lower research and development expenses.

Regarding the forecast for net income (loss) attributable to owners of Pioneer, we are currently pursuing consultations on support by a sponsor, and will announce the projection once the impact of the management improvement measures including revision measures in the OEM business has been determined.

	(In millions of yen)				
	Revised forecasts (A)	Previous forecasts (B)	Amount change (A - B)	Percent change (A-B / B)	Results for fiscal 2018
Net sales	¥ 350,000	¥ 380,000	¥ (30,000)	-7.9%	¥ 365,417
Operating income (loss)	(5,000)	(5,000)	-	-	1,194
Net income (loss) *	¥ -	¥ -	¥ -	-%	¥ (7,123)

\* Net income (loss) attributable to owners of Pioneer Corporation

Notes: The yen-U.S. dollar and yen-euro exchange rate assumptions for remaining six months of fiscal 2019 remain unchanged at ¥110 and ¥130, respectively.

**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, and levels of demand in the major industrial sectors which we serve; (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 and win acceptance for our products in extremely competitive markets; (iv) our ability to successfully implement our business strategies; (v) the success of our joint ventures, alliances and other business relationships with third parties; (vi) our ability to access funding; (vii) our continued ability to devote sufficient resources to research and development, and capital expenditure; (viii) our ability to ensure the quality of our products; (ix) conditions in which we are able to continuously procure key parts essential to our manufacturing operations; and (x) the outcome of contingencies.

Pioneer Corporation is a leading global manufacturer of car electronics products. Its shares are traded on the Tokyo Stock Exchange.

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Attached are consolidated financial statements for the three months and the six months ended September 30, 2018.

**(1) CONSOLIDATED BALANCE SHEETS**

	(In millions of yen)	
	March 31, 2018	September 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash and deposits	35,642	28,026
Trade receivables	60,094	52,927
Finished products	21,590	24,088
Work in process	12,793	11,810
Raw materials and supplies	15,750	17,187
Other current assets	14,093	14,483
Allowance for doubtful receivables	(740)	(872)
<b>Total current assets</b>	<b>159,222</b>	<b>147,649</b>
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	47,828	46,262
Machinery, equipment and others	117,881	108,148
Lease assets	8,620	11,169
Others	10,919	10,409
Accumulated depreciation	(147,039)	(140,736)
<b>Net property, plant and equipment</b>	<b>38,209</b>	<b>35,252</b>
Intangible assets:		
Goodwill	396	374
Software	25,896	34,629
Software in progress	47,606	42,329
Others	599	493
<b>Total intangible assets</b>	<b>74,497</b>	<b>77,825</b>
Investments and other assets:		
Investment securities	8,466	7,978
Deferred tax assets	3,006	3,218
Net defined benefit asset	973	971
Others	3,156	2,566
Allowance for doubtful accounts	(49)	-
<b>Total investments and other assets</b>	<b>15,552</b>	<b>14,733</b>
<b>Total noncurrent assets</b>	<b>128,258</b>	<b>127,810</b>
<b>Total deferred assets</b>	<b>26</b>	<b>21</b>
<b>Total assets</b>	<b>287,506</b>	<b>275,480</b>

	(In millions of yen)	
	March 31, 2018	September 30, 2018
<u>LIABILITIES</u>		
Current liabilities:		
Trade payables	59,770	55,020
Short-term borrowings	32,537	36,578
Current portion of long-term debt	1,667	1,667
Income taxes payable	893	1,823
Accrued expenses	33,107	30,417
Warranty reserve	1,841	1,874
Other current liabilities	19,528	18,846
Total current liabilities	149,343	146,225
Long-term liabilities:		
Convertible bonds	15,041	15,034
Long-term debt	833	-
Accrued pension and severance costs	31,395	29,811
Other long-term liabilities	5,960	5,878
Total long-term liabilities	53,229	50,723
Total liabilities	202,572	196,948
<u>EQUITY</u>		
Shareholders' equity:		
Common stock	92,881	92,881
Capital surplus	32,295	32,295
Retained earnings	46,733	36,802
Treasury stock	(11,052)	(11,052)
Total shareholders' equity	160,857	150,926
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities	(393)	248
Deferred gain (loss) on derivatives under hedge accounting	11	-
Foreign currency translation adjustments	(59,446)	(57,612)
Defined retirement benefit plans	(20,509)	(19,439)
Total accumulated other comprehensive income (loss)	(80,337)	(76,803)
Noncontrolling interests	4,414	4,409
Total equity	84,934	78,532
Total liabilities and equity	287,506	275,480

**(2) CONSOLIDATED STATEMENTS OF OPERATIONS - Six months ended September 30**

(In millions of yen)

	Six months ended September 30	
	2017	2018
Net sales	176,170	170,928
Cost of sales	142,875	142,038
Gross profit	33,295	28,890
Selling, general and administrative expenses	31,246	30,578
Operating income (loss)	2,049	(1,688)
Non-operating income:		
Interest income	107	134
Dividend income	94	100
Others	68	106
Total non-operating income	269	340
Non-operating expenses:		
Interest expense	306	461
Exchange loss	1,235	1,186
Equity in losses of associated companies	281	22
Others	856	614
Total non-operating expenses	2,678	2,283
Ordinary income (loss)	(360)	(3,631)
Extraordinary income:		
Gain on sale of noncurrent assets	8	10
Gain on business transfer	–	938
Total extraordinary income	8	948
Extraordinary loss:		
Loss on sale and disposal of noncurrent assets	197	135
Loss related to litigation concerning patent license	–	2,021
Loss related to competition law	–	1,323
Loss on impairment of investment securities	–	791
Restructuring costs	863	706
Loss on business transfer	11	1
Others	61	624
Total extraordinary loss	1,132	5,601
Income (loss) before income taxes	(1,484)	(8,284)
Income taxes:		
Current	1,045	1,785
Deferred	183	(271)
Total income taxes	1,228	1,514
Net income (loss)	(2,712)	(9,798)
Net income (loss) attributable to noncontrolling interests	(63)	135
Net income (loss) attributable to owners of Pioneer Corporation	(2,649)	(9,933)

**(3) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) - Six months ended****September 30**

(In millions of yen)

	Six months ended September 30	
	2017	2018
Net income (loss)	(2,712)	(9,798)
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities	676	641
Deferred gain (loss) on derivatives under hedge accounting	(177)	(11)
Foreign currency translation adjustments	1,811	1,791
Defined retirement benefit plans	1,024	1,070
Share of other comprehensive income (loss) in associates	(17)	(33)
<b>Total other comprehensive income (loss)</b>	<b>3,317</b>	<b>3,458</b>
<b>Comprehensive income (loss)</b>	<b>605</b>	<b>(6,340)</b>
Comprehensive income (loss) attributable to:		
Owners of Pioneer Corporation	535	(6,399)
Noncontrolling interests	70	59



**(4) CONSOLIDATED STATEMENTS OF OPERATIONS - Three months ended September 30**

(In millions of yen)

	Three months ended September 30	
	2017	2018
Net sales	92,851	87,117
Cost of sales	74,622	71,671
Gross profit	18,229	15,446
Selling, general and administrative expenses	15,937	15,559
Operating income (loss)	2,292	(113)
Non-operating income:		
Interest income	56	74
Dividend income	60	74
Others	21	60
Total non-operating income	137	208
Non-operating expenses:		
Interest expense	138	251
Exchange loss	561	929
Equity in losses of associated companies	223	52
Others	637	481
Total non-operating expenses	1,559	1,713
Ordinary income (loss)	870	(1,618)
Extraordinary income:		
Gain on sale of noncurrent assets	8	8
Gain on business transfer	-	373
Total extraordinary income	8	381
Extraordinary loss:		
Loss on sale and disposal of noncurrent assets	167	71
Loss on impairment of investment securities	-	791
Restructuring costs	633	566
Loss on business transfer	-	1
Others	61	-
Total extraordinary loss	861	1,429
Income (loss) before income taxes	17	(2,666)
Income taxes:		
Current	590	589
Deferred	99	(66)
Total income taxes	689	523
Net income (loss)	(672)	(3,189)
Net income (loss) attributable to noncontrolling interests	(58)	81
Net income (loss) attributable to owners of Pioneer Corporation	(614)	(3,270)

**(5) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) - Three months ended****September 30**

(In millions of yen)

	Three months ended September 30	
	2017	2018
Net income (loss)	(672)	(3,189)
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities	(406)	452
Deferred gain (loss) on derivatives under hedge accounting	83	(35)
Foreign currency translation adjustments	1,483	1,534
Defined retirement benefit plans	474	498
Share of other comprehensive income (loss) in associates	9	(9)
Total other comprehensive income (loss)	1,643	2,440
Comprehensive income (loss)	971	(749)
Comprehensive income (loss) attributable to:		
Owners of Pioneer Corporation	939	(803)
Noncontrolling interests	32	54

**(6) CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions of yen)

	Six months ended September 30	
	2017	2018
Cash flows from operating activities:		
Income (loss) before income taxes	(1,484)	(8,284)
Depreciation and amortization	9,648	12,099
Loss (gain) on business transfer	11	(938)
Increase (decrease) in accrued pension and severance costs	(1,043)	(1,732)
Interest and dividend income	(201)	(234)
Interest expense	306	461
Loss (gain) on sale and disposal of noncurrent assets—net	189	125
Loss (gain) on impairment of investment securities	-	791
Decrease (increase) in trade receivables	3,220	7,318
Decrease (increase) in inventories	(4,211)	(3,853)
Increase (decrease) in trade payables	658	(5,249)
Increase (decrease) in accrued expenses	(93)	1,521
Other—net	1,330	2,994
<b>Subtotal</b>	<b>8,330</b>	<b>5,019</b>
Interest and dividend income received	201	232
Interest expense paid	(305)	(422)
Income taxes paid	(1,231)	(727)
<b>Net cash provided by (used in) operating activities</b>	<b>6,995</b>	<b>4,102</b>
Cash flows from investing activities:		
Decrease (increase) in time deposits	(6)	(2)
Payment for purchase of noncurrent assets	(17,108)	(18,934)
Proceeds from sale of noncurrent assets	124	58
Payment for purchase of investment securities	(352)	-
Payment for purchase of shares of associated companies	(501)	(250)
Payment for business transfer	(118)	-
Proceeds from business transfer	-	2,875
Proceeds from liquidation of associated companies	-	581
Other—net	3	(6)
<b>Net cash provided by (used in) investing activities</b>	<b>(17,958)</b>	<b>(15,678)</b>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings—net	13,459	4,257
Repayment of long-term debt	(10,200)	(833)
Proceeds from sale and lease back transactions	2,563	1,285
Repayment of lease obligations	(674)	(775)
Purchase of treasury stock	(1)	-
Proceeds from stock issuance to noncontrolling interests	214	-
Dividends paid to noncontrolling interests	-	(64)
<b>Net cash provided by (used in) financing activities</b>	<b>5,361</b>	<b>3,870</b>
Foreign currency translation adjustments on cash and cash equivalents	788	86
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,814)</b>	<b>(7,620)</b>
Cash and cash equivalents, beginning of period	38,405	35,634
<b>Cash and cash equivalents, end of period</b>	<b>33,591</b>	<b>28,014</b>

**(5) NOTE REGARDING GOING CONCERN ASSUMPTION**

We recorded a net loss attributable to owners of Pioneer Corporation for fiscal 2018 of ¥7.1 billion, and free cash flows, which represent the sum of cash flows from operating activities and cash flows from investing activities, were outflows of ¥17.2 billion.

We also expect to record an operating loss for fiscal 2019, and on November 7, 2018 we have revised downward the forecast of consolidated net sales for fiscal 2019 from ¥380.0 billion to ¥350.0 billion. This is due to a decrease in sales of Car Electronics, which is expected to fall below the initial forecast mainly in the consumer market business, reflecting the impact of sluggish emerging markets.

With regard to loans from banks which became and will become due during fiscal 2019, we have a prospect for repayments since we have received a loan of ¥25.0 billion from Kamerig B.V. (hereinafter the “Fund”) under Baring Private Equity Asia on September 18, 2018. However, there exists a situation for generating uncertainties about going concern assumption, when we pay back all or part of loans including the loan of ¥25.0 billion provided by the Fund (hereinafter the “Bridge Loan”). Consequently, there exists a situation for generating substantial uncertainties about the going concern assumption.

In order to resolve this situation, we are making efforts to examine and carry out the management improvement measures, as shown below.

**(i) Improvement of business performance**

In order to improve business performance, we are examining and conducting following measures in our core Car Electronics.

**- OEM business**

In the OEM business, which has faced harsh profitability conditions and is the main factor of deterioration of business performance, we are taking measures to improve cash flows including reconsideration of investment, in addition to review of business conditions with customers, and cost reduction.

**- Consumer market business**

In the consumer market business, our main source of revenue, we are continuing promoting Pioneer’s proprietary “connected car life” by launching new products with enhanced smartphone-link functions and pursuing sound-centric entertainment in a timely manner, despite a shortfall from our plan is seen in some regions. We are also proactively strengthening our new businesses, mainly solutions businesses that combine Pioneer’s strengths in both hardware and software, through such measures as enhancing functions of telematics services for automobile insurance and *Vehicle Assist*, a driving management service for fleet vehicles, and thereby we will pursue increase profit again.

**- Map business and autonomous driving field**

In the map business and autonomous driving field, which are drivers for our future growth, we are currently undertaking evaluations and validations through the roll-out of the new models of the 3D-LiDAR driving space sensor essential for autonomous driving from late September 2018, aiming for its commercialization. Also we are strengthening our alliance with HERE Technologies, a Netherlands-based global provider of mapping and location services, and developing high-definition maps. Through these initiatives, Pioneer is steadily working to become an “essential company” in an era of autonomous driving.

In addition to above initiatives, we will promote cost reduction on a global basis, through reviewing the execution of costs and expenses, such as research and development expenses.

**(ii) Securing cash needed for business operations**

In order to secure cash needed for business operations and realize management improvement measures, we are making efforts to consult on and discuss the measures shown below.

**- Consultation toward receiving capital contribution, etc. from sponsor**

Pioneer executed with the Fund a memorandum of understanding concerning support including capital contribution by sponsor (hereinafter the “MOU”) on September 12, 2018.

In the MOU (for details, please see “Outline of the MOU” described below.), it was mutually confirmed that the Fund or its controlling entity (hereinafter the “Allottee Candidate”) intends to provide Pioneer with an aggregate amount of around 50 – 60 billion yen by way of subscription by the Allottee Candidate (hereinafter the “Third Party Allotment”) of common stock or preferred stock carrying voting rights (including a put option for common stock as the consideration for such preferred stock) to be issued by Pioneer to the Allottee Candidate. Consultations and examinations are currently underway between Pioneer and the Fund for executing the definitive agreement concerning the Third Party Allotment and so forth, which will be legally binding (hereinafter the “Definitive Agreement”).

**(Outline of the MOU)****(1) Funding through Third Party Allotment**

Pioneer and the Fund shall mutually confirm that, in accordance with the provisions of the Definitive Agreement, the Fund intends to provide Pioneer with an aggregate amount of around 50 – 60 billion yen by way of subscription by the Allottee Candidate of common stock or preferred stock carrying voting rights (including a put option for common stock as the consideration for such preferred stock) to be issued by Pioneer to the Allottee Candidate.

The amount to be paid in per share of Pioneer to be issued through the Third Party Allotment will be determined in the Definitive Agreement based on, among others, the results of the due diligence on Pioneer and its subsidiaries.

If an approval at a meeting of shareholders of Pioneer is required for the implementation of the Third Party Allotment, the Third Party Allotment shall be conditional upon such approval.

(2) Basic policies for Management

With respect to the management of Pioneer after the Third Party Allotment is implemented, at present, the following shall be the basic policies, which shall be agreed in the MOU.

- Management of the Group

The Allottee Candidate shall respect autonomy and agility of the management of the Group and cooperate in reforms necessary for increasing the corporate value of the Group.

- Maintenance of listing

For the time being after the Third Party Allotment is implemented, the common shares of Pioneer shall remain listed.

- Maintenance of, and Respect for, Trade name and Brand

Pioneer and its subsidiaries shall maintain their current trade names and brands unless the circumstances change otherwise.

- Maintenance and Continuation of Business Relationship

Unless the circumstances change otherwise, the current business relationship between the Group and each customer shall be maintained and continued.

- Support for Alliance with Third Parties

Pioneer and the Allottee Candidate shall consult with each other on the alliance with the third parties necessary for the purpose of maintenance, continuation, development of existing business, and commencement of new business in order to increase the corporate value of the Group, and, in accordance with such consultation, the Allottee Candidate shall provide support therefor.

- Others

With respect to the business plans and other basic policies for the management, Pioneer and the Allottee Candidate shall consult with each other separately in good faith in light of each agreed matter above.

(3) Schedule

Pioneer and the Fund shall mutually confirm that each has the intention of implementing the Third Party Allotment according to the schedule below after the drawdown of the Bridge Loan on September 18, 2018, and shall make their best efforts to realize the Third Party Allotment.

Execution of Definitive Agreement	By the end of October, 2018 (Scheduled)
Payment for Third Party Allotment	By the end of December, 2018 (Scheduled)

Note:

The Definitive Agreement was scheduled to be executed between Pioneer and the Fund by the end of October, 2018, but both will continue the consultations and discussions to execute the Definitive Agreement.

- Sale of noncore businesses

We are continuously proceeding Group-wide business selection and concentration, such as the transfer of shares of Pioneer FA Corporation, and the transfer of the plant and production facilities owned by our subsidiary, Pioneer Technology (Malaysia) Sdn. Bhd, in the first half of fiscal 2019, as well as the transfer of shares of Tohoku Pioneer EG Corporation scheduled on December 2018.

In addition to the Definitive Agreement, the management improvement measures, including above initiatives, are currently being examined and consulted between Pioneer and the Fund; therefore, details are yet to be determined at present, and the improvement of business performance may depend on future economic conditions and levels of consumer spending. Also, reviews of our business conditions with customers may affect cash flows, and while it is indispensable that we receive funding from the Fund through capital contribution, etc. to aim to solve the issues with respect to its business and financial affairs thoroughly at an early stage by regulating financing and cash flows at present and securing funds to repay the existing loans and investing for future growth, these initiatives are still under negotiation and consultation with the respective counterparties. Furthermore, an approval at a meeting of shareholders of Pioneer may be required for the implementation of the Third Party Allotment. Consequently, there exists a situation for generating uncertainties about the going concern assumption.

The consolidated financial statements for the second quarter and first half of fiscal 2019 included herein were prepared on the going concern assumption, and did not reflect the impact of the substantial uncertainties concerning the going concern assumption.

**(8) CHANGE IN ACCOUNTING POLICY**

Effective from the beginning of the first quarter of fiscal 2019, ending March 31, 2019, the Company's overseas consolidated subsidiaries that apply international financial reporting standards (IFRS) have adopted IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers." The impact of the adoption of above accounting standards on consolidated financial statements for fiscal 2019 is immaterial.

**(9) ADDITIONAL INFORMATION**

Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc. Effective from the beginning of the first quarter of the fiscal 2019, ending March 31, 2019, the Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). Deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in long-term liabilities.

The Company resolved, at a meeting of its board of directors held on September 7, 2018, to transfer all shares of Tohoku Pioneer EG Corporation owned by Tohoku Pioneer Corporation, a wholly-owned subsidiary of the Company, to DENSO Corporation. The Company signed the share transfer agreement with Tohoku Pioneer Corporation and DENSO Corporation on the same date.

Due to the transfer of shares, the Company expects to record approximately ¥3.3 billion of extraordinary income in the consolidated financial statements for the third quarter of fiscal 2019, ending March 31, 2019.

**(10) SEGMENT INFORMATION**

&lt;Net Sales by Segment&gt;

(In millions of yen)

	Six months ended September 30				
	2017		2018		Percent change
	Amount	Ratio	Amount	Ratio	
Car Electronics:					
Japan	53,593	30.4 %	55,368	32.4 %	+3.3 %
Overseas	90,137	51.2	85,217	49.8	-5.5
Total	143,730	81.6	140,585	82.2	-2.2
Others:					
Japan	18,005	10.2	19,694	11.5	+9.4
Overseas	14,435	8.2	10,649	6.3	-26.2
Total	32,440	18.4	30,343	17.8	-6.5
Consolidated:					
Japan	71,598	40.6	75,062	43.9	+4.8
Overseas	104,572	59.4	95,866	56.1	-8.3
Total	176,170	100.0 %	170,928	100.0 %	-3.0 %

(In millions of yen)

	Three months ended September 30				
	2017		2018		Percent change
	Amount	Ratio	Amount	Ratio	
Car Electronics:					
Japan	27,245	29.3 %	28,319	32.5 %	+3.9 %
Overseas	47,335	51.0	42,048	48.3	-11.2
Total	74,580	80.3	70,367	80.8	-5.6
Others:					
Japan	10,534	11.4	11,596	13.3	+10.1
Overseas	7,737	8.3	5,154	5.9	-33.4
Total	18,271	19.7	16,750	19.2	-8.3
Consolidated:					
Japan	37,779	40.7	39,915	45.8	+5.7
Overseas	55,072	59.3	47,202	54.2	-14.3
Total	92,851	100.0 %	87,117	100.0 %	-6.2 %

## &lt;Sales and Income (Loss) by Segment&gt; - Six months ended September 30

Six months ended September 30,2017	Car		Total	(In millions of yen)	
	Electronics	Others		Reconciliations * 1	Consolidated * 2
Sales:					
Sales to external customers	143,730	32,440	176,170	-	176,170
Intersegment sales	208	1,579	1,787	(1,787)	-
Total sales	143,938	34,019	177,957	(1,787)	176,170
Segment income	2,095	90	2,185	(136)	2,049

## Notes:

1. Reconciliations of ¥(136) million recorded for segment income include elimination of intersegment transactions of ¥83 million and corporate expenses of ¥(219) million that are not allocated to any segment. Corporate expenses principally consist of allocation variance of general and administrative expenses, and general and administrative expenses and R&D expenses which are not attributable to any segment.
2. Adjustments are made to reconcile segment income to operating income presented in the accompanying consolidated statements of operations.

Six months ended September 30,2018	Car		Total	(In millions of yen)	
	Electronics	Others		Reconciliations * 1	Consolidated * 2
Sales:					
Sales to external customers	140,585	30,343	170,928	-	170,928
Intersegment sales	155	1,680	1,835	(1,835)	-
Total sales	140,740	32,023	172,763	(1,835)	170,928
Segment income (loss)	(2,507)	1,028	(1,479)	(209)	(1,688)

## Notes:

1. Reconciliations of ¥(209) million recorded for segment income (loss) include elimination of intersegment transactions of ¥38 million and corporate expenses of ¥(247) million that are not allocated to any segment. Corporate expenses principally consist of allocation variance of general and administrative expenses, and general and administrative expenses and R&D expenses which are not attributable to any segment.
2. Adjustments are made to reconcile segment income (loss) to operating income (loss) presented in the accompanying consolidated statements of operations.



## &lt;Sales and Income (Loss) by Segment&gt; - Three months ended September 30

Three months ended September 30,2017	Car		Total	(In millions of yen)	
	Electronics	Others		Reconciliations * 1	Consolidated * 2
Sales:					
Sales to external customers	74,580	18,271	92,851	-	92,851
Intersegment sales	99	836	935	(935)	-
Total sales	74,679	19,107	93,786	(935)	92,851
Segment income	1,838	494	2,332	(40)	2,292

## Notes:

1. Reconciliations of ¥(40) million recorded for segment income include elimination of intersegment transactions of ¥257 million and corporate expenses of ¥(297) million that are not allocated to any segment. Corporate expenses principally consist of allocation variance of general and administrative expenses, and general and administrative expenses and R&D expenses which are not attributable to any segment.
2. Adjustments are made to reconcile segment income to operating income presented in the accompanying consolidated statements of operations.

Three months ended September 30,2018	Car		Total	(In millions of yen)	
	Electronics	Others		Reconciliations * 1	Consolidated * 2
Sales:					
Sales to external customers	70,367	16,750	87,117	-	87,117
Intersegment sales	82	858	940	(940)	-
Total sales	70,449	17,608	88,057	(940)	87,117
Segment income (loss)	(1,115)	1,046	(69)	(44)	(113)

## Notes:

1. Reconciliations of ¥(44) million recorded for segment income (loss) include elimination of intersegment transactions of ¥32 million and corporate expenses of ¥(76) million that are not allocated to any segment. Corporate expenses principally consist of allocation variance of general and administrative expenses, and general and administrative expenses and R&D expenses which are not attributable to any segment.
2. Adjustments are made to reconcile segment income (loss) to operating income (loss) presented in the accompanying consolidated statements of operations.