PIONEER CORP
Form 20-F
July 07, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________________to ____________________

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report ____________________

Commission file number 1-7616

PIONEER KABUSHIKI KAISHA

(Exact name of Registrant as specified in its charter)

PIONEER CORPORATION

(Translation of Registrant s name into English)

JAPAN

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act.

Common Stock

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Title of class	Outstanding as of March 31, 2006 (Japan time)
Common Stock	174,421,890

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 þ Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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Certain Defined Terms

As used herein, the term Pioneer refers to Pioneer Corporation, the registrant, and we and our refer to Pioneer and its consolidated subsidiaries as a group, unless the context otherwise indicates.

References in this annual report to fiscal years refer to the 12-month periods ended March 31 of each calendar year.

Billion is used in the American sense of one thousand million.

Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this annual report 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. Forward-looking statements include but are not limited to those statements using words such as believe, expect, intend, plan, aim, forecast, estimate, project, anticipate, strategy, prospects, may, might or will and words of similar m connection with a discussion of future operations, financial performance, events or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on our 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 in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not believe that it is 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 the markets in which we sell our products, particularly levels of consumer spending; (ii) exchange rates, particularly between the yen and the U.S. dollar, euro, and other currencies in which we make significant sales or in which our assets and liabilities are denominated; (iii) our ability to continue to design and develop and win acceptance of our products and services, which are offered in highly competitive markets characterized by continual new product introductions, rapid developments in technology, severe price competition and subjective and changing consumer preferences; (iv) our ability to implement successfully 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; and (ix) the outcome of contingencies.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable

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Item 3. Key Information

A. Selected financial data

The following table presents selected consolidated financial data as of the dates and for the periods indicated. We derived the consolidated statements of operations data for each of the three years in the period ended March 31, 2006 and the consolidated balance sheet data as of March 31, 2005 and 2006 from our audited consolidated financial statements included elsewhere herein. We derived the consolidated statement of operations data for each of the two years in the period ended March 31, 2003 and the consolidated balance sheets data as of March 31, 2002, 2003 and 2004 from our audited consolidated financial statements which are not included herein. Our audited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), except for segment data which is prepared in accordance with the regulations under the Securities and Exchange Law of Japan.

	Year ended March 31				
	2002	2003	2004	2005	2006
	(In millions of yen, except per share data)				
Consolidated Statements of Operations Data:					
Operating revenue (Note 4) (Note 5)	¥624,978	¥664,828	¥684,749	¥711,042	¥754,964
Income (loss) from continuing operations before income taxes (Note 5)	7,268	15,029	19,464	(10,112)	(85,758)
Income (loss) from discontinued operations, net of tax (Note 5)	779	1,049	5,374	1,323	772
Net income (loss)	8,047	16,078	24,838	(8,789)	(84,986)
Per share of common stock:					
Income (loss) from continuing operations:					
Basic	40.37	84.35	110.95	(57.65)	(491.66)
Diluted	40.36	84.35	110.09	(57.65)	(491.66)
Net income (loss):					
Basic	44.70	90.24	141.58	(50.11)	(487.23)
Diluted	44.69	90.24	140.52	(50.11)	(487.23)
Consolidated Balance Sheets Data:					
Total assets	¥645,129	¥647,029	¥722,542	¥725,167	¥678,046
Short-term borrowings	45,867	29,893	23,327	33,152	23,205
Current portion of long-term debt	2,551	974	4,510	19,276	7,165
Long-term debt, less current portion	35,677	32,196	89,691	81,219	92,970
Shareholders equity	347,003	318,393	332,938	332,239	273,250
Common stock	49,049	49,049	49,049	49,049	49,049
Number of shares issued (in thousands)	180,064	180,064	180,064	180,064	180,064

	Year ended March 31				
	2002	2003	2004	2005	2006
	(In millions of yen, except per share data and percentage amounts)				
Other Data:					
Capital expenditures	¥ 46,909	¥ 40,493	¥ 57,978	¥ 63,866	¥ 40,325
Research and development (R&D) expenses	39,033	45,366	51,449	55,858	63,442
Cash flows from operating activities	57,358	91,509	60,378	19,946	68,329
Cash flows from investing activities	(51,396)	(35,228)	(52,754)	(93,516)	(29,759)
Cash flows from financing activities	(4,207)	(34,680)	51,827	(4,019)	(38,551)
Return on equity (Note 1)	2.4%	4.8%	7.6%	(2.6%)	(28.1%)
Return on assets (Note 2)	1.3%	2.5%	3.6%	(1.2%)	(12.1%)
Cash dividends declared per share of common stock (Note 3):					
Interim (in yen)	7.50	7.50	12.50	12.50	7.50
(in U.S. dollars)	0.06	0.06	0.12	0.12	0.06
Year-end (in yen)	7.50	10.00	12.50	12.50	2.50
(in U.S. dollars)	0.06	0.08	0.11	0.11	0.02

Notes: 1. Net income (loss) as a percentage of average (simple average of beginning and end of year balances) shareholders equity.

2. Net income (loss) as a percentage of average (simple average of beginning and end of year balances) total assets.

3. Cash dividends in U.S. dollars

are based on the noon buying rate in yen for cable transfers in New York City as certified for customs purposes by the Federal Reserve Bank of New York on the date of the dividend payment.

4. In fiscal 2003, we adopted EITF (Emerging Issues Task Force) 01-9 Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products). The adoption resulted in a reduction in net sales and a corresponding decrease in selling, general and administrative expenses. Previously reported amounts have been reclassified accordingly.

5. In fiscal 2006, we sold a subsidiary engaged in the development of

cable TV software, and reached a preliminary agreement on the sale of subsidiaries involved in the electronic components business. As a result, the operating results of these subsidiaries, and the gain on the sale are presented as income from discontinued operations in the consolidated statements of operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Corresponding figures for the previous fiscal years have been reclassified accordingly.

Exchange rates (yen per U.S. dollar)

The exchange rate between the yen and the U.S. dollar, based upon the noon buying rate in yen for cable transfers in New York City as certified for customs purposes by the Federal Reserve Bank of New York, was ¥115.65 = US$1.00 on July 5, 2006.

	Average	High	Low	Period-end
Year ended March 31				
2002	¥125.64	¥115.89	¥134.77	¥132.70
2003	121.10	115.71	133.40	118.07
2004	112.75	104.18	120.55	104.18
2005	107.28	102.26	114.30	107.22
2006	113.67	104.41	120.93	117.48
2006				
January		113.96	117.55	
February		115.82	118.95	
March		115.89	119.07	
April		113.79	118.66	
May		110.07	113.46	
June		111.66	116.42	

For purposes of preparing our financial statements, we use rates obtained from the Tokyo foreign exchange market, which differ from the rates listed above.

B. Capitalization and indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

D. Risk factors

This section describes some of the risks that could affect our business. The factors listed below should be considered in connection with any forward-looking statements given in this annual report and should be read in conjunction with Item 5. Operating and Financial Review and Prospects. They are subject to the Cautionary Statement with Respect to Forward-Looking Statements appearing elsewhere in this annual report. This list is necessarily incomplete, as some risks may be as yet unknown to us. Any risk factor has the potential to adversely affect our business results, share price and financial condition.

Economic conditions may adversely affect our sales and profitability

Demand for consumer electronics products, which account for a significant proportion of our worldwide operating revenue, may be affected by general economic trends in the countries or regions in which our products are sold. Purchases of our products are, to a significant extent, discretionary. Similarly, demand for our business use products and for components we manufacture that go into products of third parties is affected by general economic trends in the various markets in which we sell our products. Economic downturns and resulting declines of demand in our major markets, including Japan, North America, Europe and Asia, may thus adversely affect our sales and profitability.

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Additionally, our operations may be indirectly affected by the economic conditions of regions where our competitors manufacture their products. For example, if a competitor enjoys lower local labor costs, it may be able to offer similar products at a lower price. As a result, our sales may be adversely affected. Also, a decrease in the value of the local currency in a region that produces parts and raw materials may lead to a decrease in production costs (on a yen or a U.S. dollar basis) not only to us but to other manufacturers as well. Such a trend may in turn bring about vigorous export competition and price-cutting, both of which could adversely affect our sales and profitability.

Fluctuations in foreign currency exchange rates may adversely affect our business results and financial condition

Our operations involve the global production and distribution of products. Revenue and expense items that are denominated in local currency, such as sales, expenses and assets in each region, are translated into yen in preparing our consolidated financial statements. Depending on the rate of exchange at the time of currency translation, the values of such items in yen may be affected, even if their value has not changed in their original currency. Also, fluctuations in exchange rates may affect the local prices of our products and negatively impact their competitiveness in local markets. Generally, an appreciation of the yen against other currencies, particularly the yen against the U.S. dollar and the euro, in which we make significant sales, may adversely affect our business results and financial condition.

An increase in the value of currencies in regions where we operate and produce may lead to an increase in the costs of manufacturing and procurement in those regions. Such an increase could accordingly adversely affect our profit margins and reduce our price competitiveness, thereby adversely affecting our business results. We engage in currency hedging transactions to attempt to minimize the negative effects of short-term fluctuations of foreign exchange rates among major currencies such as the U.S. dollar, euro and yen. However, as a result of mid-to-long-term exchange rate volatility, we cannot execute planned procurement, production, logistics, and sales activities with any certainty and, consequently, fluctuations in exchange rates may adversely affect our business results and financial condition.

If we are unable to innovate and to develop attractive new products, our future growth and profitability may be adversely affected

We derive a substantial portion of our revenues from sales of innovative new products. We expect that sales of our new products currently including plasma displays and car navigation systems will continue to account for a substantial portion of our revenues, and we expect our future growth and profitability to rely primarily on the continued development and sale of innovative new products, such as Blu-ray Disc players.

While we believe that we are capable of continuing to develop innovative and attractive new products, the industry in which we operate is characterized by rapid changes, including technological changes. The process of developing and marketing new products is inherently complex and uncertain, and there are a number of risks, including the following:

- We may be unable to obtain adequate funding and resources necessary for investments in new products and technologies.

- Our long-term investments and commitment of significant resources may not result in successful new products or technologies.

- We may not be able to anticipate successfully the new products and technologies which will gain market acceptance and that such products can be successfully marketed.

- Our newly developed products or technologies may not be successfully protected as proprietary intellectual property rights.

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Our products may become obsolete earlier than expected due to rapid advancements in technology and changes in consumer preferences.

A delay in commercializing new technologies now under development may prevent us from keeping up with market demand.

Our failure to anticipate adequately changes in the industry and the market, and to develop attractive new products, including any of the risks described above, may reduce our future growth and profitability.

Competition generally, and especially on the basis of price and standardization of products, may adversely affect our results of operations

The electronics industry, including the audio, video and car electronics industry, is intensely competitive. We expect to face increased competition in the various product and geographic markets in which we operate. Our competitors include manufacturers and distributors, some of which have greater capital resources available for research, development, production and marketing. In addition, as new technology develops and as new electronics products gain increased market acceptance, it is possible that new competitors or alliances among existing competitors may emerge and rapidly acquire significant market share. While we believe we are one of the leading innovators of advanced, high-quality and value-added electronics products, we may not be able to compete effectively in the future. Pricing pressures or loss of potential customers resulting from our failure to compete effectively may adversely affect our results of operations.

For example, competitors in the plasma display market may substantially increase their production capabilities or introduce alternative products at a lower price and cause market competition to intensify further. Moreover, due to standardization and the relative ease of imitation of products such as digital versatile disc (DVD) players, competition from manufacturers in emerging markets may also continue to intensify. Our research into the development of new products generally requires large costs that competitive imitators may not need to incur. In an aggressive price-cutting environment we may find it difficult to maintain or increase our market share or remain profitable against low-cost and low-budget competitors.

Failure of our next generation optical disc format to gain broad market acceptance may adversely affect our business and results of operations

Currently, there are two generally recognized competing formats for the next generation optical discs, Blu-ray Disc and HD DVD. Each of the disc formats makes use of its own distinct technology and is incompatible with the other format.

We are focusing on the Blu-ray Disc format as the next generation optical discs and are developing products that are compatible with such format.

The question of which format will prevail as the industry standard is not yet settled. Should our adopted format fail to be accepted as the *de facto* industry standard, or otherwise fail to gain wide acceptance, our business strategy and results of operations may be adversely affected.

A substantial decline in our royalty revenue as a result of the expiration of many of our existing patents relating to laser optical disc technologies may adversely affect our profitability

The licensing of our patent and other intellectual property rights makes a significant contribution to our net income since costs related to patent licensing are limited principally to amortization of patent rights and expenses for licensing activities. The legal protections afforded to these rights have a limited duration

under applicable laws, and the length of protection varies from country to country or region. A significant portion of our patent rights relating to laser optical disc technologies have expired in Europe and Japan and some portion of those in North America started to expire. As a result, our royalty revenue is expected to decline in the future. This decline in royalty revenue may in turn have an adverse impact on our profitability. Royalty revenue from patent licensing also depends to a material degree on the sales of patented products by our licensees, making it hard for us to predict actual royalty revenue amounts. For a discussion of our patent licensing business, see Item 4.B. Business overview Nature of operations.

<u>If we are unable to successfully manage the risks inherent in our international activities and our overseas expansion, our results of operations and production capacity could be adversely affected</u>

A substantial portion of our manufacturing and marketing activity is conducted outside Japan, including in the United States, Europe, and in developing and emerging markets in Asia. There are a number of risks inherent in doing business in such overseas markets, including the following:

- Unexpected legal or regulatory changes;
- Unfavorable political or economic factors;
- Difficulties in recruiting and retaining personnel;
- Labor disputes including strikes;
- Less developed technological infrastructure, which can affect our production or other activities or result in lower customer acceptance of our products and services;
- Potentially adverse tax consequences; and
- Social, political or economic turmoil due to terrorism, war, or other factors.

In order to produce our products competitively and to reduce costs, we aim to continue expanding our production and parts procurement in the Shanghai and Guang Dong areas of the People s Republic of China (China). Nevertheless, we may experience difficulties in managing a production facility and entering into business arrangements in China in light of unexpected events, including political or legal changes, labor shortages or strikes or changes in economic conditions in China. Furthermore, the outbreaks of epidemics may, depending on how they develop, adversely impact our operations in China, including delays in production due to travel restrictions on employees, as well as disruptions in parts procurement and factory operations. Accordingly, such incidents could have an adverse impact on our results of operations.

<u>Our dependence on certain third-party manufacturers and suppliers for parts and components could adversely affect our production capacity and results of operations</u>

While we strive to produce key components and parts such as laser pickups internally, we are dependent on a number of outside manufacturers and suppliers. Third parties manufacture some of our most important components and parts, including semiconductors. Our arrangements with third-party manufacturers and suppliers are generally on a renewable short-term basis. While we have sought to secure supply where necessary through strategic alliances and other measures, we may face shortages of key components, reflecting changes in the market trend. We may also experience shortages or other material disruptions in our supply of components and parts due to natural disasters or other events beyond our control. Shortages of key components may prevent us from producing enough products on a timely basis, which would cause us to lose sales opportunities or lead to strained relationships with our original equipment manufacturing (OEM) customers. Such condition may adversely affect our sales and profitability. See Item 4.B. Business overview Raw materials and sources of supply for a discussion of our outside manufacturers and suppliers.

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Our performance in the OEM business is substantially dependent on the performance of our customers businesses

We provide our OEM products to automobile manufacturers, electronics manufacturers, personal computer (PC) makers and other large-scale businesses worldwide. The products we supply include car stereo products, car navigation systems, DVD drives, plasma displays and organic light-emitting diode (OLED) displays. Sales to business customers in these areas are significantly affected by the respective customers business results and by factors that are beyond our control. Further, price-cutting to meet customer demands may cause a reduction in our profit margin. The under-performance of a customer s business, the unexpected termination of contracts, changes in the purchasing practices of our OEM customers or aggressive price-cutting to satisfy a large business customer s demands may adversely affect our results of operations.

Because our products and technologies are dependent on the service of capable engineers and other key personnel, difficulty in recruiting and developing key personnel could have an adverse impact on our future growth

Our products and technologies are complex, and our future growth and success depend to a significant extent on the service of capable engineers and other key personnel; therefore, hiring and training additional highly-skilled engineers and other competent personnel are important for our success.

Failure to recruit and develop key personnel may adversely affect our future growth. On the other hand, aggressive hiring of, among others, capable engineers who are experienced with the latest technology, may increase, sometimes substantially, both recruiting and actual labor costs. In addition, continued re-training of currently employed personnel, which may introduce higher costs, might also be necessary to maintain a superior level of innovation and technological advance. Such increased costs could have an adverse impact on our profitability.

Limits on intellectual property protection may make us vulnerable to competition from third parties that use our technology and expertise

While we have developed technology and expertise which differentiate our products from those of our competitors, some of our unique technology and expertise is either not fully capable of being protected by intellectual property rights or protected only to a limited extent pursuant to legal limitations in certain jurisdictions. Although we have the ability to reduce illegal imports of such products into certain jurisdictions through exercise of our legal rights, we may be unable to effectively prevent third parties from using our intellectual property rights to produce products similar to ours. In addition, we may be unable to prevent third parties from developing technologies that are similar or superior to our technology, or from designing around or reverse engineering our patents and trade secrets. Moreover, our future products and technology might later be found to infringe upon a third party s intellectual property rights.

Product defects resulting in a large-scale product recall or successful products liability claims against us could result in a significant cost or a negative impact on our reputation and adversely affect our business results of operations

We manufacture various products at our plants worldwide in accordance with internationally accepted quality-control standards. We cannot be certain, however, that all of our products are defect-free and may not be recalled at some later date. Furthermore, although we maintain insurance against product liability claims, we cannot be certain that such insurance can adequately satisfy the liabilities ultimately incurred. In addition, insurance may not continue to be available on terms acceptable to us. A large-scale product recall or a successful products liability claim against us could result in significant costs or have a negative

impact on our reputation, which may in turn lead to a decrease in sales, adversely affecting our results of operations.

Failure to achieve the goals of collaborations, technological tie-ups, and joint ventures with third parties may adversely affect our results of operations and future growth

As part of our technological development process, we conduct many joint activities with other companies in the form of collaborations, technological tie-ups, or joint ventures intended to optimize management resources and utilize the synergy of combined technologies. We expect to continue to adopt an active approach to exploiting these opportunities. If differences arise among the participants of these joint activities due to managerial, financial or other reasons, we may not achieve the goals of these development projects, which may in turn adversely affect our results of operations and future growth.

Governmental regulation may limit our activities or increase our costs of operations

Our business and operations are subject to various forms of government regulation in countries in which we do business, including required business/investment approvals, as well as export regulations based on national security or other reasons and other export/import regulations such as tariffs. In addition, commercial, antitrust, patent, consumer, taxation, exchange control and environment/recycling laws and regulations also apply. If we are unable to comply with these regulations, they can serve to limit our activities. In addition, compliance with these regulations could result in increased costs. Accordingly, these regulations could adversely affect our results of operations. See Item 4.B. Business overview Governmental regulation for a discussion of certain government regulations applicable to us.

Damage to our production facilities as a result of disasters, power outages or similar events may significantly reduce our production capacity

We periodically carry out disaster prevention checks and facility maintenance at all of our production facilities to minimize potential negative impact caused by disruptions on our manufacturing lines. However, we may not completely prevent or mitigate the effect of a disaster, outage or other disruption at our production facilities. For example, our plasma display panels are currently manufactured at our Shizuoka, Yamanashi and Kagoshima plants in Japan which is an earthquake-prone country. Accordingly, our plasma display panel production capacity could be significantly reduced in the event of a major earthquake in Japan.

Employee retirement benefit costs and obligations may adversely affect our results of operations

Pioneer is obligated to pay certain employee retirement benefit costs and obligations to qualified employees upon their retirement. The amount of such employee retirement benefit costs and obligations are dependent on assumptions used in the relevant actuarial calculations. These assumptions include discount rates, future compensation levels, return on assets, retirement rates and mortality rates, which are based upon current statistical data, as well as long-term returns on pension plan assets and other factors. If actual results differ from the assumptions or assumptions are changed, the resulting effects are accumulated and systematically recognized over future periods and, therefore, generally affect recognized expense and recorded obligations in future periods. Our pension benefit costs have been increasing in recent fiscal years due to declining discount rates and negative returns on pension plan assets, and further declines of discount rates and lower returns on pension plan assets may adversely affect our results of operations.

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Item 4. Information on the Company

A. History and development of the Company

History

Pioneer was incorporated under the Commercial Code of Japan (the Commercial Code) as a joint stock company (Kabushiki Kaisha) in May 1947, with the name Fukuin Denki Kabushiki Kaisha, succeeding to the business founded in January 1938 by the late Mr. Nozomu Matsumoto. The present name, Pioneer Kabushiki Kaisha, was adopted in June 1961. Its English name was changed from Pioneer Electronic Corporation to Pioneer Corporation in June 1999. Our business dates from January 1938 when we began the manufacture of audio speakers. In June 1955 we commenced the manufacture of audio amplifiers. During the 1960s, we expanded our line of products to include hi-fi stereo sets and components, hi-fi car stereos, as well as telephone-related equipment. Since the early 1960s we have established business offices and subsidiaries in and outside Japan to support our expanding manufacturing and sales activities. During the 1970s we expanded our business to include equipment related to cable TV systems.

In the 1980s, we began to expand our business base to include audio/video (AV) equipment. We started marketing laser disc (LD) players and LDs, and commenced our own music and video software business in Japan. Also, we introduced the world s first car compact disc (CD) players. We also broadened our business base in commercial and industrial markets with such products as optical memory disc drives for use in computers, laser karaoke (sing-along) systems and multiscreen video systems.

In the 1990s, we released to the Japanese consumer market the world s first car navigation system incorporating the Global Positioning System (GPS). In addition, we introduced DVD players and thin-profile color plasma displays and began supplying digital direct-broadcast satellite (DBS) decoders to a European pay-TV company. Our other recent industry firsts include four-color OLED displays and DVD recorders.

In fiscal 2001, we started supplying to PC makers recordable DVD drives that can record up to seven times as much data as conventional CD-R/RW drives. In fiscal 2002, we introduced to the Japanese consumer market hard disk drive (HDD) car navigation systems with faster search and display of routes to designated destinations. In fiscal 2003, we launched in Japan DVD recorders equipped with large-capacity HDDs, as well as car navigation systems incorporating a data communication module for access to the latest map data. Also, in June 2003, we began introducing recordable DVD drives for PC use, which are compatible with DVD-R, -RW, +R and +RW discs, to worldwide markets. In fiscal 2004, we started supplying passive-matrix full-color OLED display panels in cellular phones. In fiscal 2005, we introduced recordable DVD drives for PC use, which are compatible with dual layer DVD-R discs and DVD+R double layer discs.

Registered office

Pioneer s registered office is located at 4-1, Meguro 1-chome, Meguro-ku, Tokyo 153-8654, Japan. Pioneer s telephone number is 81-3-3494-1111.

Principal capital expenditures, investments and divestitures

In fiscal 2004, 2005 and 2006, our capital expenditures consisted principally of facilities and molds for production and totaled ¥57,978 million, ¥63,866 million and ¥40,325 million, respectively. They were

paid principally out of our internally generated working capital. The facilities for production comprised those for DVD pickups, and plants and machinery for plasma displays. See the table in Item 4.D. Property, plants and equipment, for a list of our principal plants.

In fiscal 2006, through a management buyout, we sold all of our shares in Pioneer Digital Technologies, Inc., a wholly-owned subsidiary engaged in the development of operating software for cable TV set-top boxes in the United States. We recognized a gain on the sale of ¥282 million, net of taxes, in the year ended March 31, 2006.

In fiscal 2006, we cancelled plans for the mass-production of active-matrix OLEDs, as we did not anticipate profitability in this business. Accordingly, we withdrew from the thin-film transistor (TFT) substrate business conducted by ELDis, Inc., 47.5% owned by Tohoku Pioneer Corporation, a 67% owned subsidiary. We recorded equity in losses of affiliated companies of ¥24,139 million for the year ended March 31, 2006. ELDis, Inc. was liquidated in March, 2006.

In order to improve management efficiency by concentrating resources in strategic business, on March 31, 2006, we reached a preliminary agreement with OMRON Corporation concerning the transfer of all of the shares of Pioneer Precision Machinery Corporation, a 99.5% owned subsidiary, which is engaged in the manufacturing and marketing of high-precision parts for electronic equipment.

B. Business overview

Nature of operations

We develop, design, manufacture and sell home electronics products such as audio, video and car electronics products on a global scale. We are one of the leading innovators of car navigation systems, plasma displays and DVD products. We are also one of the leading manufacturers of car audio products in the world consumer market. In addition, we derive revenue from the manufacture and sale of industrial electronics, such as factory automation (FA) systems and parts and from the licensing of patents that we own.

Our principal production activities are carried out in Asia, including Japan. Our products are generally sold under our own brand names, principally Pioneer. Our primary markets are Japan, North America, Europe and Asia and we sell our products to customers in consumer and business markets through sales offices in Japan and through sales subsidiaries of Pioneer and independent distributors outside of Japan. In addition, on an OEM basis, we market certain products, such as car electronics products, recordable DVD drives, plasma displays and OLED displays to other companies.

In fiscal 2006, we sold Pioneer Digital Technologies, Inc., a subsidiary engaged in the development of cable TV software, and reached a preliminary agreement on the sale of Pioneer Precision Machinery Corporation involved in the electronic components business. Consequently, the operating results of these subsidiaries, and the gain on the sale are presented as income from discontinued operations in this report. Corresponding figures for the previous fiscal years have been reclassified accordingly.

Also, in fiscal 2006, we changed our business segment classification for certain businesses. Results related to plasma displays for business use and disc jockey (DJ) equipment have been moved from Others to Home Electronics. Corresponding figures for the previous fiscal years have been reclassified accordingly. (The consolidated financial statements included in this annual report and the financial information are prepared in accordance with U.S. GAAP, except for segment data which is prepared in accordance with relevant regulations under the Securities and Exchange Law of Japan. Specifically, such segment information is required to be reported by reportable industrial segment,

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whereas segment information is required to be reported by reportable operating segment under U.S. GAAP.)

The profit margins in the Patent Licensing segment are substantially higher than those in the other three segments, since costs related to patent licensing are limited principally to amortization of patent rights and expenses for licensing activities.

The following table sets forth our operating revenue from unaffiliated customers by business segment for the respective periods indicated:

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Operating Revenue from Unaffiliated Customers by Business Segments

	Year ended March 31					
	2004		2005		2006	
	(In millions of yen, except for percentage amounts)					
Home Electronics						
Domestic	¥ 82,580	12.1%	¥ 90,838	12.8%	¥ 81,998	10.9%
Overseas	223,625	32.6	231,933	32.6	272,692	36.1
Total	¥306,205	44.7%	¥322,771	45.4%	¥354,690	47.0%
Car Electronics						
Domestic	¥121,708	17.8%	¥120,260	16.9%	¥117,560	15.6%
Overseas	170,479	24.9	183,150	25.8	212,962	28.2
Total	¥292,187	42.7%	¥303,410	42.7%	¥330,522	43.8%
Others						
Domestic	¥ 44,502	6.5%	¥ 37,653	5.3%	¥ 33,208	4.3%
Overseas	30,034	4.4	36,971	5.2	28,004	3.8
Total	¥ 74,536	10.9%	¥ 74,624	10.5%	¥ 61,212	8.1%
Patent Licensing	¥ 11,821	1.7%	¥ 10,237	1.4%	¥ 8,540	1.1%
Total Operating Revenue	¥684,749	100.0%	¥711,042	100.0%	¥754,964	100.0%

Home Electronics:

This segment includes plasma displays, DVD recorders, DVD players, DVD drives, stereo systems, individual stereo components, DJ equipment, telephones and equipment for cable TV systems.

Plasma displays worldwide accounted for the largest sales in this segment for fiscal 2006. In addition, DVD drives also contributed significantly to sales in this segment.

We believe the traditional home audio markets of Japan, North America and Europe have matured and accordingly, price competition in these markets is strong. We do not expect the traditional home audio markets in these regions to grow substantially. The market for DVD products and plasma displays are growing, but prices are falling rapidly. In the DVD recorder business, we plan to curb investment in the development of new products that entail large development expenses and do not directly take advantage of our strengths. In optical disc drives for PCs, we plan to reduce our business risks through collaboration with other companies and other means, while lowering costs by increasing production. We intend to concentrate on developing and marketing Blu-ray Disc related products, which are promising next generation optical disc products. In our plasma display business, we continue to promote vigorously 40-inch and larger models of high-definition plasma displays in the worldwide market. We are reducing OEM sales of panel modules, which carry the risk of volatility in sales volumes. Instead, we plan to focus on increasing sales under Pioneer s own brands.

Car Electronics:

This segment includes car navigation systems, car stereos, car AV systems and car speakers.

Overall, car stereos accounted for the largest sales in this segment for fiscal 2006. In Japan, our car navigation systems accounted for the largest sales. Overseas, car stereos accounted for the largest sales, while car navigation systems also contributed to sales in this segment. Sales based on OEM accounted for 35% in this segment.

Both in Japan and outside Japan, sales in this segment are generally made in the consumer market and to automobile manufacturers on an OEM basis for installation in new cars on production lines or as optional parts. Sales in this category are gradually shifting from the consumer market to the OEM market, as automobile manufacturers place greater emphasis on differentiation of their cars. Our strong brand recognition is helping us maintain our leading market share of car electronics products in a global consumer market. We became the first manufacturer in the world to introduce car navigation systems for the consumer market when we launched our first car navigation systems to the Japanese market in fiscal 1991, and since then have maintained a leading position in the consumer market in Japan by offering affordably-priced and easy-to-operate DVD-ROM and advanced HDD-equipped models. We intend to actively press ahead with business expansion in Europe and North America, where full-fledged consumer markets for car navigation systems are emerging. In fiscal 2006, we introduced our first car navigation systems to the Chinese consumer market. In the car audio business, we also strive to widen our market share with new products and innovations, such as car CD players with OLED displays and in-car entertainment systems. As we keep introducing innovative car electronics products, we will continue to seek to distinguish our products from our competitors.

Patent Licensing:

This segment includes the licensing of patents related to laser optical disc technologies.

Most of the royalty revenue from this segment is obtained from licensing patents relating to laser optical disc technologies that are held by Discovision Associates (DVA), our wholly-owned U.S. partnership. The legal protections afforded these rights have a limited duration under applicable laws, and the length of protection varies from country to country or by region. A significant portion of these patents have expired in certain countries/regions such as Japan and Europe and some portion of those in North America started to expire. As a result, our royalty revenue is expected to decline in the future.

Revenue from the Patent Licensing segment is substantially less than from our other segments, constituting 1.1% of operating revenue for fiscal 2006. However, the contribution of this segment to our income is significant compared to its contribution to our operating revenue, since costs related to patent licensing are limited principally to amortization of patent rights and expenses for licensing activities.

Others:

This segment includes products primarily for business use, such as OLED display panels, FA systems, electronics devices and parts and business-use AV systems.

Electronics devices and parts, including devices for cellular phones, accounted for the largest sales in this segment for fiscal 2006. FA systems also contributed materially to sales in this segment.

Principal markets

The following table sets forth our operating revenue from unaffiliated customers by geographic market for the respective periods indicated:

Operating Revenue by Geographic Market

	Year ended March 31					
	2004		2005		2006	
	(In millions of yen, except for percentage amounts)					
Japan	¥248,790	36.3%	¥248,751	35.0%	¥232,766	30.8%
North America	170,702	24.9	174,106	24.5	201,378	26.7
Europe	146,250	21.4	150,770	21.2	171,912	22.8
Other Regions	119,007	17.4	137,415	19.3	148,908	19.7
Total	¥684,749	100.0%	¥711,042	100.0%	¥754,964	100.0%

Note: Operating revenue by geographic market represents revenue from unaffiliated customers, based on the geographic location of each unaffiliated customer.

Seasonality

Global sales of the consumer electronics products are seasonal. Sales for the third quarter (ending December 31) of each fiscal year are generally higher than those of other quarters of the same fiscal year, due to increased demand during the year-end holiday season. In Japan, sales of car electronics products generally increase in the summer months, due to increased car usage for summer vacations.

Marketing channels

We sell our products to a large number of retailers and distributors through our sales offices in Japan and through Pioneer s sales subsidiaries and independent distributors outside Japan. In addition, we market certain products, such as car electronics products, plasma displays and DVD drives, on an OEM basis to other manufacturers for resale under their own brand names. Our business is not materially dependent upon any particular customer or group of customers. Most of our sales are made from inventory rather than against customer orders. Our products are generally sold under our own brand names, principally Pioneer.

After-sales service

We maintain a policy of providing repair and other services in the countries where our products are sold. In Japan, after-sales service is provided through Pioneer s wholly-owned service subsidiary, Pioneer Services Network Corporation (PSN), and authorized servicing companies. Pioneer established PSN in April 2000 to enhance the efficiency of our operations for after-sales services and to offer such services with higher quality. In countries where Pioneer s subsidiaries are located, such as the United States and certain European countries, after-sales services are provided by such subsidiaries or through their authorized independent servicing companies. In other countries, such services are generally performed by our local distributors.

In line with general industry practice, most of the products we sell to consumers are provided with a warranty for free repair work, generally for a period of one year from the date of purchase. Parts are kept

available for after-sales service for a period ranging generally from two to eight years after discontinuation of production, depending on the characteristics of the parts.

Raw materials and sources of supply

We purchase a variety of raw materials and parts for use in the manufacture of our products. We maintain two or more suppliers in principle to prevent a shortage of raw materials and parts. Furthermore, in accordance with corporate policy, we develop and/or manufacture certain key parts internally for our products, including plasma display panels, laser pickups and certain integrated circuits (ICs) and large-scale integrations (LSIs). We also purchase certain completed products, then sell them under our own brand names.

No single source accounted for more than 9% of total supply purchases in fiscal 2006. We have not experienced any material difficulties in obtaining raw materials, parts and products and believe that we will continue to be able to obtain them to meet our needs.

Semiconductors account for the largest percentage of parts purchased in fiscal 2006 (on a yen basis), representing approximately 25% of our total purchases. We purchase semiconductors from various suppliers, mainly pursuant to the terms of our basic supply agreement. Our basic supply agreement generally has a term of one year, with an automatic renewal clause. Where we depend on a single supplier, we seek to strengthen our partnership with such supplier to reduce the risk of shortages of key parts and, if necessary, take other measures such as placing our order earlier than our usual practice. We purchase a portion (approximately 4%) of our semiconductor parts, which are custom-made for our needs in accordance with our designs and specifications, from STMicroelectronics N.V. While we do not currently have an alternative source for the type of semiconductors supplied by STMicroelectronics N.V., we have entered into a strategic alliance with STMicroelectronics N.V. to secure a stable source of supply at favorable prices.

The rising price of crude oil has caused an increase in the price of plastic materials used in our products. In addition, the rapid economic growth in China has caused an increase in the price of steel materials and nonferrous metals. Although these conditions have not made a significant impact on our current operations, we are continuing our efforts to procure a stable supply of these materials and maintain costs at appropriate levels.

Patents and licenses

We hold a variety of patents, including those relating to laser optical disc technology, in Japan and other countries, while we in turn are licensed to use a number of patents owned by third parties. We consider certain patents licensed from third parties to be important to our business. In particular, the patents licensed from Dolby Laboratories Licensing Corporation, U.S.A. for such devices as noise reduction, from Koninklijke Philips Electronics N.V., the Netherlands for CD products and LD products, from Thomson Licensing S.A., France for CD products and LD products, from MPEG LA, L.L.C., U.S.A. for digital video products, from Fujitsu Limited, Japan for plasma display panels and Gemstar-TV Guide International, Inc., U.S.A. for electronic program guides are utilized in products accounting for a substantial portion of our net sales. Termination of such license agreements would have a material adverse effect on our business, although we have no reason to believe that such termination will occur.

Competition

Our products, especially plasma displays and DVD-related products, are exposed to intense competition in Japan and overseas. Our competitors, which vary in size, area of distribution, range of products and financial resources, are principally companies based in Japan, Europe and South Korea, some of which are large, integrated home electric or electronic appliance manufacturers having substantially larger capital resources than we do. The electronics industry in general has been subject to substantial price competition as part of efforts by electronics manufacturers to increase their market share. In addition, electronics companies in Asia, particularly those from China and South Korea, pose a severe threat through price competition. To counter this intense competition, we place great emphasis on extensive marketing to stimulate demand for innovative and value-added products. Furthermore, we concentrate our efforts on technological research, quality control, sales promotion and the lowering of production costs by increasing procurement of parts and products made outside Japan and other measures. See also Item 3.D. Risk factors Competition generally, and especially on price and standardization of products, may adversely affect our results of operations.

Import restrictions

In certain areas of the world, our products encounter tariffs and other import restrictions. Tariffs applied to our products vary depending upon the classification of such products and the countries into which such products are imported. Import restrictions, such as prohibitions on imports of certain products, vary from nation to nation. To respond to this situation, we manufacture our products in certain locations outside Japan as well as commissioning their production to independent manufacturers.

Governmental regulation

Our business activities are subject to various governmental regulations in countries in which we operate, including regulations relating to business/investment approvals, export regulations including those related to national security considerations, tariffs, antitrust, intellectual property, consumer and business taxation, exchange controls, personal information protection and environmental and recycling requirements.

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C. Organizational structure

Our basic corporate structure, including some but not all of our operating subsidiaries, is shown in the following chart:

The following table sets forth the principal subsidiaries owned, directly or indirectly, by Pioneer.

Name of subsidiary	Country of incorporation	Ownership interest and voting interest	Principal business
Tohoku Pioneer Corporation	Japan	67.0%	Manufacture of car electronics products, FA systems and OLED display panels
Pioneer Display Products Corporation	Japan	100.0%	Manufacture of plasma displays
Pioneer Plasma Display Corporation	Japan	100.0%	Manufacture of plasma displays
Pioneer North America, Inc.	U.S.A.	100.0%	Coordination of the activities of Pioneer s North American subsidiaries and affiliates
Pioneer Electronics (USA) Inc.	U.S.A.	100.0%	Distribution of electronics products
Pioneer Electronics Capital Inc.	U.S.A.	100.0%	Financing to Pioneer and its subsidiaries
Discovision Associates*	U.S.A.	100.0%	Licensing of worldwide patents relating to laser optical disc technologies
Pioneer Europe NV	Belgium	100.0%	Coordination of the activities of Pioneer s European subsidiaries and affiliates, and distribution of electronics products
Pioneer Electronics Asiacentre, Pte. Ltd.	Singapore	100.0%	Coordination of the activities of Pioneer s Asian subsidiaries and affiliates, and manufacture and distribution of electronics products
Pioneer China Holding Co., Ltd.	China	100.0%	Coordination of the activities of Pioneer s Chinese subsidiaries and affiliates and distribution of electronics products

* Discovision Associates is a general partnership organized under the laws of the State of California in the United States.

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D. Property, plants and equipment

Our manufacturing operations are conducted principally in Japan, Southeast Asia and China. The following table sets forth information, as of March 31, 2006, with respect to our principal plants.

Name of plant (Name of company which owns the plant)	Location	Floor space (square feet) [leased space]	Principal products
Japan			
Kagoshima Plant (Pioneer Plasma Display Corporation)	Izumi, Kagoshima	1,281,000	Plasma displays
Yamanashi Plant (Pioneer Display Products Corporation)	Nakakoma, Yamanashi	874,000	Plasma displays
Shizuoka Plant (Pioneer Display Products Corporation)	Fukuroi, Shizuoka	730,000	Plasma displays
Kawagoe Plant (Pioneer Corporation)	Kawagoe, Saitama	553,000	Car stereos, Car navigation systems
Tendo Plant (Tohoku Pioneer Corporation)	Tendo, Yamagata	459,000	Car stereos, Car speakers, Loudspeakers
Yonezawa Plant (Tohoku Pioneer Corporation)	Yonezawa, Yamagata	243,000	OLED displays
Kokubo Plant (Pioneer Micro Technology Corporation)	Kofu, Yamanashi	194,000	ICs, LSIs
Tendo the 2nd Plant (Tohoku Pioneer Corporation)	Tendo, Yamagata	186,000	FA systems

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Name of plant (Name of company which owns the plant)	Location	Floor space (square feet) [leased space]	Principal products
Outside Japan			
Shanghai Plant (Shanghai Pioneer Speakers Co., Ltd.)	Shanghai, China	458,000	Car speakers
Mexico Plant (Pioneer Speakers, S.A. de C.V.)	Baja California, Mexico	397,000	Car speakers
Shanghai Plant (Pioneer Technology (Shanghai) Co., Ltd.)	Shanghai, China	374,000 [22,000]	DVD Recorders, Car AV systems, Car stereos
Thailand Plant (Pioneer Manufacturing (Thailand) Co., Ltd.)	Ayutthaya, Thailand	300,000	Car stereos, Stereo systems
Malaysia Plant (Pioneer Technology (Malaysia) Sdn. Bhd.)	Johor, Malaysia	262,000	Stereo systems, Car stereos
Guang Dong Plant (Pioneer Technology (Dongguan) Co., Ltd.)	Guang Dong, China	255,000	Recordable DVD drives, DVD Recorders
Guang Dong Plant (Dongguan Monetech Electronic Co., Ltd.)	Guang Dong, China	237,000 [237,000]	Speaker systems
California Plant (Pioneer Electronics Technology, Inc.)	California, U.S.A.	208,000	Plasma displays, Speaker systems
U.K. Plant (Pioneer Technology (U.K.) Ltd.)	West Yorkshire, United Kingdom	184,000	Plasma displays
Ohio Plant (Pioneer Automotive Technologies, Inc.)	Ohio, U.S.A.	157,000	Car stereos

Most of the buildings of these plants and the land on which they are located are owned by us.
As of March 31, 2006, we owned our headquarters buildings in Tokyo having an approximate aggregate floor space of 336,000 square feet. We lease approximately 34,000 square feet as additional head office space in Tokyo.
We also own an employee training center in Tokyo with an approximate floor space of 17,000 square feet, and R&D facilities with an approximate aggregate floor space of 298,000 square feet.
Our sales office buildings in Japan and outside Japan are mainly leased. The head office buildings of some sales subsidiaries outside Japan are owned by us. Land and buildings for one of our subsidiaries and one of our headquarters buildings with an aggregate book value of ¥7,366 million were pledged as collateral for certain loans on March 31, 2006.
We are reviewing our global production systems. For the past several years, we have been accelerating the shift to overseas production. We currently plan to shift from our emphasis on overseas manufacturing and focus more on an efficient response to fast-changing markets. As part of this plan, in fiscal 2006, we closed a car electronics plant in Mexico and decided to close a car electronics plant in Belgium.
We are constantly engaged in upgrading, modernizing and revamping the operations of our manufacturing facilities, based on our assessment of market needs and prospects. As a result, it would be unreasonably difficult to track the exact productive capacity and the extent of utilization of each of our manufacturing facilities. We believe that our manufacturing facilities are generally operating in the aggregate within normal operating capacity and not substantially below capacity. Additionally, we believe that there does not exist any material environmental issues that may affect the utilization of our assets.
We believe that our properties are adequate to carry on our current business, though additional investment in plant and equipment is being made to support continued growth.

Item 4A. Unresolved Staff Comments

None

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Item 5. Operating and Financial Review and Prospects

Overview

We develop, design, manufacture and sell home electronics products such as audio, video and car electronics products on a global scale. We are one of the leading innovators of car navigation systems, plasma displays and DVD products. We are also one of the leading manufacturers in the world consumer market of car audio products. In addition, we derive revenue from the manufacture and sale of industrial electronics, such as FA systems and parts and from the licensing of patents that we own.

During fiscal 2006, the global economy continued steady growth, in part by robust consumer spending, despite concerns over surging prices of raw materials, including crude oil and certain metals. In Japan, our largest market, the economy continued to recover due to increased consumer spending and corporate investment. In the consumer electronics market, the popularity of and demand for newer products, such as flat panel TVs and DVD recorders continued to grow significantly. However, we faced an extremely challenging business environment, due to severe, price-based competition involving those core products, which adversely affected our profitability.

In response to this challenging environment we announced plans to restructure our business on December 8, 2005 and we are currently implementing them. The primary components of our business restructuring plans are:

Organizational restructuring. In order to improve management efficiency, we are comprehensively reorganizing our organizational structure. On January 1, 2006 we reorganized our operations into two business groups: the Home Entertainment Business Group and the Mobile Entertainment Business Group. All operations related to plasma displays, DVD products and home audio products were integrated into the Home Entertainment Business Group. Also, all operations related to car navigation systems and car audio products were inherited by the Mobile Entertainment Business Group. Home Entertainment Business Group staff currently based in three separate locations will be consolidated into one location in Japan by spring of 2007. We believe that this organization restructuring will encourage more effective inter-departmental integration and help us to operate more efficiently.

Reduce fixed costs. To reduce fixed costs across our entire operations we are consolidating our worldwide production sites. This plan has been already implemented or is in process for major targeted production sites and will be completed by the spring of 2007.

Review employee numbers. In accordance with our plans to integrate our home entertainment business operations and consolidate our production sites and headquarters functions, we adjusted our employment levels at Pioneer and its subsidiaries in Japan. This plan resulted in the retirement of 777 employees.

As a result of these restructuring plans, we recorded involuntary special termination benefits, contract termination costs and other associated costs of ¥4.1 billion for fiscal 2006 in connection with the closure or scaling down of our manufacturing facilities in Europe and Mexico. At the end of March 2006, ¥2.8 billion out of the ¥4.1 billion remained as liabilities in our consolidated balance sheet, which we will pay in fiscal 2007. Funding will come from short-term borrowing. In addition, Pioneer and eleven subsidiaries in Japan implemented voluntary, incentive-based early retirement programs. As a result of such programs, we recorded special termination benefits of ¥10.8 billion which was accrued at the end of fiscal 2006 and we will pay in fiscal 2007. The sources of these payments are mostly cash on hand and short-term borrowing.

We also recorded impairment losses on long-lived assets of ¥41.4 billion, and equity in losses of affiliated companies in the amount of ¥24.1 billion in connection with our business restructuring plans.

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Because most of the costs and expenses related to our business restructuring plans were recognized in fiscal 2006, we expect no significant negative impact on profitability for the following years relating to our business restructuring plans.

In foreign exchange markets, the average value of the yen during fiscal 2006 was approximately 5% weaker against the U.S. dollar and approximately 2% weaker against the euro compared with fiscal 2005.

In those business circumstances and economic conditions, our operating revenue for fiscal 2006 was ¥755.0 billion, up 6.2% from fiscal 2005. However, we recorded a net loss of ¥85.0 billion, compared with a net loss of ¥8.8 billion posted in fiscal 2005.

We classify our business groups into four segments: Home Electronics, Car Electronics, Patent Licensing and Others The primary products in each segment are as follows: Home Electronics includes plasma displays, DVD-related products, home telephones, computer peripheral equipment, devices and others. Car Electronics includes car audio products, car navigation systems, and others. Patent Licensing includes the licensing of patents related to optical disc recording and playback equipment, and others. Others includes FA system, parts, and others. The following is a summary of operating revenues by business segment for the years ended March 31, 2004, 2005 and 2006.

Operating Revenue by Business Segments

	Year ended March 31					
	2004		2005		2006	
	(In millions of yen, except for percentage amounts)					
Home Electronics	¥ 306,205	44.7%	¥ 322,771	45.4%	¥ 354,690	47.0%
Car Electronics	292,187	42.7	303,410	42.7	330,522	43.8
Patent Licensing	11,821	1.7	10,237	1.4	8,540	1.1
Others	74,536	10.9	74,624	10.5	61,212	8.1
Total	¥ 684,749	100.0%	¥ 711,042	100.0%	¥ 754,964	100.0%

Note: Operating revenue represents revenue from unaffiliated customers.

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Our products are generally sold under our own brand names, principally Pioneer. Our primary markets are Japan, North America, Europe and Asia. We sell our products to customers in consumer and business markets through sales offices in Japan, and through sales subsidiaries of Pioneer and independent distributors outside Japan. In addition, on an OEM basis, we market certain products, such as car electronics products, recordable DVD drives, plasma displays and OLED displays to other companies. The following is a summary of operating revenues from unaffiliated customers by geographic market for the years ended March 31, 2004, 2005 and 2006.

Operating Revenue by Geographic Market

	Year ended March 31					
	2004		2005		2006	
	(In millions of yen, except for percentage amounts)					
Japan	¥248,790	36.3%	¥248,751	35.0%	¥232,766	30.8%
North America	170,702	24.9	174,106	24.5	201,378	26.7
Europe	146,250	21.4	150,770	21.2	171,912	22.8
Other Regions	119,007	17.4	137,415	19.3	148,908	19.7
Total	¥684,749	100.0%	¥711,042	100.0%	¥754,964	100.0%

Note: Operating revenue by geographic market represents revenue from unaffiliated customers, based on the geographic location of each unaffiliated customer.

Home Electronics, Car Electronics and Others

Although we continue to see strong growth in demand for plasma displays, DVD recorders and recordable DVD drives in worldwide markets, in our home electronics business we are exposed to significant price competition for plasma displays and DVD-related products, which adversely affects our profitability.

In our car electronics business, severe worldwide competition has led to strong downward pressure on prices. However, the popularity of our car navigation systems continues to increase.

The electronics industry is characterized by rapid technological changes, and our ability to introduce attractive new products to the market significantly affects the operating results of our electronics businesses.

The electronics industry is also characterized by continuing sales price decreases in most product categories, making it important for us to continually improve the efficiency of our manufacturing, distribution, service and administrative functions.

In fiscal 2006, we changed our business segment classification for certain businesses reflecting the changes of the market and product usage. Results related to plasma displays for business use and DJ equipment have been moved from Others to Home Electronics. Corresponding figures for the previously reported operating revenue by segment and segment information have been reclassified accordingly.

Patent Licensing

Our royalty revenue from Patent Licensing depends to a material extent on the sales of patented products by our licensees, making it difficult for us to predict actual royalty revenue each year. Therefore, trends in the PC market have an influence on our royalty revenue. In addition, a significant portion of our patent

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rights relating to laser optical disc technologies in Japan and Europe has expired and some portion of those in North America started to expire. Accordingly, we have experienced a substantial decrease in operating revenue and segment income from this segment.

Currency fluctuations

We are affected to some extent by fluctuations in foreign currency exchange rates. We are principally exposed to fluctuations in the value of the Japanese yen against the U.S. dollar, euro and, to a much lesser extent, other currencies of countries where we conduct our business. Our consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through both translation risk and transaction risk.

Translation risk is the risk that our consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in which our subsidiaries prepare their financial statements against the Japanese yen. The functional currency for all of our significant foreign operations is the local currency. Generally, all asset and liability accounts of foreign operations are translated into Japanese yen using the exchange rates at the balance sheet date and all revenue and expense accounts are translated using the weighted average exchange rates for the periods. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior periods and among various geographic markets, the translation effect is a reporting consideration, included in the other comprehensive income, and does not reflect our underlying results of operations.

Transaction risk is the risk that the currency structure of our costs and liabilities will deviate from the currency structure of sales proceeds and assets. Transaction risk mainly derives from the fact the currencies of the countries where we manufacture our products may be different from the currencies where we sell our products.

Derivative financial instruments are utilized by us to reduce the risks from fluctuations in foreign exchange rates but are not held or issued for trading purposes. To hedge certain purchase and sale commitments for anticipated but not yet committed transactions that are denominated in other than functional currencies, we enter into forward exchange contracts and purchases and write currency options. Written options are entered into only with purchased options in order to reduce the hedging cost.

Critical accounting policies and estimates

The following analysis of financial conditions and results of operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, except for segment data which is prepared in accordance with the regulations under the Securities and Exchange Law of Japan.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition and customer incentives, bad debts, inventories, long-lived assets, investments, income taxes, warranty obligations, retirement benefits, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenue and

expenses that are not readily apparent from other sources. Actual results may differ from these estimates due to the inherent uncertainty involved in making estimates.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

Sales are generally recorded when merchandise is shipped or delivered to customers. Recognition of sales occurs when title and risks and rewards of ownership are transferred to customers based on the facts which include the sales contract and Pioneer s practice. In certain cases, terms of the contract require the product to pass customer inspection after delivery and we record the sale upon satisfactory customer acceptance. Royalty revenue is recognized based on royalty statements received from licensees.

We normally do not accept returns except in connection with our obligations under product warranties, noncompliance with purchase order specifications and returns from end-users to certain dealers. The financial impact of the future returns are estimated based on historical experience and adequately reserved.

Estimated reductions of revenue are recorded for costs incurred by us in connection with sales incentive related to the customers purchase or promotion of our products. Such costs include the estimated cost of promotional discounts, dealer price protection, dealer rebates, consumer rebates, cash discounts, and support for dealers promotion of our products, although the terms of sales incentive programs may be different by product, market and terms of sales contracts. Sales incentives that are dependent on future customer performance are estimated and recorded at the later of when the original sale is recorded or when the incentive is offered. Estimates of future customer performance such as purchase volume, early payments and consumer rebate redemption rate are based on historical experience. Should a greater proportion of customers redeem incentives than we estimate, additional reductions of revenue may be required. Promotional discounts are offered on specified products for specified periods. A price protection discount, which is the discount for the dealers inventory at the time of the announcement of the promotional discount, to compensate for the difference between the discounted prices and higher prices the dealers paid for their inventory, is often offered when the promotional discount program is announced. Costs for a price protection program are accrued when the program is announced by estimating discounts to be claimed by the dealers. Such estimates are based on forecasted order quantities during the promotional period and assumptions as to the amount of inventory that dealers have on hand. Dealer rebates include fixed-rate contractual rebates and volume-based rebates. Contractual rebates are recorded at the time of sale. Volume-based rebates, for which the rebate rate is dependent on the amount of the dealer s purchase during the specified period, are accrued at the time of original sale, estimating the rebate rate the dealer will eventually achieve. We occasionally offer incentives directly to consumers in the form of mail-in rebates. Consumer rebates are accrued at the later of when the related sales are recognized or when the program is announced. The actual amounts of consumer rebates are dependent on consumers future actions, and our estimates are based on assumptions as to quantities to be purchased by consumers during the program period and consumer redemption rates, which is determined based on historical experience about consumer response to consumer rebate programs. Cash discounts are given for early payments in accordance with terms of the contract with customers and are recorded as a reduction of revenue at the time of original sale. The estimate of the cash discounts is based upon information about customers payment histories. Also, we provide reimbursements for the purpose of supporting dealers sales promotions of our products. The cost mainly includes subsidies for advertising, displays, cost of other sales promotion materials, and salaries of temporary floor sales personnel. We account for all the subsidy reimbursements to dealers as reductions from sales, except for the payments in return for the evidence

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which is sufficient to account for the payments as sales expenses. Certain promotional allowances, such as co-op advertising, are determined as certain percentages of the respective sales amount and are recorded at the time of sale. Although reimbursement for such incentives requires dealers to perform sales promotions of our products, we assume, based on historical experience, that almost all dealers will eventually perform such sales promotions and submit claims for reimbursement. Other allowances, whose amounts are not determined by sales factors, are recorded when the subsidy is offered and the amount becomes reasonably determinable. Examples for this type of allowance are display allowances determined by the number of units displayed on the sales floor, and allowances based on agreements to share costs incurred by dealers for items such as new signboards, new display racks and salaries of temporary floor sales personnel.

Warranties

We provide for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligation is affected by product failure rates and service costs including parts and labor that may be incurred in correcting a product failure. The estimate of warranty cost is based on historical information, and should actual product failure rates or service costs differ from our estimates, revisions to the estimated warranty liability may be required. Warranty reserve at March 31, 2006 was ¥6.6 billion.

Inventories

The majority of our products are produced for the consumer electronics market, and our inventory is susceptible to quickly changing demands and selling prices. We write-down in full inventories with no potential for future sale or potential use by us and write-down to net realizable value inventories which are considered to be obsolete or slow-moving, but salable at reduced prices. Estimating net realizable value requires assumptions as to uncertain matters such as selling prices and salable quantities to be made based upon judgment about future market prices of competing products and customer demand, taking current market conditions into consideration. At March 31, 2006, we have inventories on hand amounting to ¥8.6 billion that we have written-down in full and have recognized write-downs to net realizable value amounting to ¥3.6 billion.

The following table sets forth the changes in the inventory reserve during fiscal 2006. Reversal was made in connection with sale or disposal of the related inventory.

Beginning	Provision	Reversal from sale or disposal	Other	End
		(In billions of yen)		
¥ 10.3	¥ 10.0	¥ (8.4)	¥ 0.3	¥ 12.2

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. This review is performed using estimates of future cash flows. If the carrying amount of an asset group is considered impaired, an impairment loss is recorded for the amount by which the carrying amount of the asset group exceeds its estimated fair value. Fair value is determined using the present value of estimated cash flows. A weighted average cost of capital, which is derived from our capital structure, is used as a discount rate for calculating the present value of the estimated cash flows. For the year ended March 31, 2005, we recorded ¥4.5 billion representing impairment charges for plasma display production facilities of a domestic subsidiary, production facilities of a foreign subsidiary to be closed and assets used for manufacture of cable TV set-

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top boxes. For the year ended March 31, 2006, we recorded ¥41.4 billion of impairment charges consisting of ¥31.9 billion for plasma display production facilities, ¥9.0 billion for DVD recorder-related production facilities and ¥0.6 billion for production facilities of a foreign subsidiary to be closed. While we believe that the estimates of future cash flows and fair value are reasonable, changes in estimates resulting in lower future cash flows and fair value would affect the valuations of those long-lived assets.

Deferred tax assets

We record a valuation allowance to reduce deferred tax assets to the amount that we believe is more likely than not to be realized. While we have considered future taxable income based on our short-term and long-term business plans and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that we determine that we will not be able to realize all or part of the net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination is made. Likewise, should we determine that we will be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made.

Pension benefit costs

Employee retirement benefit costs and obligations are dependent on assumptions used in the actuarial calculations. These assumptions include discount rates, future compensation levels, retirement rates and mortality rates which are based upon current statistical data, as well as long-term returns on plan assets and other factors.

For pension plans of the parent company and domestic subsidiaries, the discount rates are determined by using information about rates of return on currently available high-quality fixed-income bonds. The expected long-term rate of return on pension plan assets is based on the weighted average of expected long-term returns on various categories of plan assets, reflecting the current and target allocations of pension plan assets. Expected long-term return by asset category is derived from historical studies by investment advisors. The future compensation levels are calculated based on points. These points are accumulated based on years of service, job class and conditions under which termination occurs. If actual results differ from the assumptions or assumptions are changed, the resulting effects are accumulated and systematically recognized over future periods and, therefore, generally affect recognized expense and the recorded obligations in future periods.

The following table sets forth the effects of assumed changes in discount rates and the expected long-term rate of return for pension plans in Japan.

	Effect on shareholders equity at March 31, 2006	Net periodic pension cost for fiscal 2007
	(In billions of yen)	
Discount rate:		
0.5% increase	¥ 4.7	¥ (0.7)
0.5% decrease	(5.3)	0.7
Expected long-term rate of return:		
0.5% increase		(0.4)
0.5% decrease		0.4

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Fiscal 2006 compared with fiscal 2005

Net sales amounted to ¥746.4 billion, a 6.5% increase over fiscal 2005. Net sales in Japan were ¥232.8 billion, down 6.4% from fiscal 2005, and overseas net sales increased 13.6% to ¥513.7 billion. The 6.4% decrease in sales in Japan pertains to the decrease in sales of DVD recorders and own-brand plasma displays, while the 13.6% increase in our overseas net sales is largely attributable to the increase in sales of plasma displays. Royalty revenue decreased 16.6% from fiscal 2005 to ¥8.5 billion.

Home Electronics net sales increased 9.9% over fiscal 2005, amounting to ¥354.7 billion. Sales in Japan decreased by 9.7% to ¥82.0 billion primarily due to the decrease in sales of DVD recorders and own-brand plasma displays as a result of the decrease in the market prices at a pace faster than we had anticipated because of intensified competition. On the other hand, overseas sales were up 17.6% to ¥272.7 billion due mainly to an increase in sales of plasma displays in North America and Europe.

Overall, sales of plasma displays increased by approximately 30%, primarily driven by an expanding market for high-resolution models in North America and Europe, even though sales in Japan decreased. In our North American and European markets, our newly introduced plasma display products with high visual quality were welcomed by local consumers. Although OEM sales increased, this mainly reflects the September 30, 2004 acquisition of a plasma display production subsidiary. We reported higher sales of DJ equipment, but sales of DVD recorders, DVD players, and stereo systems declined.

Car Electronics net sales increased 8.9% to ¥330.5 billion. Sales of car audio products were higher both in consumer markets and on an OEM basis. Consumer-market sales expanded primarily in Central and South America, as well as North America and Russia, while OEM sales rose primarily in North America and Japan. Sales of car navigation systems increased in consumer markets, with sales growth coming mainly from Japan and North America. OEM sales increased in North America due to the start of new OEM transactions, but dropped in Japan as a result of diminished demand for product models rolled out in fiscal 2005. Sales in Japan decreased by 2.2% to ¥117.6 billion, due to decreased sales in OEM car navigation systems. Overseas sales increased 16.3% to ¥213.0 billion, due to an increase in sales of car audio products and car navigation systems. Sales of car audio products for the consumer market increased in Central and South America, North America and Russia. Also, sales of car audio systems and car navigation systems for the OEM market increased in North America. OEM sales represented 35% of total car electronics sales in fiscal 2006, down from 36% in the previous fiscal year.

Royalty revenue from *Patent Licensing* decreased 16.6% year on year to ¥8.5 billion. This decrease was mainly attributable to the impact of the expiration of certain patents licensed to the optical disc industry.

Net sales for *Others* declined 18.0% year on year to ¥61.2 billion. This mainly reflected falling sales of FA systems, despite higher sales of compact speaker units for cellular phones. Sales in Japan fell 11.8% to ¥33.2 billion due to decreased sales of FA systems. Overseas sales were down 24.3% to ¥28.0 billion due to decreased sales of FA systems in South East Asia, despite increased sales of speaker units for cellular phones in South East Asia.

Other revenues (Revenues excluding net sales and royalty revenue)

Other revenues include interest income and other income. Interest income increased from ¥1.9 billion to ¥2.7 billion due to higher interest rates in North America. Other income increased from ¥3.4 billion to ¥6.8 billion, due mainly to an increase in gain on sale of available for sale securities.

Cost and expenses

Cost of sales increased to ¥593.2 billion from fiscal 2005 s ¥564.5 billion. Cost of sales for fiscal 2006 represented 78.6% of operating revenue, down by 0.8 of a percentage point from 79.4% for fiscal 2005. This decrease is net of absence of one time of pension cost amounting to ¥25.3 billion recognized as a result of the transfer of the substitutional portion of employee welfare pension plan to the Japanese government recorded in fiscal 2005 and increase of percentage of other cost of sales due to adverse effects of intensified competition, particularly for Home Electronics products such as plasma displays, DVD recorders and recordable DVD drives. We estimate that the average selling prices for these products dropped 25 30% during fiscal 2006. Gross profit margin in the Car Electronics business also decreased. This is due mainly to an increase of development costs.

Selling, general and administrative (SGA) expenses decreased by ¥16.5 billion to ¥178.1 billion from fiscal 2005 s ¥194.6 billion. This decrease is net of absence of one time pension cost amounting to ¥24.2 billion recognized as a result of the transfer of the substitutional portion of employee welfare pension plan to the Japanese government recorded in fiscal 2005 and increase of other SGA expenses, such as shipping and handling costs and royalty expenses. Shipping and handling costs and royalty expenses increased by ¥7.8 billion in total in line with the increase in the number of shipped plasma display units.

In fiscal 2005, we transferred the benefit obligation of the substitutional portion of employee welfare pension plan in Japan and the related portion of the plan assets to the Japanese government. The transfer resulted in recording of a ¥48.7 billion gain as a subsidy from the government. At the same time, we recognized an expense of ¥49.5 billion mainly for settlement loss of the substitutional portion, and allocated ¥25.3 billion to cost of sales and ¥24.2 billion to SGA expenses. Please see Note 12 of the notes to consolidated financial statements for additional information.

R&D expenses, which are included in cost of sales and SGA expenses, increased 13.6% to ¥63.4 billion, representing 8.4% of operating revenue. The increase reflected R&D activities to enhance our technological advantage in our strategic products such as car navigation systems and plasma displays.

Loss on sale and disposal of fixed assets increased by ¥2.7 billion. The increase was attributable mainly to losses recorded in fiscal 2006 for disposal of production facilities for the purpose of improving production efficiencies, mainly in OLED products and plasma display panels.

Other deductions increased from ¥6.3 billion to ¥60.0 billion. The difference is mainly due to ¥41.4 billion impairment losses recognized in fiscal 2006 related to our corporate restructuring. During fiscal 2006, we reviewed the production facilities of plasma display and DVD recorder related products because of decreases in gross profit margins for plasma displays and DVD recorders due to sharp decline in market prices. As a result of the review, an impairment loss of ¥31.9 billion in plasma display and ¥9.0 billion in DVD recorder related assets were recognized as the excess of the carrying value of the asset group over the estimated fair value of the asset group. In addition, a foreign subsidiary recognized an impairment loss of ¥0.6 billion for fiscal 2006 in relation to the property and equipment of the plant to be closed.

As a part of our efforts to improve business performance, 12 Pioneer group companies, including Pioneer Corporation, implemented voluntary incentive-based early retirement programs. As a result of these programs, we recorded special termination benefits of ¥10.8 billion in connection with the retirement of 777 employees. As a part of the integration plan in foreign manufacturing companies, we decided to close a car electronics plant in Belgium. As a result of the closure of the plant in Belgium, one-time termination benefits of ¥3.0 billion, operating lease termination costs of ¥0.3 billion and other costs of ¥0.6 billion were recorded. Finally, ¥0.2 billion was recorded for one-time termination benefits at our plant in Mexico.

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Income (loss) from continuing operations before income taxes

As a result of factors discussed above, we posted a ¥71.2 billion loss before income taxes in fiscal 2006, compared with loss of ¥2.1 billion in fiscal 2005.

Income taxes

In fiscal 2006, the provision for income taxes was minus ¥4.7 billion against ¥71.2 billion loss before taxes. The relationship between loss before taxes and tax expense was distorted mainly due to a valuation allowance set up for deferred tax assets of the parent company and certain subsidiaries which posted losses.

Equity in losses of affiliated companies

Equity in losses of affiliated companies was ¥24.0 billion in fiscal 2006, compared with ¥3.1 billion in fiscal 2005. The increase in losses of affiliated companies is mainly attributable to the assumption of debt amounting to ¥25.3 billion incurred by ELDis, Inc., as a result of the decision to withdraw from thin film transistor substrate business which had been carried out by ELDis, Inc.

Income from discontinued operations, net of tax

In fiscal 2006, we sold a subsidiary engaged in the development of cable TV software, and reached a preliminary agreement on the sale of subsidiaries involved in the electronic components business. As a result, the operating results of these subsidiaries and the gain on the sale are presented as income from discontinued operations. Corresponding figures for the previous year have been reclassified accordingly.

Net income from discontinued operations for fiscal 2006 and 2005 was ¥0.8 billion and ¥1.3 billion respectively.

Net loss

Net loss in fiscal 2006 was ¥85.0 billion, compared with net loss of ¥8.8 billion posted in fiscal 2005. Basic net loss per share of common stock in fiscal 2006 was ¥487.23, compared with net loss per share of ¥50.11 in fiscal 2005.

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Fiscal 2005 compared with fiscal 2004

Operating revenue

Net sales amounted to ¥700.8 billion, a 4.1% increase over fiscal 2004. Net sales in Japan came to ¥248.8 billion, almost the same as that of fiscal 2004, and overseas net sales increased 6.6% to ¥452.1 billion. Royalty revenue decreased 13.4% from fiscal 2004 to ¥10.2 billion.

Home Electronics net sales increased 5.4% over fiscal 2004, amounting to ¥322.8 billion, primarily as a result of increased sales of plasma displays and DVD recorders, while sales of recordable DVD drives for PCs, DVD players, cable TV set-top boxes and audio products decreased. Sales of plasma displays grew both in Japan and overseas, and sales of DVD recorders increased overseas. In Japan, sales rose 10.0% to ¥90.8 billion, primarily due to a large increase in sales of plasma displays. The increase was largely attributable to expansion of OEM product sales resulting from the acquisition of a plasma display production subsidiary, Pioneer Plasma Display Corporation (PPD). Pioneer brand plasma display sales to the consumer market increased as well. Sales of recordable DVD drives, DVD recorders and audio products decreased in Japan. Sales decrease of recordable DVD drives and DVD recorders was mainly attributable to the impact of a price decline resulting from intensified competition. Overseas sales also rose 3.7% to ¥231.9 billion, due to an increase in sales worldwide of plasma displays and DVD recorders, despite a decrease in sales of audio products and DVD players worldwide, recordable DVD drives in Europe and North America and DVD-ROM drives in Europe, as well as our decision to no longer sell cable TV set-top boxes in North America. In general, the market is shifting from DVD players to DVD recorders worldwide.

Car Electronics net sales rose 3.8% to ¥303.4 billion, primarily as a result of sales growth of car navigation systems overseas. In Japan, net sales decreased 1.2% to ¥120.3 billion, mainly influenced by slow demand for car navigation systems in the consumer market, reflecting shifting demand from the consumer market to the OEM market, although car navigation systems for automobile manufacturers increased. Overseas net sales increased 7.4% to ¥183.2 billion, primarily due to increased sales of car audio products for the OEM market and car navigation systems, despite decreased sales of car audio products for the consumer market in Europe and North America. Sales of car navigation systems for the consumer market, particularly map-type DVD models, grew in North America and Europe. Also, sales of car audio products for the consumer market increased in Russia and South and Central America.

Royalty revenue from *Patent Licensing* decreased 13.4% to ¥10.2 billion, compared to that of fiscal 2004. This was attributable to expiration of patents included in a larger portfolio of patents licensed to the optical disc industry.

Net sales for *Others* increased 0.1% over fiscal 2004 to ¥74.6 billion, reflecting primarily increased sales of FA systems and component parts for cellular phones. In Japan, net sales decreased 15.4% to ¥37.7 billion. This primarily resulted from decrease in sales of OLED display panels, mainly for cellular phone manufacturers, and semiconductors for laser pickups, despite an increase in sales of FA systems. Decrease in sales of semiconductors for laser pickups is due to a sales shift from Japan to China. Overseas, net sales were up 23.1% over fiscal 2004 to ¥37.0 billion. The increase is primarily due to increased sales in China of semiconductors for laser pickups and in Asia of speaker devices for cellular phones.

Other revenues (Revenues excluding net sales and royalty revenue)

Other revenues include interest income and other income. Interest income increased from ¥1.4 billion to ¥1.9 billion due to increased return on short-term investment of proceeds from convertible bonds issued in

March 2004. Other income increased from ¥0.5 billion to ¥3.4 billion, mainly due to a ¥2.3 billion gain on sale of available for sale securities.

Cost and expenses

Cost of sales increased to ¥564.5 billion from fiscal 2004 s ¥474.0 billion. After excluding ¥25.3 billion of one-time pension cost recognized as a result of the transfer of the substitutional portion of employee welfare pension plan to the Japanese government, cost of sales represented 75.8% of operating revenue, up by 6.6 percentage points from fiscal 2004 s 69.2%. The increase is primarily due to the adverse effects of harsh price competition, particularly for Home Electronics products such as plasma displays, DVD recorders and recordable DVD drives. We estimate that the average selling prices for these products dropped 20 30% during fiscal 2005. Clearing out inventory for cable TV set-top boxes in North America at reduced prices also had an adverse effect on gross profit margin. Gross profit margin in the Car Electronics business also decreased. Gross profit margin decreased for car navigation systems in the consumer market in Japan, and the decline in sales prices of car CD players worldwide decreased gross profit margin as well. Increased provision for inventory reserve, mainly for excess stock of Home Electronics products, was another reason for the higher cost of sales.

SGA expenses increased to ¥194.6 billion from fiscal 2004 s ¥165.0 billion. The difference was ¥5.4 billion after excluding ¥24.2 billion one-time pension cost resulting from the transfer of the substitutional portion of employee welfare pension plan. Increases in shipping and handling costs and warranty cost accounted for the majority of the increase. Shipping and handling costs increased by ¥1.4 billion in line with the increase in shipment of the number of plasma display units. Provision for warranty reserve increased by ¥2.0 billion due to extension of warranty period for plasma displays as a part of a sales promotion measure.

In fiscal 2005, we transferred the benefit obligation of the substitutional portion of employee welfare pension plan in Japan and related portion of the plan assets to the Japanese government. The transfer resulted in recording of a ¥48.7 billion gain as subsidy from the government. At the same time, we recognized an expense of ¥49.5 billion mainly for settlement loss of the substitutional portion, and allocated ¥25.3 billion to cost of sales and ¥24.2 billion to SGA expenses. Note 12 of the notes to consolidated financial statements provides detailed information.

R&D expenses, which are included in cost of sales and SGA expenses, increased 8.6% to ¥55.9 billion, representing 7.9% of operating revenue. The increase reflected R&D activities to enhance our technological advantage in our strategic products such as car navigation systems, plasma displays, DVD recorders and OLED displays.

Loss on sale and disposal of fixed assets decreased by ¥3.4 billion. The decrease was attributable mainly to losses recorded in fiscal 2004 for relocation and replacement of production facilities for the purpose of improving production efficiency, mainly in DVD products and plasma display panels.

Other deductions increased from ¥1.6 billion to ¥6.3 billion. The difference is mainly due to ¥4.5 billion impairment losses recognized in fiscal 2005. An impairment loss of ¥3.4 billion was recorded for production facilities of PPD due to the downward revision of sales forecast for PPD s products after the acquisition. This downward revision resulted from decreased orders from our main OEM customers in the second half of fiscal 2005, reflecting changes in business circumstances. We also recorded a ¥0.6 billion impairment loss on assets used in manufacturing cable TV set-top boxes as a result of our decision to no longer sell cable TV set-top boxes in North America. Also, an impairment loss of ¥0.5 billion was recorded for production facilities of a foreign subsidiary, for which closure is planned as a part of reorganization of overseas production sites. Another reason for the difference was the losses incurred in

connection with our decision not to sell cable TV set-top boxes in North America any longer. ¥1.8 billion was recorded for asset disposal, employee termination benefits and contract termination costs, in addition to the impairment loss discussed above.

Income (loss) from continuing operations before income taxes

As a result of factors discussed above, we posted ¥2.1 billion loss before income taxes in fiscal 2005, compared with income of ¥40.5 billion in fiscal 2004.

Income taxes

In fiscal 2005, the provision for income taxes was ¥4.3 billion against ¥2.1 billion loss before taxes. The relationship between loss before taxes and tax expense was distorted mainly due to valuation allowance set up for deferred tax assets of the subsidiaries which posted losses. In fiscal 2004, income taxes as a percentage of pre-tax income were 44.8%, which was 2.8% higher than the normal statutory tax rate of 42.0% in Japan.

Equity in losses of affiliated companies

Equity in losses of affiliated companies was ¥3.1 billion in fiscal 2005, compared with ¥2.2 billion in fiscal 2004. The increase in loss is mainly attributable to the increase in loss incurred by ELDis, Inc.

Net income (loss)

Net loss in fiscal 2005 was ¥8.8 billion, compared with net income of ¥24.8 billion posted in fiscal 2004. Basic net loss per share of common stock in fiscal 2005 was ¥50.11, compared with net income per share of ¥141.58 in fiscal 2004.

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Segment information

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

Business Segments

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

	Year ended March 31, 2005					
	Home Electronics	Car Electronics	Patent Licensing	Others	Corporate and Eliminations	Consolidated
	(In millions of yen)					
Operating revenue:						
Unaffiliated customers	¥322,771	¥303,410	¥10,237	¥ 74,624		¥711,042
Inter-segment	2,332	1,321	1,362	36,683	¥ (41,698)	
Total	¥325,103	¥304,731	¥11,599	¥111,307	¥ (41,698)	¥711,042
Segment income (loss)	¥ (24,628)	¥ 18,591	¥ 9,389	¥ 61	¥ (2,722)	¥ 691
Identifiable assets	¥240,923	¥167,346	¥ 2,852	¥ 92,478	¥221,568	¥725,167
Depreciation and amortization	¥ 22,073	¥ 12,514	¥ 311	¥ 8,439	¥ 3,478	¥ 46,815
Capital expenditures (additions to fixed assets)	¥ 32,769	¥ 12,358		¥ 9,501	¥ 9,568	¥ 64,196

Notes: 1. Segment income (loss) represents operating revenue less cost of sales, selling, general and

administrative expenses and subsidy from the government.

2. Effective from 2006, we changed our business segment classification for certain businesses. Results related to plasma displays for business use and DJ equipment have been moved from Others to Home Electronics. Corresponding figures for the previously reported operating revenue by segment and segment information have been reclassified accordingly.

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3. In fiscal 2006, we sold a subsidiary engaged in the development of cable TV software, and reached a preliminary agreement on the sale of subsidiaries involved in the electronic components business. As a result, the operating results of these subsidiaries, and the gain on the sale, are presented as income from discontinued operations in the consolidated statements of operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Corresponding figures for the previous fiscal year have been reclassified accordingly.

Income (loss) by business segments

Home Electronics segment recorded a loss of ¥35.2 billion, compared to a loss of ¥24.6 billion in fiscal 2005. Despite increased sales, mainly for plasma displays, lowered prices for plasma displays and DVD products worsened gross profit margins.

Car Electronics segment recorded a profit of ¥17.5 billion, down 5.9% from ¥18.6 billion in fiscal 2005. Decrease of the profit of this segment is due mainly to an increase of development costs.

Patent Licensing posted ¥7.2 billion profit, down 23.1% from ¥9.4 billion in fiscal 2005 due to a decrease in royalty revenue.

Others recorded a loss of ¥4.0 billion, compared with ¥0.1 billion profit in fiscal 2005. This loss was principally caused by the decrease in sales of FA systems.

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Geographic Segments

	Year ended March 31, 2006					
	Japan	North America	Europe	Other Regions	Corporate and Eliminations	Consolidated
	(In millions of yen)					
Operating revenue:						
Unaffiliated customers	¥270,771	¥196,809	¥163,361	¥124,023		¥754,964
Inter-area	333,878	6,161	341	209,919	¥(550,299)	
Total	¥604,649	¥202,970	¥163,702	¥333,942	¥(550,299)	¥754,964
Segment income (loss)	¥ (25,832)	¥ 3,368	¥ 3,519	¥ 3,697	¥ (1,161)	¥ (16,409)
Identifiable assets	¥245,695	¥ 43,317	¥ 65,071	¥119,273	¥ 204,690	¥678,046
Depreciation and amortization	¥ 28,966	¥ 3,109	¥ 2,180	¥ 7,405	¥ 4,897	¥ 46,557
Capital expenditures (additions to fixed assets)	¥ 25,961	¥ 1,346	¥ 1,097	¥ 8,649	¥ 1,973	¥ 39,026

	Year ended March 31, 2005					
	Japan	North America	Europe	Other Regions	Corporate and Eliminations	Consolidated
	(In millions of yen)					
Operating revenue:						
Unaffiliated customers	¥286,090	¥171,947	¥149,117	¥103,888		¥711,042
Inter-area	288,196	5,030	805	175,698	¥(469,729)	
Total	¥574,286	¥176,977	¥149,922	¥279,586	¥(469,729)	¥711,042
Segment income (loss)	¥ (7,106)	¥ (2,738)	¥ (308)	¥ 6,986	¥ 3,857	¥ 691
Identifiable assets	¥315,252	¥ 60,799	¥ 60,463	¥112,312	¥ 176,341	¥725,167
Depreciation and amortization	¥ 31,819	¥ 2,344	¥ 2,444	¥ 6,730	¥ 3,478	¥ 46,815
Capital expenditures (additions to fixed assets)	¥ 44,658	¥ 1,911	¥ 1,005	¥ 7,054	¥ 9,568	¥ 64,196

Notes: 1. Operating revenue reported in geographic segment information

above represents that of Pioneer and its domestic subsidiaries in Japan, and each subsidiary in North America, Europe, and Other Regions.

2. Segment income (loss) represents operating revenue less cost of sales, selling, general and administrative expenses and subsidy from the government.

3. In fiscal 2006, we sold a subsidiary engaged in the development of cable TV software, and reached a preliminary agreement on the sale of subsidiaries involved in the electronic components business. As a result, the operating results of these subsidiaries, and the gain on the sale, are presented as income from discontinued operations in the consolidated statements of operations in accordance with

Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Corresponding figures for the previous fiscal year have been reclassified accordingly.

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B. Liquidity and capital resources

Cash flows

Summarized Consolidated Statements of Cash Flows

	Year ended March 31	
	2005	2006
	(In millions of yen)	
Net cash provided by operating activities	¥ 19,946	¥ 68,329
Net cash used in investing activities	(93,516)	(29,759)
Net cash used in financing activities	(4,019)	(38,551)
Effect of exchange rate changes on cash and cash equivalents	1,851	4,980
Net increase (decrease) in cash and cash equivalents	¥ (75,738)	¥ 4,999

Net cash provided by operating activities in fiscal 2006 was ¥68.3 billion, an increase of ¥48.4 billion compared to fiscal 2005. Changes in operating assets and liabilities were the primary cause for the increased cash flows from operating activities. Among operating assets and liabilities, trade receivables decreased despite increased sales due to securitization of receivables. Inventories decreased primarily for plasma displays and car electronics products, reflecting our effort to control and reduce inventories.

Net cash used in investing activities was ¥29.8 billion for fiscal 2006, a decrease of ¥63.7 billion compared to ¥93.5 billion in fiscal 2005. The decrease was mainly due to payments for the acquisition of a plasma display production subsidiary of ¥34.0 billion in fiscal 2005, and a decrease in the investments for plasma display production facilities.

Net cash used in financing activities was ¥38.6 billion, an increase of ¥34.6 billion compared to ¥4.0 billion in fiscal 2005. In fiscal 2006, cash was used primarily for reducing long-term debt, short-term borrowings and payment of dividends. ¥31.2 billion cash was used for repayments of long-term debt and short-term borrowings. Cash used in dividend payments amounted to ¥3.5 billion.

As a result of these activities and the effect of changes in exchange rates on cash and cash equivalents of overseas subsidiaries, cash and cash equivalents increased by ¥5.0 billion to ¥121.7 billion at the end of fiscal 2006, from ¥116.7 billion at the end of fiscal 2005.

Capital requirements

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

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

Financial management

At present, funds required for operating capital and capital expenditures are generally financed through internally generated cash and debt or equity financing. With regard to debt financing, short-term debt financing with maturities of one year or less is utilized to fund operating capital requirements. Short-term borrowing is generally arranged locally by each consolidated subsidiary based on its capital requirements. At March 31, 2006, short-term borrowings of ¥23.2 billion were principally in Japanese yen, U.S. dollar, and euro. On the other hand, financing of long-term funding requirements such as investments in production facilities, financing through debt and equity securities markets are arranged in Japan, and long-term borrowing from financial institutions is arranged locally by each consolidated subsidiary. At March 31, 2006, substantially all of the long-term debt of ¥100.1 billion, including the portion due within one year, was comprised of ¥61.5 billion zero coupon convertible bonds due 2011 including ¥1.5 billion unamortized issue premium, ¥10.0 billion unsecured bonds due 2008, and capital lease obligations and other loans arranged locally.

We believe that our sound financial position and ability to generate positive operating cash flows, together with uncommitted and unused credit lines of ¥254.5 billion, provide sufficient resources to fund future requirements for operating capital and for capital expenditures to sustain the growth of Pioneer. Also, the parent company and its four subsidiaries in Japan and China entered into a three-year global credit facility agreement for the amount of ¥70.0 billion effective from May 2005. This will ensure that these companies in Japan and China have an efficient and stable financing source for their operational funding needs.

C. Research and development, patents and licenses, etc.

Our R&D activities have played a crucial role in the development of our business. Our R&D program currently centers on high-density recording, flat-panel displays, digital signal processing, information/communications, and core LSIs. In fiscal 2004, 2005 and 2006, our R&D expenses were ¥51,449 million, ¥55,858 million and ¥63,442 million, respectively, or 7.5%, 7.9% and 8.4%, respectively, of our operating revenue. Our R&D expenses currently account for about 8% of our consolidated net sales. We will try to lower the burden of R&D expenses by increasing cooperation and alliances with other companies. We currently intend to reduce the ratio of R&D expenses to operating revenue to below 7%.

Our research and development of new technologies is carried out mainly in Japan at the Corporate Research & Development Laboratories, as well as the Optical Disc & Systems Development Center, Information & Communication Development Center, PDP Development Center and Mobile Systems Development Center. At Pioneer Research Center USA, Inc. (PRA), one of our overseas wholly-owned subsidiaries, we are also actively engaged in research of new technologies, and development of system software related to digital TV and of digital network technologies. At another wholly-owned overseas subsidiary in the United Kingdom, Pioneer Digital Design Centre, Ltd., we are researching cutting-edge technologies related to digital TV for use in Europe. Product development and production improvement activities are the responsibility of each business unit, and are carried out in our various manufacturing facilities both in Japan and overseas.

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D. Trend information

The following is a description of the most significant recent trends in each of our business segments.

Home Electronics

Traditional audio/video products continue to be exposed to downward price pressure and slower sales. This, in turn, has negatively impacted our production levels and our inventory. We have responded and expect to continue to respond to such downward pressure in sales and production through the introduction of new value-added products and models in Home Electronics.

DVD products. The market for DVD products is growing, but prices are falling rapidly. In the DVD recorder business, particularly for the in-house development of new products that entail large development expenses and do not directly take advantage of our strengths, we plan to curb development expenses by developing products using existing assets, thus improving prospects for profitability. This approach will enable us to concentrate on developing and launching Blu-ray Disc players, which are promising next-generation optical disc products. In DVD drives for PCs, we aim to reduce our business risks through collaboration with other companies and other means, while lowering costs by increasing production. We have already shifted the main focus of our development activities in optical disc drives for PCs to Blu-ray Disc drives. In response, we will seek to continue to reduce costs through production in China and collaborations with other companies, and raise the return on product development investments through external sales of key components. Meanwhile, product development and design processes will be reviewed thoroughly to raise the efficiency and speed of development. In DVD drives for PCs, Pioneer plans to offer new value-added proposals by shifting the main focus of product development to Blu-ray Disc drives. We will reduce our DVD recorder lineup to products in areas of expertise, as part of efforts to propose value-added products that are embraced by customers.

Plasma displays. Our production output is increasing in line with strong overall market demand. With a forecast of further growth in demand, we expect to see an increase in the capacity utilization rates of some production lines year on year, but will suspend or shut down the operation of certain production lines which are incompatible with new products. We are reducing OEM sales of panel modules, which carry the risk of volatility in sales volumes. Instead, we plan to focus on increasing sales under Pioneer s own brands. In addition, we intend to bring more innovative products to market, including the world s first 50-inch, 1080p plasma displays, aiming to improve our brand value and expand our business.

Car Electronics

We are targeting fast-growing consumer markets such as Brazil, Russia, India and China, in order to retain our position of leadership in car audio products. In addition, amid the uptake and growth of music content distribution and digital broadcasting, we will work to increase earnings growth in the car electronics business by offering products that stand apart from those of other companies through the creation of new value and functions.

In car navigation systems, we will actively press ahead with business expansion in Europe and North America as well as in Japan s consumer market, where our car navigation systems enjoy a strong reputation. In Europe and North America, in addition to the fixed-type of car navigation systems, we aim to increase our visibility by entering the fast-growing market for portable type. Aiming to reduce increasing software development costs accompanying product advancements, we are reforming product development processes and raising their efficiency through standardization.

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In the OEM car navigation system business, we are increasing our focus on the growing market for car navigation systems offered as dealer options in Japan. In parallel, we aim to capture new orders by offering new proposals to OEM customers that leverage our own product planning capabilities, which have been proven in consumer markets. Meanwhile, in the OEM car audio products business, we aim to make the most of its strengths in consumer markets to drive further business expansion.

Patent Licensing

In the current patent business environment, nearly every company follows a policy of actively protecting their patent rights, and the number of patent lawsuits has increased considerably. The value of patents is increasingly recognized, and companies are seeking to maximize the utility of their patents through the transfer or licensing of patent rights. Purchase prices generally are increasing because of the growing importance of such intellectual property.

We expect that our royalty revenue from the worldwide licensing of patents relating to laser optical disc technologies will continue to decline, as a significant portion of our patents in Japan and Europe has expired and some portion of those in North America started to expire.

See Item 4.B. Business overview Nature of operations *Patent licensing* for more information on our patent licensing business.

Others

OLED displays. With the entry of other companies, market competition in OLED displays is becoming even more intense, while each company in this market is proceeding with the development of full-color OLED displays.

E. Off-balance sheet arrangements

We provide guarantees covering a one-year period to third parties who provide loans to our affiliated companies. If our affiliated companies were to default on a payment within the contract period of one year, we would have to pay the guaranteed amount. The maximum potential amount of undiscounted future payments we could be required to make under the guarantee is ¥0.2 billion at March 31, 2006.

We have the following accounts receivable securitization programs:

In the United States of America, we have established PUSA Receivables Funding Corporation, Inc., a wholly owned, bankruptcy remote-special purpose entity and established an accounts receivable securitization program of eligible trade accounts receivable. A bankruptcy-remote subsidiary is a company that has been structured to make it highly unlikely that it would be drawn into a bankruptcy of a parent company, or any of its subsidiaries. Through this program, we can securitize and sell, without recourse, on a revolving basis, an undivided interest up to $100,000 thousand in that pool of receivables to third party conduits owned by a bank. These securitization transactions are accounted for as sales in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, because we have surrendered control over the receivables. We sold a total of ¥97 billion of receivables under this program for the year ended March 31, 2006.

In Japan, we set up several accounts receivable sales programs of eligible trade accounts receivable. Through these programs, we can sell receivables, without recourse, to financial institutions. These transactions are accounted for as sales in accordance with SFAS No. 140, because we have surrendered

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control over the receivables. We sold a total of ¥56 billion of receivable under this program for the year ended March 31, 2006.

We utilize this program to diversify our options to increase the flexibility of our cash flow control. Our cash flow management does not get critically effected without this program.

F. Tabular disclosure of contractual obligation

The following summarizes our contractual obligations at March 31, 2006.

	Payment Due by Period				
	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
	(In billions of yen)				
Contractual obligations:					
Long-term debt	¥ 98.7	¥ 7.2	¥ 20.3	¥ 6.6	¥ 64.6
Operating leases	8.4	2.5	3.4	1.3	1.2
Purchase commitment	26.1	26.1			
Interest payments	4.4	1.2	2.0	1.1	0.1
Contribution to defined benefit plans	6.7	6.7			

Notes:

1. Total long-term debt of ¥98.7 billion does not include ¥1.5 billion unamortized issue premium on convertible bonds.

2. Long-term debt includes capital lease obligations.

3. Contractual obligations do not include ¥0.2 billion deferred income which is presented as other long-term liabilities on the consolidated balance sheets.

4. The amount that we will

contribute under our defined pension plans is based on a number of factors, primarily rate of salary increase and the number of employees. As such, we have estimated the amount of such contribution for the year ending March 31, 2007 and not the contribution for the years thereafter.

The ¥26.1 billion purchase commitment outstanding at March 31, 2006 was for raw material, property, plant and equipment and advertising. This included a part of our ¥54.0 billion capital expenditure plan in fiscal 2007. The planned increase in capital expenditures from ¥40.3 billion in fiscal 2006 mainly reflects investments needed to concentrate planning, development and design personnel currently based at three separate locations in a single site for the Home Electronics business.

New Accounting Standards

Inventory Costs

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies the language used in Accounting Research Bulletin No. 43 with respect to accounting for abnormal amounts of idle facility expenses, freight, handling costs and spoilage. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005, and is required to be adopted by us effective April 1, 2006. The adoption of this standard is not expected to have any material impact on our consolidated statements of operations or financial position.

Exchanges of Nonmonetary Assets

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29, which will become effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Accounting Principles Board (APB) Opinion No. 29 generally requires that exchanges of nonmonetary assets be measured based on fair value of the assets exchanged but provided an exception for nonmonetary exchanges of similar productive assets, which did not result in a change in carrying value for the new asset acquired even if the cash flows resulting from the exchange would change significantly. SFAS No. 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Nonmonetary exchanges lack commercial substance if the cash flows to the entity will not change significantly as a result of the exchange. The adoption of this standard is not expected to have any material impact on our consolidated statements of operations or financial position.

Share-Based Payment

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS No. 123R. SFAS No. 123R supersedes APB Opinion No. 25, which requires recognition of an expense when goods or services are provided, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25, and allowed under the original provisions of SFAS No. 123. SFAS No. 123R is effective at the beginning of the first interim and annual reporting period beginning after June 15, 2005. The adoption of this standard is not expected to have any material impact on our consolidated statements of operations or financial position because we account for its stock-based compensation agreements using the fair value based method, not the intrinsic value method prescribed by APB Opinion No. 25.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. SFAS No. 154 also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to have any material impact on our consolidated statements of operations or financial position.

Accounting for Electronic Equipment Waste Obligations

In June 2005, the FASB issued FSP 143-1, Accounting for Electronic Equipment Waste Obligations (FSP 143-1). FSP 143-1 provides guidance on the accounting for certain obligations associated with the Waste Electrical and Electronic Equipment Directive (the Directive) adopted by the European Union (EU). Under the Directive, the waste management obligation for historical equipment (products put on the market on or prior to August 13, 2005) remains with the commercial user until the customer replaces the equipment. FSP 143-1 is required to be applied to the later of the first reporting period ending after June 8, 2005, or the date of the Directive s adoption into law by the applicable EU-member countries. We adopted FSP 143-1 during the year ended March 31, 2006 and has determined that its effect did not have a material impact on its consolidated results of operations and financial position.

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

In November 2005, the FASB staff issued FASB Staff Position or FSP on Statements 115 and 124, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1), which effectively replaces EITF Issue No. 03-1. FSP 115-1 contains a three-step model for evaluating impairments and carries forward the disclosure requirements in EITF Issue No. 03-1 pertaining to securities in an unrealized loss position is considered impaired; an evaluation is made to determine whether the impairment is other-than-temporary; and, if an impairment is considered other-than-temporary, a realized loss is recognized to write the security s cost or amortized cost basis down to fair value. FSP 115-1 references existing other-than-temporary impairment guidance for determining when impairment is other-than-temporary and clarifies that subsequent to the recognition of an other-than-temporary impairment loss for debt securities, an investor shall account for the security using the constant effective yield method. FSP 115-1 is effective for reporting periods beginning after December 15, 2005, with earlier application permitted. The adoption of this standard is not expected to have any material impact on our consolidated statements of operations or financial position.

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and provides a means to simplify the accounting for these instruments. Specifically, SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have any material impact on our consolidated statements of operations or financial position.

Accounting for Servicing of Financial Assets

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

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Item 6. Directors, Senior Management and Employees

A. Directors and senior management

Pioneer s Directors, Executive Officers and Corporate Auditors as of July 1, 2006, and their pertinent information, such as position and business experience, are as follows:

Directors

Name (Date of birth)	Current Position (Month and year of expiration)	Prior Position
Tamihiko Sudo (Apr. 28, 1947)	President and Representative Director; Chief Executive Officer (June 2007)	June 2005: Executive Vice President and Representative Director; Chief Financial Officer; and in charge of Corporate Strategy Planning Group, Corporate Management Group, Export Management and Quality Control in general
Hajime Ishizuka (May 3, 1947)	Senior Managing Director and Representative Director; Chief Financial Officer; in charge of Corporate Management Group, export management in general, and Procurement Group (June 2007)	July 2005: Senior Managing Director and Representative Director; President of Pioneer s Home Entertainment Business Company and AV Business Company; and in charge of Procurement Group
Osamu Yamada (Mar. 16, 1944)	Senior Managing Director; General Manager of Research & Development Group and Corporate Research & Development Laboratories (June 2007)	June 2003: Managing Director; General Manager of Research & Development Group and Corporate Research & Development Laboratories
Satoshi Matsumoto (Apr. 15, 1954)	Managing Director; in charge of Quality Control Division (June 2007)	Nov. 2003: Managing Director; General Manager of Environmental Preservation Group and Environmental Preservation Division

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Name (Date of birth)	Current Position (Month and year of expiration)	Prior Position
Akira Haeno (Feb. 14, 1949)	Managing Director; General Manager of Mobile Entertainment Business Group (June 2007)	June 2004: Executive Officer; Plant Manager of Kawagoe Plant; and General Manager of Production Division of Kawagoe Plant of Pioneer s Mobile Entertainment Company
Shinji Yasuda (June 10, 1945)	Managing Director; General Manager of Home Entertainment Business Group and General Manager of Omori Plant (June 2007)	Jan. 2006: Senior Executive Officer; General Manager of Home Entertainment Business Group and General Manager of Omori Plant
Tatsuhiro Ishikawa (Apr. 4, 1939)	Director (June 2007)	Dec. 2001 to present: Attorney-at-Law
Shunichi Sato (Feb. 10, 1941)	Director (June 2007)	Apr. 2000: Japanese Ambassador Extraordinary and Plenipotentiary to Belgium

Executive Officers

Name (Date of birth)	Current Position (Month and year of expiration)	Prior Position
Masao Kawabata (Aug. 10, 1948)	Senior Executive Officer; General Manager of Corporate Branding and Communications Division (June 2007)	June 2001: Executive Officer; General Manager of Corporate Communications Division
Yoshio Taniyama (Nov. 9, 1948)	Senior Executive Officer; General Manager of Corporate Planning Division (June 2007)	June 2001: Executive Officer; General Manager of Finance Division
Hideki Okayasu (May 12, 1950)	Senior Executive Officer; General Manager of Finance and Accounting Division (June 2007)	June 2001: Executive Officer; General Manager of Accounting Division

Name (Date of birth)	Current Position (Month and year of expiration)	Prior Position
Buntarou Nishikawa (Mar. 24, 1946)	Senior Executive Officer; in charge of OEM Sales Division and Domestic Sales Division of Mobile Entertainment Business Group, and in charge of Pioneer Marketing Corporation and Pioneer Solutions Corporation (June 2007)	June 2001: Executive Officer; General Manager of Domestic Sales Division of Pioneer s Mobile Entertainment Company
Yoichi Sato (Jan. 15, 1950)	Senior Executive Officer; Chief Technology Executive, Deputy General Manager of Research & Development Group, General Manager of PDP Development Center, and in charge of Plasma Panel Engineering Division of Home Entertainment Business Group (June 2007)	June 2005: Managing Director; Deputy General Manager of Research & Development Group; and General Manager of PDP Development Center
Sumitaka Matsumura (Oct. 10, 1948)	Executive Officer; Deputy General Manager of Research & Development Group; General Manager of Optical Disc & Systems Development Center; and in charge of Standards & Copyright Management Center (June 2007)	Jan. 2001: Deputy General Manager of Research & Development Group; and General Manager of AV & Network Development Center
Kenji Sato (Aug. 29, 1947)	Executive Officer; General Manager of General Administration Division (June 2007)	June 1998: General Manager of General Administration Division
Susumu Kotani (Apr. 12, 1950)	Executive Officer; General Manager of International Business Division (June 2007)	Sept. 2002: Managing Director of Pioneer Europe NV
Tsutomu Haga (June 2, 1948)	Executive Officer; President & Chief Operating Officer of Pioneer North America, Inc.	July 2003: President & Chief Operating Officer of Pioneer Electronics (USA) Inc.

	(June 2007)	
Kaoru Sato (July 27, 1948)	Executive Officer; General Manager of Tokorozawa Plant of Home Entertainment Business Group (June 2007)	June 2004: President of Components Business Company of Home Entertainment Business Company

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Name (Date of birth)	Current Position (Month and year of expiration)	Prior Position
Keiichi Yamauchi (Apr. 12, 1952)	Executive Officer; in charge of software and platform development of Home Entertainment Business Group; and General Manager of Engineering Division of Tokorozawa Plant (June 2007)	Nov. 2003: General Manager of Mobile Systems Development Center of Research & Development Group
Kazumi Kuriyama (Sept. 12, 1953)	Executive Officer; General Manager of Intellectual Property Division (June 2007)	July 2005: Deputy General Manager of Corporate Research & Development Laboratories of Research & Development Group
Toshiyuki Ito (Oct. 17, 1950)	Executive Officer; Chairman & Managing Director of Pioneer Europe NV (June 2007)	Apr. 2005: Managing Executive Officer of Tohoku Pioneer Corporation
Tatsuo Takeuchi (Oct. 23, 1950)	Executive Officer; General Manager of Personnel Division (June 2007)	Dec. 2004: Managing Director of Pioneer Electronics Asiacentre, Pte. Ltd.
Masanori Kurosaki (Aug. 12, 1952)	Executive Officer; General Manager of OEM Sales Division of Mobile Entertainment Business Group (June 2007)	Nov. 2002: General Manager of Planning & Coordination Division of Mobile Entertainment Company

Corporate Auditors

Name (Date of birth)	Current Position (Month and year of expiration)	Prior Position
Makoto Koshiba (Nov. 21, 1943)	Corporate Auditor (full time) (June 2007)	Sept. 1999: Director; General Manager of Accounting Division; in charge of Finance Division
Isao Moriya (Sept. 5, 1937)	Corporate Auditor (June 2007)	Mar. 1968 to present: Certified Public Accountant Jan. 1994 to present:

Keiichi Nishikido (May 2, 1953)	Corporate Auditor (June 2007)	Attorney-at-Law; Managing Partner of Kohwa Sohgoh Law Offices, Japan

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All of the above persons, with the exception of Messrs. Tatsuhiro Ishikawa, Shunichi Sato, Isao Moriya and Keiichi Nishikido, devote themselves full time to our business.

None of the persons listed above was selected as a director, corporate auditor or member of senior management pursuant to an arrangement or understanding with our major shareholders, customers, suppliers or others.

Mr. Satoshi Matsumoto is a first cousin once removed of Mr. Yoshio Taniyama.

B. Compensation

The aggregate amount of compensation (including bonuses and stock-based compensation) paid by Pioneer to all Directors, Executive Officers and Corporate Auditors of Pioneer as a group for fiscal 2006 totaled ¥974 million. Also, as part of Pioneer s incentive compensation, Pioneer has issued stock acquisition rights for its shares of common stock to Directors, Executive Officers, and certain employees, and certain directors/officers of certain of its subsidiaries from fiscal 2003. See Item 6.E. Share ownership for further information.

The aggregate amount set aside as lump-sum severance indemnities by Pioneer during fiscal 2006 for Directors, Executive Officers and Corporate Auditors of Pioneer totaled ¥75 million. The aggregate amount is calculated by the formula as defined in the regulations of Pioneer concerning the retirement allowance. Provision is made for lump-sum severance payments for Directors, Executive Officers and Corporate Auditors of Pioneer on a basis considered adequate for such future payments as may be approved by the shareholders. (See Note 12 in Notes to Consolidated Financial Statements.)

C. Board practices

Under the Company Law, Pioneer has elected to structure its corporate governance system as a company with a board of corporate auditors as set forth below.

Pioneer s Articles of Incorporation provide for three or more Directors and for three or more Corporate Auditors. All Directors and Corporate Auditors are elected at general meetings of shareholders. In general, under the Articles of Incorporation of Pioneer, the term of office of a Director expires at the conclusion of the Ordinary General Meeting of Shareholders held with respect to the last business year ending within one year after their election and in the case of a Corporate Auditor, within four years after their election; however, Directors and Corporate Auditors may serve any number of consecutive terms. For information regarding the expiration of the term of office for each of the Directors and Corporate Auditors, see Item 6.A. Directors and senior management.

The Directors constitute the Board of Directors, which has the ultimate responsibility for administration of our affairs. The Board of Directors may elect from among its members a Chairman and Director, a Vice Chairman and Director, a President and Director, one or more Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors. From among the Directors referred to above, the Board of Directors elects one or more Representative Directors. Each of the Representative Directors has the authority to individually represent Pioneer in the conduct of its affairs.

Pioneer introduced an Executive Officer (*shikko yakuin*) system in June 1999 to improve management efficiency and speed up decision-making. Executive Officers are basically elected at the meeting of the Board of Directors held immediately after the ordinary general meeting of shareholders. In general, the term of office of Executive Officer expires at the conclusion of the ordinary general meeting of shareholders held with respect to the last business year ending within one year after their assumption of office. For information regarding the expiration of the term of office of each of the Executive Officers, see Item 6.A. Directors and senior management. The Board of Directors may elect from among Executive Officers one or more Senior Managing Executive Officers and Senior Executive Officers. Each of the Executive Officers has the authority to individually operate businesses of which he or she is in charge under the control of the Board of Directors and Representative Directors.

Corporate Auditors of Pioneer are not required to be certified public accountants. However, at least half of the Corporate Auditors are required to be persons who have not been a director, accounting counselor, corporate executive officer, general manager or any other employee of Pioneer or any of its subsidiaries at any time prior to their election as Corporate Auditors. The Corporate Auditors may not at the same time be a director, accounting counselor, corporate executive officer, general manager or any other employee of Pioneer or any of its subsidiaries.

Each Corporate Auditor has the statutory duty to supervise the administration by the Directors of Pioneer s affairs and also to examine our annual consolidated and non-consolidated financial statements and business reports proposed to be submitted by a Representative Director at the general meeting of shareholders and, based upon such examination and a report of the Accounting Auditor referred to below, to individually prepare their audit reports. They shall attend meetings of the Board of Directors but are not entitled to vote. In addition to Corporate Auditors, an independent certified public accountant or an audit corporation must be appointed by general meetings of shareholders as the Accounting Auditor of Pioneer. Such Accounting Auditor has, as its primary statutory duties, the duty to examine our annual consolidated and non-consolidated financial statements proposed to be submitted by a Representative Director at general meetings of shareholders and to report their opinion thereon to certain Corporate Auditors designated by the Board of Corporate Auditors to receive such report (if such Corporate Auditors are not designated, all Corporate Auditors) and the Directors designated to receive such report (if such Directors are not designated, the Directors who are responsible for preparing the financial statements).

The Corporate Auditors constitute the Board of Corporate Auditors. The Board of Corporate Auditors has the statutory duty to, based upon the reports prepared by respective Corporate Auditors, prepare and submit its audit report to the accounting auditor and certain Directors designated to receive such report (if such Directors are not designated, the Directors who are responsible for preparing the financial statements and the business report). A Corporate Auditor may note his or her opinion in the audit report if his or her opinion expressed in his or her audit report is different from the opinion expressed in the audit report. The Board of Corporate Auditors shall elect one or more full-time Corporate Auditors from among its members. The Board of Corporate Auditors is empowered to establish audit principles, method of examination by Corporate Auditors of Pioneer s affairs, and financial position and other matters concerning the performance of the Corporate Auditors duties.

There are no contractual arrangements providing for benefits to Directors upon termination of service. Also see Item 10.B. Memorandum and articles of association Directors.

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D. Employees

The following table sets forth the number of our employees at the end of the period indicated.

	Year ended March 31		
	2004	2005	2006
Number of employees	32,526	33,409	38,826

Pioneer and nine of its subsidiaries in Japan have their respective labor unions for the employees of each company. Each such labor union is affiliated with the Japanese Electrical Electronic & Information Union. All employees except management, supervisory and certain other employees must become union members. We have not been materially affected by any work stoppages or difficulties in connection with labor negotiations or disputes and consider our labor relations to be good.

E. Share ownership

The total number of shares of Pioneer s common stock owned by our Directors, Executive Officers and Corporate Auditors as a group as of June 30, 2006 is as follows:

Title of class	Identity of person or group	Number of shares owned	Percent of class
Common Stock	Directors, Executive Officers and Corporate Auditors as a group	484,000 shares*	0.27%

* None of Pioneer s Directors, Executive Officers and Corporate Auditors is the owner of more than one percent of Pioneer s common stock.

Pioneer has granted the following stock acquisition rights for its shares of common stock to its Directors, Executive Officers and certain employees, and certain directors/officers of certain of its subsidiaries.

Fiscal year granted	Total number of shares covered by option (in thousands)	Exercise period	Current exercise price per share	Number of shares exercised (in thousands)
2003	564	From July 1, 2004 to June 29, 2007	¥2,477	4
2004	313	From July 1, 2005 to June 30, 2008	¥2,951	
2005	316	From July 3, 2006 to June 30, 2009	¥2,944	
2006	315	From July 2, 2007 to June 30, 2010	¥1,828	

Item 7. Major Shareholders and Related Party Transactions

A. Major shareholders

Major shareholders that owned 5% or more of Pioneer s voting securities as of March 31, 2006 on the register of shareholders were as follows:

Title of class	Name	Number of shares (in thousands)	Percentage of outstanding shares
Common Stock	The Master Trust Bank of Japan, Ltd. (Trust Account)	11,980	6.65%
Common Stock	Japan Trustee Services Bank, Ltd. (Trust Account)	11,020	6.12%

The Master Trust Bank of Japan, Ltd. and Japan Trustee Services Bank, Ltd. are securities processing services companies. We understand that these shareholders are not the beneficial owner of our voting securities, but we do not have available further information concerning such beneficial ownership.

To our knowledge, there are no major shareholders that were beneficial owners of 5% or more of Pioneer s voting securities during the past three years.

All shareholders of Pioneer have the same voting rights, subject to the limitation on exercise as set forth in Item 10.B. Memorandum and articles of association Common stock *Voting rights*.

As of March 31, 2006, there were 174,421,890 shares of common stock outstanding, of which 401,534 shares (0.22%) were held in the form of American Depositary Receipts (ADRs) and 14,106,845 shares (7.83%) were held of record in the form of common stock by residents in the United States (based solely on their addresses). The number of registered ADR holders of record (including Depositary Trust Company) was 85, and the number of registered holders of record in the United States (based solely on their addresses) of shares of common stock, including those who held shares through a Japanese securities clearing system, was 70. See Item 9.C. Markets, regarding the market for Pioneer s shares.

To our knowledge, Pioneer is not directly or indirectly owned or controlled by any other corporation or by the Japanese or any foreign government.

To our knowledge, there is no arrangement, the operation of which may at a subsequent date result in a change in control of Pioneer.

B. Related party transactions

None

C. Interests of experts and counsel

Not applicable

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Item 8. Financial Information

A. Consolidated statements and other financial information

Consolidated financial statements

See the Consolidated Financial Statements beginning on page F-1.

Legal proceedings

In common with numerous other industrial companies conducting a global business, we are party to various lawsuits and administrative proceedings in the ordinary course of our business. Based on the advice of counsel in the respective matters, except as described below, we do not expect such lawsuits or administrative proceedings, individually or in the aggregate, to have a material effect on our financial condition and results of operations.

Pioneer Electronics Deutschland GmbH (PED), a wholly owned subsidiary, received an assessment from the German tax authorities in December 2000, which stated income adjustment of EUR44.4 million (¥6,341 million translated at the foreign exchange rate at March 31, 2006) covering the fiscal years ended March 31, 1993 to 1995, concerning its intercompany purchase prices from Pioneer Europe NV, a wholly owned subsidiary in Belgium. PED, in 2001, contested the assessment and has requested the German and the Belgian tax authorities to try to reach an agreement (through an arbitration proceeding) on the arm s length transfer prices and avoid double taxation. The German tax authorities notified PED in February 2006 that they were not able to reach an agreement with the Belgian tax authorities. PED has requested the German and Belgian tax authorities to continue the arbitration proceeding to resolve the issue. PED, in February 2006, received a tax audit memo (which outlines its preliminary views but does not yet constitute an assessment) from the German tax authorities which stated income adjustment of EUR50.7 million (¥7,240 million) covering the fiscal years ended March 31, 1996 to 1999. PED made objection to the German tax authorities regarding the basis of this memo. The German tax authorities have not yet issued an assessment for the fiscal years covered in the said tax audit memo. Also, PED understands that the German tax authorities have completed transfer pricing audit for the fiscal years ended March 31, 2000 to 2004. The result of the audit has not been communicated to PED. We, at the date of this report, are unable to reasonably determine the resolution and is unable to currently estimate the amount of the loss, if any, associated with the foregoing assessment, tax audit memo and completed transfer pricing audit.

Dividend policy

Pioneer normally pays cash dividends twice per year. Pioneer s Board of Directors recommends year-end dividends to be paid in the form of distribution of surplus following the end of each fiscal year. This recommended year-end dividend must then be approved by shareholders at the Ordinary General Meeting of Shareholders usually held in June of each year. Immediately following approval of the dividend at the shareholders meeting, Pioneer pays the dividend to shareholders and pledgees of record at the preceding March 31. In addition to these year-end dividends, Pioneer may pay interim dividends in the form of distribution of surplus to its shareholders of record as of September 30 in each year by resolution of its Board of Directors and without shareholder approval. Pioneer normally pays interim dividends in December. See Item 10.B. Memorandum and articles of association Common stock *Dividends.*

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The following table sets forth the dividends paid by Pioneer for each of the periods shown. The U.S. dollar equivalents for the dividends shown are based on the noon buying rate for cable transfers in New York City as certified for customs purposes by the Federal Reserve Bank of New York for yen on the date of the dividend payment:

	Dividend per share	
Record date	Yen	Dollars
March 31, 2002	7.50	0.06
September 30, 2002	7.50	0.06
March 31, 2003	10.00	0.08
September 30, 2003	12.50	0.12
March 31, 2004	12.50	0.11
September 30, 2004	12.50	0.12
March 31, 2005	12.50	0.11
September 30, 2005	7.50	0.06
March 31, 2006	2.50	0.02

Pioneer sets dividend payments appropriately in light of its financial position, consolidated operating results, and other factors, but has a basic policy of maintaining stable dividends.

B. Significant changes

There were no significant changes nor have any relevant facts occurred after the date of the financial statements included in this annual report other than disclosed therein.

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Item 9. The Offer and Listing

A. Offer and listing details

The following table sets forth for the period indicated the reported high and low sales prices per share of Pioneer s Common Stock on the Tokyo Stock Exchange and per share of Pioneer s American Depositary Shares (ADSs) on the New York Stock Exchange. See Item 9.C. Markets, regarding the markets for Pioneer s shares.

	Tokyo Stock Exchange Price per share of Common Stock (yen)		New York Stock Exchange Price per share of ADS (U.S. dollars)	
	High	Low	High	Low
Annual highs and lows				
Year ended March 31,				
2002	¥ 4,250	¥ 2,150	$ 34.70	$ 16.75
2003	2,860	1,805	21.98	14.83
2004	3,370	2,225	31.25	18.90
2005	3,390	1,820	30.85	17.11
2006	2,040	1,410		
Quarterly highs and lows				
Fiscal 2005				
1st quarter	3,390	2,635	30.85	23.75
2nd quarter	2,850	2,215	25.90	20.30
3rd quarter	2,430	1,820	21.85	18.05
4th quarter	2,055	1,827	19.90	17.11
Fiscal 2006				
1st quarter	2,040	1,655	18.82	15.15
2nd quarter	1,785	1,604	16.10	14.23
3rd quarter	1,764	1,410	15.03	12.22
4th quarter	1,989	1,530		
Fiscal 2007				
1st quarter	2,120	1,628		
Monthly highs and lows				
2006				
January	1,695	1,530		
February	1,952	1,682		
March	1,989	1,792		
April	2,120	1,888		
May	2,120	1,828		
June	1,963	1,628		

B. Plan of distribution

Not applicable

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C. Markets

Pioneer s common stock has been listed on the Tokyo Stock Exchange (TSE) since October 1961.

On December 8, 2005, Pioneer s Board of Directors approved a resolution to withdraw its common stock from listing on the Osaka Securities Exchange, its ADSs from the New York Stock Exchange and its Curaçao Depositary Shares from the Euronext Amsterdam. These delistings were completed on January 27, 2006, January 23, 2006 and January 2, 2006, respectively. Pioneer s ADR program was terminated effective March 10, 2006. Pioneer is currently considering options to terminate its Curaçao Depositary Receipt program.

D. Selling shareholders

Not applicable

E. Dilution

Not applicable

F. Expenses of the issue

Not applicable

Item 10. Additional Information

A. Share capital

Not applicable

B. Memorandum and articles of association

Organization

Pioneer is a joint stock corporation *(kabushiki kaisha)* incorporated in Japan under the Company Law *(Kaishaho)* of Japan. It is registered in the Commercial Register *(shogyo tokibo)* maintained by the Meguro Branch Office of the Tokyo Legal Affairs Bureau.

Objects and purposes

The Articles of Incorporation of Pioneer provides that its purpose is to engage in the following lines of business:

- manufacture and sale of electronic and electrical machinery and appliances;
- manufacture and sale of optical instruments, medical instruments, and other machinery and appliances;
- planning, production, manufacture and sale of audio, video and computer software;
- manufacture and sale of woodwork;
- manufacture and sale of agricultural products and plants for their cultivation;
- sale of food and beverages, including liquor, and operation of restaurants and amusement facilities;
- sale and purchase, rental and lease, and management of real estate and real estate agency business;
- publishing and printing business, advertising agency business, construction business and non-life insurance agency business;

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- acquisition, management and transfer of industrial property rights, copyrights and other intellectual property rights; and

- all business incidental and related to each and every one of the businesses in the preceding paragraphs.

Directors

Each Director has executive powers and duties to manage the affairs of Pioneer and each Representative Director, who is elected from among the Directors by the Board of Directors, has the statutory authority to represent Pioneer in all respects. Under the Company Law, the Directors must refrain from engaging in any business competing with Pioneer unless approved by the Board of Directors and any Director who has a material interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote on such resolution. The total amount of remuneration to Directors and that to Corporate Auditors are subject to the approval of the General Meeting of Shareholders.

Except as stated below, neither the Company Law nor Pioneer s Articles of Incorporation make special provisions as to the Directors or Corporate Auditors power to vote in connection with their compensation; the borrowing power exercisable by a Representative Director (or a Director who is given power by a Representative Director to exercise such power), the Directors or Corporate Auditors retirement age or requirement to hold any shares of capital stock of Pioneer. The Company Law specifically requires the resolution of the Board of Directors for a company to acquire or dispose of material assets; to borrow a substantial amount of money; to employ or discharge from employment important employees, such as general managers; to establish, change or abolish material corporate organization such as branch offices, to determine conditions concerning offering of corporate bonds, and to establish and maintain an internal control system. The Regulations of the Board of Directors of Pioneer require a resolution of the Board of Directors for Pioneer to borrow a substantial amount of money or to give guarantees in a substantial amount. There is no written rule as to what constitutes a substantial amount in these contexts. However, it has been the general practice of Pioneer s Board of Directors to adopt a resolution for borrowing or guaranteeing in an amount not less than ¥100 million or its equivalent.

Common Stock

General

Unless indicated otherwise, set forth below is information relating to Pioneer s common stock, including brief summaries of the relevant provisions of Pioneer s Articles of Incorporation and Share Handling Regulations, as currently in effect, and of the Company Law, which came into effect on May 1, 2006, and related legislation.

All issued shares are fully-paid and non-assessable, and are in registered form. Transfer of shares is effected by delivery of share certificates, but in order to assert shareholders rights against Pioneer, a shareholder must have its name and address registered on Pioneer s register of shareholders, in accordance with Pioneer s Share Handling Regulations. The registered holder of deposited shares underlying the ADSs is the Depositary for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders rights to Pioneer.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Clearing of Share Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing all of the shares to be included in this clearing system with the Japan Securities Depository Center, Inc. (JASDEC). If a holder is not a participating institution in JASDEC, it must participate through a participating institution, such as a

securities company or a commercial bank having a clearing account with JASDEC. All shares deposited with JASDEC will be registered in the name of JASDEC on Pioneer s register of shareholders. Each participating shareholder will in turn be registered on Pioneer s register of beneficial shareholders and be treated in the same way as shareholders registered on Pioneer s register of shareholders. For the purpose of transferring deposited shares, delivery of share certificates is not required. Entry of the share transfer in the book maintained by JASDEC for participating institutions, or in the book maintained by a participating institution for its customers, has the same effect as delivery of share certificates. The registered beneficial shareholders may exercise the rights attached to the shares, such as voting rights, and will receive dividends (if any) and notices to shareholders directly from Pioneer. The shares held by a person as a registered shareholder and those held by the same person as a registered beneficial shareholder are aggregated for these purposes. Beneficial shareholders may at any time withdraw their shares from deposit and receive share certificates.

A law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within five years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of common stock of Pioneer, will be subject to the new central clearing system. On the same day, all existing share certificates will become null and void. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

Authorized capital

Under the Articles of Incorporation of Pioneer, the total number of shares authorized to be issued by Pioneer is four hundred million (400,000,000) shares.

As of March 31, 2006, 180,063,836 shares of Common Stock were issued (including 5,641,946 shares held as treasury stock).

All shares of Common Stock of Pioneer have no par value.

Distribution of Surplus

General

Under the Company Law, distributions of cash or other assets by joint stock corporations to their shareholders, so called dividends , are referred to as distributions of Surplus (Surplus is defined in Restriction on Distributions of Surplus). Pioneer may make distributions of Surplus to the shareholders any number of times per business year, subject to certain limitations described in Restriction on Distributions of Surplus . Distributions of Surplus are required in principle to be authorized by a resolution of a General Meeting of Shareholders, but may also be made pursuant to a resolution of the Board of Directors if (a) Pioneer s Articles of Incorporation so provide; (b) the normal term of office of the Directors is no longer than one year; and (c) its non-consolidated annual financial statements and certain documents for the last business year fairly present its assets and profit or loss, as required by ordinances of the Ministry of Justice.

Moreover, even if the requirements described in (a) through (c) are not met, Pioneer may make distributions of Surplus in cash to the shareholders by resolutions of the Board of Directors once per fiscal year. Such distribution of Surplus is called interim dividends.

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Distributions of Surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a General Meeting of Shareholders or the Board of Directors authorizing a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, Pioneer may, pursuant to a resolution of a General Meeting of Shareholders or (as the case may be) the Board of Directors, grant a right to the shareholders to require Pioneer to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special shareholders resolution at a General Meeting of Shareholders (see Voting Rights with respect to a special shareholders resolution).

Under the Articles of Incorporation of Pioneer, year-end dividends and interim dividends may be distributed to shareholders of record as of March 31 and September 30 each year, respectively, in proportion to the number of shares of common stock held by each shareholder following approval by the General Meeting of Shareholders or the Board of Directors. Pioneer is not obliged to pay any dividends unclaimed for a period of three years after the date on which they first became payable.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the shares of common stock generally becomes ex-dividend on the third business day prior to the record date.

Restriction on distribution of Surplus

In making a distribution of Surplus, Pioneer must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$A + B + C + D - (E + F + G)$

In the above formula:

A = the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year

B = (if Pioneer has disposed of its treasury stock after the end of the last business year) the amount of the consideration for such treasury stock received by Pioneer less the book value thereof

C = (if Pioneer has reduced its stated capital after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any)

D = (if Pioneer has reduced its additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any)

E = (if Pioneer has cancelled its treasury stock after the end of the last business year) the book value of such treasury stock

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F = (if Pioneer has distributed Surplus to its shareholders after the end of the last business year) the total book value of the Surplus so distributed

G = certain other amounts set forth in ordinances of the Ministry of Justice, including (if Pioneer has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction and (if Pioneer has distributed Surplus to the shareholders after the end of the last business year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by Pioneer may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

(a) the book value of its treasury stock;

(b) the amount of consideration for any of treasury stock disposed of by Pioneer after the end of the last business year; and

(c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

If Pioneer has become at its option a company with respect to which consolidated balance sheets should also be considered in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), Pioneer shall further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of stockholders equity appearing on the non-consolidated balance sheet as of the end of the last business year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of stockholders equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on the consolidated balance sheet as of the end of the last business year.

If Pioneer has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Company Law) by a General Meeting of Shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of the treasury stock disposed of by Pioneer, during the period in respect of which such interim financial statements have been prepared. Pioneer may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last business year and an income statement for the period from the first day of the current business year to the date of such balance sheet. Interim financial statements so prepared by Pioneer must be audited by the Corporate Auditors and the independent auditor, as required by ordinances of the Ministry of Justice.

Stock splits

Pioneer may at any time split shares in issue into a greater number of shares by resolution of the Board of Directors, and may amend its Articles of Incorporation to increase the number of the authorized shares to be issued to allow such stock split pursuant to a resolution of the Board of Directors, rather than relying on a special resolution of a General Meeting of Shareholders, which is otherwise required for amending the Articles of Incorporation.

In the event of a stock split, generally, shareholders will not be required to exchange share certificates for new share certificates, but certificates representing the additional shares resulting from the stock split will be issued to shareholders. When a stock split is to be made, Pioneer must give public notice of the stock split, specifying the record date therefor, at least two weeks prior to such record date.

Consolidation of shares

Pioneer may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in Voting Rights). When a consolidation of shares is to be made, Pioneer must give public notice and notice to each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to Pioneer for exchange. A Representative Director of Pioneer must disclose the reason for the consolidation of shares at the General Meeting of Shareholders.

General meeting of shareholders

The Ordinary General Meeting of Shareholders of Pioneer is held in June each year. In addition, Pioneer may hold an Extraordinary General Meeting of Shareholders whenever necessary by giving notice of convocation thereof at least two weeks prior to the date set for the meeting.

Notice of convocation of a General Meeting of Shareholders, setting forth the place, time and purpose thereof, must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an Ordinary General Meeting of Shareholders is March 31 of each year.

Any shareholder or group of shareholders holding at least 3% of the total number of voting rights for a period of six months or more may require the convocation of a General Meeting of Shareholders for a particular purpose. Unless such shareholders meeting is convened promptly or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such shareholders meeting.

Any shareholder or group of shareholders holding at least 300 voting rights or 1% of the total number of voting rights for a period of six months or more may propose a matter to be considered at a General Meeting of Shareholders by submitting a written request to a Representative Director at least eight weeks prior to the date set for such meeting.

If the Articles of Incorporation so provide, any of the minimum voting rights or percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.

Voting rights

So long as Pioneer maintains the unit share system (see *Unit share system* below; currently 100 shares constitute one unit) a holder of shares constituting one or more full units is entitled to one voting right per unit of shares subject to the limitations on voting rights set forth in the following two sentences. A corporate or certain other entity more than one-quarter of whose total voting rights are directly or indirectly owned by Pioneer may not exercise its voting rights with respect to shares of Common Stock of Pioneer that it owns. In addition, Pioneer may not exercise its voting rights with respect to its shares that it owns. If Pioneer eliminates from its Articles of Incorporation the provisions relating to the unit of

shares, holders of Common Stock will have one voting right for each share they hold. Except as otherwise provided by law or by the Articles of Incorporation, a resolution can be adopted at a General Meeting of Shareholders by a majority of the number of voting rights of all the shareholders present at the meeting. The Company Law and Pioneer s Articles of Incorporation provide, however, that the quorum for the election of Directors and Corporate Auditors shall not be less than one-third of the total number of voting rights of all the shareholders. Pioneer s shareholders are not entitled to cumulative voting in the election of Directors. Shareholders may exercise their voting rights through proxies, provided that the proxies are also shareholders holding voting rights. Pioneer s shareholders also may cast their votes in writing, or exercise their voting rights by electronic means pursuant to the method thereof determined by the Board of Directors.

The Company Law and Pioneer s Articles of Incorporation require a special shareholders resolution (as defined below) in order to amend the Articles of Incorporation and in certain other instances. A special shareholders resolution is a resolution for which the quorum shall be one-third of the total voting rights of all the shareholders, and the approval by at least two-thirds of the voting rights of all the shareholders represented at the meeting is required. The instances requiring a special shareholders resolution include:

(1) acquisition of its own shares from a specific party other than its subsidiaries;

(2) consolidation of shares;

(3) any offering of new shares at a specially favorable price (or any offering of stock acquisition rights to acquire shares of capital stock, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;

(4) the removal of a Corporate Auditor;

(5) the exemption of liability of a Director, Corporate Auditor or independent auditor with certain exceptions;

(6) a reduction of stated capital with certain exceptions in which a shareholders resolution is not required;

(7) a distribution of in-kind dividends which meets certain requirements;

(8) dissolution, merger, consolidation, or corporate split with certain exceptions in which a shareholders resolution is not required;

(9) the transfer of the whole or a material part of the business;

(10) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders resolution is not required; or

(11) share exchange or share transfer for the purpose of establishing 100 percent parent-subsidiary relationships with certain exceptions in which a shareholders resolution is not required.

Issue of additional shares and pre-emptive rights

Holders of Pioneer s shares of Common Stock have no pre-emptive rights under its Articles of Incorporation. Authorized but unissued shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the issue of new shares at a specially favorable price mentioned under *Voting rights* above. The Board of Directors may, however, determine that shareholders shall be given subscription rights regarding a particular issue of new shares, in which case such rights must be given on uniform terms to all shareholders as at a record date of which not less than two weeks prior public notice must be given. Each of the shareholders to whom such rights are given must also be given notice of the expiry thereof at least two weeks prior to the date on which such rights expire.

Subject to certain conditions, Pioneer may issue stock acquisition rights or bonds with stock acquisition rights by a resolution of the Board of Directors. Holders of stock acquisition rights or bonds with stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise

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period as prescribed in the terms of their stock acquisition rights and bonds with stock acquisition rights. Upon exercise of stock acquisition rights, Pioneer will be obliged to issue the necessary number of new shares or alternatively to transfer the relevant number of shares held by it as treasury stock.

In cases where a particular issue of new shares or stock acquisition rights (i) violates laws and regulations or Pioneer s Articles of Incorporation, or (ii) will be performed in a manner materially unfair, and shareholders may suffer disadvantages therefrom, such shareholder may file an injunction to enjoin such issue with a court.

Liquidation rights

In the event of a liquidation of Pioneer, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to the respective numbers of shares of Common Stock held by them.

Record date

As mentioned above, March 31 is the record date for Pioneer s year-end dividends. So long as Pioneer maintains the unit share system, the shareholders and beneficial shareholders who are registered as the holders of one or more full units of shares in Pioneer s register of shareholders and/or that of beneficial shareholders at the end of each March 31 are entitled to exercise shareholders rights at the Ordinary General Meeting of Shareholders with respect to the business year ending on such March 31. September 30 is the record date for interim dividends. In addition, Pioneer may set a record date for determining the shareholders and/or beneficial shareholders entitled to other rights pertaining to the shares of common stock of Pioneer, and for other purposes, by a resolution of the Board of Directors and giving at least two weeks prior public notice.

Acquisition by Pioneer of its Common Stock

Under the Company Law and the Articles of Incorporation of Pioneer, Pioneer may acquire shares of common stock (i) by soliciting all the shareholders to offer to sell shares held by them (in this case, certain terms of such acquisition, such as the total number of shares to be purchased and the total amount of consideration, shall be set by an ordinary resolution of a General Meeting of Shareholders in advance, and acquisition shall be effected pursuant to a resolution of the Board of Directors), (ii) from a specific shareholder other than any of its subsidiaries (pursuant to a special resolution of a General Meeting of Shareholders), (iii) from any of its subsidiaries (pursuant to a resolution of the Board of Directors), or (iv) by way of purchase on any Japanese stock exchange on which Pioneer s shares of common stock is listed or by way of tender offer (in either case pursuant to an ordinary resolution of a General Meeting of Shareholders or a resolution of the Board of Directors). In the case of (ii) above, any other shareholder may make a request to a Representative Director that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (ii) above was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter).

The total amount of the purchase price of shares of common stock may not exceed the Distributable Amount, as described in *Distributions of Surplus* Restriction on distributions of Surplus .

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Shares acquired by Pioneer may be held by it for any period or may be cancelled by a resolution of the Board of Directors. Pioneer may also transfer to any person the shares held by it, subject to a resolution of the Board of Directors, and subject also to other requirements similar to those applicable to the issuance of new shares, as described in *Issue of additional shares and pre-emptive rights* above. Pioneer may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

Unit share system

The Articles of Incorporation of Pioneer provide that 100 shares constitute one unit of shares of stock. Although the number of shares constituting one unit is included in the Articles of Incorporation, any amendment to the Articles of Incorporation reducing (but not increasing) the number of shares constituting one unit or eliminating the provisions for the unit of shares may be made by the resolution of the Board of Directors rather than by the special shareholders resolution, which is otherwise required for amending the Articles of Incorporation. The number of shares constituting one new unit, however, cannot exceed 1,000.

Shareholders shall have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights. Moreover, holders of shares constituting less than one unit will have no other shareholder rights, except that such holders may not be deprived of certain rights specified in the Company Law or an ordinance of the Ministry of Justice or Pioneer s Articles of Incorporation, including the right to receive distribution of Surplus and the right to receive an allotment of offered shares and offered stock acquisition rights in proportion to the number of shares held.

Unless Pioneer s shareholders amend the Articles of Incorporation by a special shareholders resolution to eliminate the provision not to issue share certificates for less than a unit of shares, a share certificate for any number of shares less than one full unit will in general not be issued. As the transfer of shares normally requires the delivery of the share certificates therefor, any fraction of a unit for which no share certificates are issued is not transferable.

A holder of shares constituting less than one unit may require Pioneer to purchase such shares at their market value in accordance with the provisions of the Share Handling Regulations of Pioneer. In addition, the Articles of Incorporation of Pioneer provide that a holder of shares constituting less than one full unit may request Pioneer to sell to such holder such amount of shares which will, when added together with the shares constituting less than one full unit held by such holder, constitute one full unit of stock, in accordance with the provisions of the Share Handling Regulations of Pioneer.

A holder who owns ADRs evidencing less than 100 ADSs will indirectly own less than one full unit of shares of Common Stock. Although, as discussed above, under the unit share system holders of less than one full unit have the right to require Pioneer to purchase their shares or sell shares held by Pioneer to such holders, holders of ADRs evidencing ADSs that represent other than integral multiples of a unit are unable to withdraw the underlying shares of Common Stock representing less than one full unit and, therefore, are unable, as a practical matter, to exercise the rights to require Pioneer to purchase such underlying shares or sell shares held by Pioneer to such holders unless Pioneer s Articles of Incorporation are amended to eliminate the provision not to issue share certificates for the numbers of shares less than a unit. As a result, access to the Japanese markets by holders of ADRs through the withdrawal mechanism will not be available for dispositions of shares of Common Stock in lots less than one full unit. The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

Sale by Pioneer of shares held by shareholders whose location is unknown
Pioneer is not required to send a notice to a shareholder if a notice to such shareholder fails to arrive at the registered address of the shareholder in Pioneer s register of shareholders or at the address otherwise notified to Pioneer continuously for five years or more.
In addition, Pioneer may sell or otherwise dispose of shares of Common Stock for which the location of the shareholder is unknown. Generally, if (i) notices to a shareholder fail to arrive continuously for five years or more at the shareholder s registered address in Pioneer s register of shareholders or at the address otherwise notified to Pioneer, and (ii) the shareholder fails to receive distributions of Surplus on the shares continuously for five years or more at the address registered in Pioneer s register of shareholders or at the address otherwise notified to Pioneer, Pioneer may sell or otherwise dispose of the shareholder s shares at the then market price of the shares by a resolution of the Board of Directors and after giving at least three months prior public and individual notice, and may hold or deposit the proceeds of such sale or disposal of shares for such shareholder.
Reporting of substantial shareholdings
The Securities and Exchange Law of Japan and regulations thereunder require any person, regardless of residence, who has become, beneficially and solely or jointly, a holder(s) of more than 5% of the total issued shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the Director-General of a competent Local Finance Bureau of the Ministry of Finance within five business days a report concerning such shareholdings.
A similar report must also be filed in respect of any subsequent change of 1% or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holder and the issuer s total issued share capital. Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed.
Except for the general limitations under Japanese anti-trust and anti-monopoly regulations against holding of shares of capital stock of a Japanese corporation which leads or may lead to a restraint of trade or monopoly, and except for general limitations under the Company Law or Pioneer s Articles of Incorporation on the rights of shareholders applicable regardless of residence or nationality, there is no limitation under Japanese laws and regulations applicable to Pioneer or under its Articles of Incorporation on the rights of non-resident or foreign shareholders to hold the shares of Common Stock of Pioneer or exercise voting rights thereon.
There is no provision in Pioneer s Articles of Incorporation that would have an effect of delaying, deferring or preventing a change in control of Pioneer and that would operate only with respect to merger, consolidation, acquisition or corporate restructuring involving Pioneer.

C. Material contracts

None

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D. Exchange controls

The Foreign Exchange and Foreign Trade Law of Japan and its related cabinet orders and ministerial ordinances (the Foreign Exchange Regulations) govern the acquisition and holding of shares of Common Stock of Pioneer by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

- individuals who are not resident in Japan; and
- corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as exchange residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

- individuals who are exchange non-residents;
- corporations that are organized under the laws of foreign countries or whose principal offices are located outside Japan; and
- corporations (1) of which 50% or more of their shares are held by individuals who are exchange non-residents and/or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of Common Stock of Pioneer) by an exchange non-resident from an exchange resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where an exchange resident of Japan transfers shares of a Japanese company (such as the shares of Common Stock of Pioneer) for consideration exceeding ¥100 million to an exchange non-resident, the exchange resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of Common Stock of Pioneer) or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company s shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of shares of Common Stock of Pioneer held by exchange non-residents of Japan may generally be converted into any foreign currency and repatriated abroad.

E. Taxation

The following discussion is a summary of the principal Japanese national and U.S. federal income tax consequences of the acquisition, ownership and disposition of shares of common stock or ADSs. This summary does not purport to address all material tax consequences that may be relevant to holders of shares of common stock or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, investors liable for alternative minimum tax, investors that own or are treated as owning 10% or more of Pioneer s voting stock, investors that hold shares of common stock or ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, persons that hold shares of common stock or ADSs through a partnership or other pass-through entity and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the national or federal income tax laws and regulations of Japan and of the United States, judicial decisions, published rulings and administrative pronouncements as in effect at the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), all of which are subject to change (possibly with retroactive effect) and/or to differing interpretations.

For purposes of this discussion, a U.S. Holder is any beneficial owner of shares of common stock or ADSs that, for U.S. federal income tax purposes, is:

- a citizen or individual resident of the United States,

- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes organized in or under the laws of the United States, any State, or the District of Columbia,

- an estate the income of which is subject to U.S. federal income tax without regard to its source, or

- a trust that is (i) subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or (ii) that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

An Eligible U.S. Holder is a U.S. Holder that:

- is a resident of the United States for purposes of the Treaty,

- does not maintain a permanent establishment in Japan (i) with which shares of common stock or ADSs are effectively connected and through which the U.S. holder carries on or has carried on business or (ii) of which shares of common stock or ADSs form part of the business property, and

- is eligible for benefits under the Treaty with respect to income and gain derived in connection with the shares of common stock or ADSs.

The U.S. federal income tax consequences of a partner in a partnership holding shares of common stock or ADSs generally will depend on the status of the partner and the activities of the partnership. Partners in a partnership holding shares of common stock or ADSs should consult their own tax advisors. This summary does not address any aspects of U.S. federal tax law other than income taxation, and does not discuss any aspects of Japanese tax law other than national income taxation, inheritance and gift taxation. This summary also does not cover any state or local, or non-U.S., non-Japanese tax considerations.

Investors are urged to consult their tax advisors regarding the U.S. federal, state and local and Japanese and other tax consequences of acquiring, owning and disposing of shares of common stock or ADSs. In particular, where relevant, investors are urged to confirm their status as Eligible U.S. Holders with their tax advisors and to discuss with their tax advisors any possible consequences of their failure to qualify as Eligible U.S. Holders.

This summary is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement for ADSs and in any related agreement will be performed in accordance with its terms.

In general, for purposes of the Treaty and for U.S. federal income and Japanese income tax purposes, beneficial owners of ADRs evidencing ADSs will be treated as the owners of the shares of common stock represented by those ADSs, and exchanges of shares of common stock for ADSs, and exchanges of ADSs for shares of common stock, will not be subject to U.S. federal income tax or Japanese income tax.

The discussion below is intended for general information only and does not constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of shares of common stock or the ADSs. Investors in shares of common stock or the ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.

Japanese taxation

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of shares of common stock of Pioneer or ADRs evidencing ADSs representing shares of common stock of Pioneer who are either individuals who are not residents of Japan or non-Japanese corporations, without a permanent establishment in Japan (non-resident Holders).

Generally, an individual who is a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by a Japanese corporation. Pioneer withholds taxes from dividends it pays as required by Japanese law. Stock splits are, in general, not a taxable event.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to individuals who are non-residents of Japan or non-Japanese corporations is generally 20%, provided, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of common stock of Pioneer) to any non-resident corporate or individual shareholders (including those shareholders who are non-resident Holders) other than any individual shareholder who holds 5% or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends due and payable on or before March 31, 2008, and (ii) 15% for dividends due and payable on or after April 1, 2008. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and the U.K. Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to Eligible U.S. Holders that are portfolio investors is generally reduced to 10% of the gross amount actually distributed, and dividends paid by a Japanese corporation to Eligible U.S. Holders that are pension funds is exempt from Japanese taxation by way of withholding or otherwise

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unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension funds.
If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by Pioneer to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on payment of dividends on Pioneer s shares of common stock is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance through Pioneer to the relevant tax authority before such payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits two Application Forms (one before payment of dividends, the other within eight months after Pioneer s fiscal year-end or semi-fiscal year-end) to the Japanese tax authorities. To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary. A non-resident Holder who is entitled, under an applicable tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority. Pioneer does not assume any responsibility to ensure withholding at the reduced treaty rate or not withholding for shareholders who would be eligible under an applicable tax treaty but do not follow the required procedures as stated above.
Gains derived from the sale of shares of common stock or ADSs outside Japan by a non-resident Holder holding such shares or ADSs as a portfolio investor are, in general, not subject to Japanese income tax or corporation tax. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.
Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of common stock or ADSs as a legatee, heir or donee even though neither the individual nor the deceased nor donor is a Japanese resident.
Holders of shares of common stock of Pioneer or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. Holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

U.S. federal income taxation

U.S. Holders

The following discussion is a summary of the principal U.S. federal income tax consequences to holders of shares of common stock and ADSs that are U.S. Holders and that hold those shares of common stock or ADSs as capital assets (generally, for investment purposes).

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Taxation of Dividends

Subject to the passive foreign investment company rules discussed below, the gross amount of any distribution made by us in respect of shares of common stock or ADSs (without reduction for Japanese withholding taxes) will constitute a taxable dividend to the extent paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. The U.S. dollar amount of such a dividend generally will be included in the gross income of a U.S. Holder, as ordinary income, when the dividend is actually or constructively received by the U.S. Holder, in the case of shares of common stock, or by the depositary, in the case of ADSs. Dividends paid by us will not be eligible for the dividends received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Subject to certain exceptions for short-term and hedged positions, and provided that we are not a passive foreign investment company (as discussed below), dividends received by certain U.S. Holders (including individuals) with respect to the shares of common stock or ADSs will be subject to U.S. federal income taxation at a maximum rate of 15%. Investors should be aware that the U.S. Treasury Department has announced its intention to promulgate rules in proposed form pursuant to which shareholders (and intermediaries) will be permitted to rely on certifications from issuers to establish that dividends qualify for the reduced rate of U.S. federal income taxation. Because such proposed certification procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs or shares of common stock should consult their own tax advisors regarding the availability of the reduced rate in the light of their own particular circumstances.

The U.S. dollar amount of a dividend paid in Japanese yen will be determined based on the Japanese yen/U.S. dollar exchange rate in effect on the date that dividend is included in the gross income of the U.S. Holder, regardless of whether the payment is converted into dollars on such date. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or the U.S. Holder otherwise disposed the Japanese yen) will be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the calculation and U.S. federal income tax treatment of foreign currency gain or loss.

To the extent, if any, that the amount of any distribution received by a U.S. Holder in respect of shares of common stock or ADSs exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, the distribution first will be treated as a tax-free return of capital to the extent the U.S. Holder s adjusted tax basis in those shares or ADSs, and thereafter as U.S. source capital gain.

Distributions of additional shares of common stock that are made to U.S. Holders with respect to their shares of common stock or ADSs and that are part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of shares of common stock or ADSs will constitute income from sources outside the United States and will be subject to various classifications and other limitations. Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of a dividend paid by us in respect of shares of common stock or ADSs may be claimed either as a credit against the U.S. federal income tax liability of a U.S. Holder or, if the U.S. Holder does not elect to take a credit for any foreign taxes paid that year, as a deduction from that U.S. Holder s taxable income. In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax. Additionally, special rules may apply to

individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed $300 ($600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

- has held shares of common stock or ADSs for less than a specified minimum period, or
- is obligated to make payments related to our dividends,

will not be allowed a foreign tax credit for foreign taxes imposed on our dividends. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. The Internal Revenue Service (the IRS) has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Accordingly, investors should be aware that the discussion above regarding the creditability of Japanese withholding tax on dividends could be affected by future actions that may be taken by the IRS.

Taxation of Capital Gains

In general upon a sale or other taxable disposition of shares of common stock or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder s adjusted tax basis in those shares of common stock or ADSs (which is generally the U.S. dollar cost thereof). Subject to the passive foreign investment company rules discussed below, such gain or loss recognized on the sale or other taxable disposition generally will be capital gain or loss and, if the U.S. Holder s holding period for those shares or ADSs exceeds one year, will be long-term capital gain or loss. Certain U.S. Holders, including individuals, are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain. Under U.S. federal tax law, the deduction of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder in respect of the sale or other taxable disposition of shares of common stock or ADSs generally will be treated as derived from U.S. sources for U.S. foreign tax credit purposes.

Passive Foreign Investment Companies

Based on current estimates of our income and asset, we do not believe that we are a passive foreign investment company (a PFIC) for U.S. federal income tax purposes, and we intend to continue our operations in such a manner that it is unlikely that we would become a PFIC in the future although no assurances can be made regarding determination of our PFIC status in the current or any future taxable year. The PFIC determination is made annually and generally is based on either the portion of our assets (including goodwill) or the portion of our income being characterized as passive under the PFIC rules.

If we become a PFIC, unless a U.S. Holder elects to be taxed annually on a mark-to-market basis with respect to its shares of common stock or ADSs, any gain realized on a sale or other taxable disposition of shares of common stock or ADSs and certain excess distributions (generally distributions in excess of 125% of the average distribution over a three-year period, or shorter holding period for the shares of common stock or ADSs) would be treated as realized ratably over the U.S. Holder s holding period for the shares of common stock or ADSs; amounts allocated to prior years during which we were a PFIC would be taxed at the highest ordinary income tax rate in effect for each such year, and an additional interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Moreover, dividends that a U.S. Holder receives from us will not be eligible for the reduced U.S. federal income tax rates described above if we are a PFIC either in the taxable year of the dividend or the preceding taxable year (and instead will be taxable at rates applicable to ordinary income).

If a mark-to-market election were made, a U.S. Holder would take into account each year the appreciation or depreciation in value of its shares of common stock or ADSs, which would be treated as ordinary income or (subject to limitations) ordinary loss, as would gains or losses on actual dispositions of shares of common stock or ADSs. Any U.S. Holder who owns shares of common stock or ADSs during any taxable year that we are a PFIC would be required to file Internal Revenue Service Form 8621. U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding our shares of common stock or ADSs if we were considered a PFIC in any year.

Non-U.S. Holders

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial holders of shares of common stock or ADSs that are neither U.S. Holders nor partnerships for U.S. federal income tax purposes (Non-U.S. Holders).

Subject to the discussion below on Backup withholding and information reporting, distributions received by a Non-U.S. Holder in respect of shares of common stock or ADSs generally will not be subject to any U.S. federal income or withholding tax, unless the Non-U.S. Holder conducts a trade or business within the United States, and the distributions are effectively connected with that trade or business.

Subject to the discussion below on Backup withholding and information reporting, a Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other disposition of shares of common stock or ADSs, unless the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States, or the Non-U.S. Holder is an individual who was present in the United States for 183 or more days in the taxable year of the disposition and other conditions are met.

If an income tax treaty applies to a Non-U.S. Holder, it may require, as a condition for the Non-U.S. Holder to be subject to U.S. federal income taxation on dividends or capital gains that are effectively connected with trade or business conducted by a Non-U.S. Holder in the United States, that the dividends or capital gains also be attributable to a permanent establishment or fixed base that the Non-U.S. Holder maintains in the United States.

Income that is effectively connected with a U.S. trade or business of a Non-U.S. Holder, and, if an income tax treaty applies and so requires, is attributable to a U.S. permanent establishment or fixed base of the Non-U.S. Holder, generally will be taxed in the same manner as the income of a U.S. Holder. In addition, under certain circumstances, any effectively connected earnings and profits that is realized by a corporate Non-U.S. Holder may be subject to an additional branch profits tax at the rate of 30% or at a lower rate that may be prescribed by an applicable income tax treaty.

Backup withholding and information reporting

In general, except in the case of certain exempt recipients (such as corporations) information reporting requirements will apply to dividends on shares of common stock or ADSs paid to U.S. Holders in the United States or through certain U.S. related financial intermediaries and to the proceeds received upon the sale, exchange or redemption of shares of common stock or ADSs by U.S. Holders within the United States or through certain U.S. related financial intermediaries. Furthermore, backup withholding currently at a rate of 28% may apply to those amounts if a U.S. Holder fails to provide an accurate tax identification

number or to report interest and dividends required to be shown on its U.S. federal income tax returns or makes other appropriate certifications in the required manner.

Dividends on shares of common stock or ADSs paid to Non-U.S. Holders and proceeds received upon the sale, exchange or redemption of shares of common stock or ADSs by Non-U.S. Holders generally are exempt from information reporting and backup withholding. However, a Non-U.S. Holder may be required to provide certification of non-U.S. status in order to obtain that exemption.

Persons required to establish their exempt status generally must provide such certification, under penalty of perjury, on IRS Form W-9, entitled Request for Taxpayer Identification Number and Certification, in the case of U.S. persons, and on IRS Form W-8BEN, entitled Certificate of Foreign Status (or other appropriate IRS Form W-8), in the case of non-U.S. persons. Backup withholding is not an additional tax. The amount of backup withholding imposed on a payment generally may be claimed as a credit against the holder s U.S. federal income tax liability provided that the required information is properly furnished to the IRS.

THE SUMMARY OF U.S. FEDERAL INCOME AND JAPANESE NATIONAL TAX CONSEQUENCES SET OUT ABOVE IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. INVESTORS IN THE COMMON STOCK OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING OR DISPOSING OF COMMON STOCK OR ADSs, BASED ON THEIR PARTICULAR CIRCUMSTANCES.

F. Dividends and paying agents

Not applicable

G. Statement by experts

Not applicable

H. Documents on display

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. You can also access the documents at the SEC s website (http://www.sec.gov/).

I. Subsidiary information

Not applicable

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Item 11. Quantitative and Qualitative Disclosures About Market Risk

We operate internationally, giving rise to exposure to market risks from changes in foreign exchange rates and interest rates. In an effort to manage potential adverse effects caused by market fluctuations in foreign exchange rates and interest rates, we hedge these market risks by selectively using derivative financial instruments. However, we do not hedge all of our exposure, and the extent of hedge as well as type of hedging instruments to be used depends on factors including, but not limited to, type of risks exposed, market conditions and hedging cost. We do not hold or issue derivative financial instruments for trading purposes. To minimize credit risks from derivative financial instruments, we limit counterparties to reputable international financial institutions.

Marketable securities held by us are exposed to risk from changes in equity prices and consist entirely of available-for-sale securities. We do not take hedging measures against the market exposures on those securities.

Foreign exchange risk

To hedge certain purchase and sale commitments and anticipated but not yet committed transactions denominated in other than functional currencies, we enter into forward exchange contracts and purchase- and write-currency options. Written options are entered into only with purchased options.

The following tables provide information about our derivative financial instruments related to foreign currency exchange transactions as of March 31, 2006, which have been translated into yen at the rate as of such date, together with the related weighted average contractual exchange rates at March 31, 2006. All of the contracts and the options mature within one year.

Forward exchange contract

Functional currency Sell/Buy	Yen US$/ Yen	Yen Yen/ US$	Yen EUR/ Yen	Yen THB/ Yen	A$ A$/ US$	EUR EUR/ GBP	Total
	(In millions of yen except average rates)						
Contract amounts	¥12,652	¥ 446	¥23,053	¥ 144	¥ 1,290	¥ 1,279	¥38,864
Average contractual exchange rates	116.28	114.29	139.72	2.8900	0.7495	0.6970	
Fair value	¥ 28	¥ 3	¥ (336)	¥ (5)	¥ 62	¥ 1	¥ (247)

Currency option

Functional currency Sell/Buy	Yen US$/Yen	Yen Yen/US$	Total
	(In millions of yen except average rates)		
Notional amount	¥ 9,128	¥ 9,128	¥18,256
Average execution rates	115.44	115.44	
Fair value	¥ (37)	¥ 46	¥ 9

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To change the currency and interest rate features of intercompany finance transactions, we have entered into currency swap contracts with banks. Currency swap contracts effectively changed, in substance, U.S. dollars floating interest rate of intercompany borrowings into yen fixed interest rate borrowings. The foreign exchange risk inherent in our currency swap as of March 31, 2006 are summarized as follows:
Currency swap as of March 31, 2006

	Contract amounts		Expected maturity date (year ending March 31)				
	Buy	Sell	2007	2008	2009	Total	Fair value
			(In millions except average rates)				
Functional currency:							
Yen	¥55,667	US$ 490	¥49,148		¥ 6,519	¥55,667	¥ (2,581)
Average contractual exchange rate			114.30		108.65		

With respect to interest rate risk inherent in our currency swaps as of March 31, 2006, see Interest rate risk below.

Interest rate risk

The following table provides information about interest rate risk inherent in the aforementioned currency swaps as of March 31, 2006.
Currency swap as of March 31, 2006

	Contract amounts		Expected maturity date (year ending March 31)				
	Buy	Sell	2007	2008	2009	Total	Fair value
			(In millions except average rates)				
Functional currency:							
Yen							
Fixed (US$) to Fixed (Yen)	¥55,667	US$ 490	¥49,148		¥6,519	¥55,667	¥ (2,581)
Average pay rate			(0.37)%		(0.24)%		
Average receive rate			3.73%		3.43%		

The following table provides information about principal cash flows by expected maturity dates, weighted average interest rates, and fair value of our debt obligations as of March 31, 2006. The interest rate on the variable rate debt is determined based on prevailing market rates for tax-exempt municipal bonds in the U.S.
Long-term debt (including due within one year) as of March 31, 2006

	Functional Currency	Expected maturity date (year ending March 31)							
		2007	2008	2009	2010	2011	Thereafter	Total	Fair value
		(In millions of yen except average rates)							
Fixed rate (Yen)	Yen	¥4,064	4,064	13,064	2,664	2,664	65,327	¥91,847	¥ 86,279
Average interest rate		2.03%	2.03%	2.70%	2.57%	2.57%	0.15%	0.82%	
Interest free loan (EUR)	EUR	7	7	23				37	37

Total	¥4,071	4,071	13,087	2,664	2,664	65,327	¥91,884	¥ 86,316

Market price risks on available-for-sale securities

We do not own any marketable securities for trading purposes. Our equity investment portfolio consists almost entirely of securities issued by Japanese companies. The following table sets forth maturity dates and cost and fair values of debt securities in our investment portfolio, and the cost and fair values of equity securities therein, at March 31, 2006.

	2006	
	Cost	Fair value
	(In millions of yen)	
Debt securities (by contractual maturities)		
Maturing over one year	¥ 94	¥ 124
Equity securities	¥4,627	¥24,609

Item 12. Description of Securities Other than Equity Securities

Not applicable

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable

Item 15. Controls and Procedures

Pioneer performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the fiscal 2006. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in the reports that Pioneer files under the Exchange Act is accumulated and communicated to its management including the chief executive officer and the principal accounting and financial officer to allow timely decisions regarding required disclosure. The disclosure controls and procedures also ensures that the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms. The evaluation was performed under the supervision of Tamihiko Sudo, Pioneer s Chief Executive Officer and Hajime Ishizuka, Pioneer s Chief Financial Officer. Pioneer s disclosure and controls and procedures are designed to provide reasonable assurance of achieving its objectives. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Mr. Sudo and Mr. Ishizuka have concluded that Pioneer s disclosure controls and procedures are effective at the reasonable assurance level.

There have been no changes in Pioneer internal control over financial reporting during fiscal period ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, Pioneer s internal control over financial reporting.

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Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Pioneer maintains a corporate auditor system, in accordance with the Company Law of Japan. Pioneer s Board of Corporate Auditors is comprised of three Corporate Auditors, two of whom are outside Corporate Auditors. Each Corporate Auditor has been appointed at its shareholders meetings and has certain statutory powers under the Company Law, including auditing the business affairs and accounts of Pioneer.

Pioneer s Board of Corporate Auditors has determined that it does not have an audit committee financial expert serving on the Board of Corporate Auditors. The qualifications for, and powers of, the Corporate Auditor specified in the Company Law are different from those anticipated for audit committee financial expert. Corporate Auditors have the authority to be given reports from a certified public accountant or an accounting firm concerning audits, including technical accounting matters. At the same time, each Corporate Auditor has the authority to consult internal and external experts on accounting matters. Pioneer s Board of Corporate Auditors has confirmed that each Corporate Auditor should fulfill the requirements under Japanese laws and regulations and otherwise follow Japanese corporate governance practices. In addition, its Board of Corporate Auditors has a former General Manager of Accounting Division of Pioneer, Mr. Makoto Koshiba, as a full time Corporate Auditor, and a certified public accountant of Japan, Mr. Isao Moriya, as an outside Corporate Auditor. Accordingly, it is not necessarily fundamental for Pioneer to nominate as Corporate Auditor a person who meets the definition of audit committee financial experts. Although Pioneer does not have an audit committee financial expert on its Board of Corporate Auditors, Pioneer believes that Pioneer s current corporate governance system, taken as a whole, including the Corporate Auditors ability to consult internal and external experts, is functionally equivalent to a system having an audit committee financial expert on its Board of Corporate Auditors.

Item 16B. Code of Ethics

We have adopted the Pioneer Group Code of Conduct (the Code of Conduct) for all officers and employees of the Pioneer Group. The Code of Conduct is publicly available on our website at http://pioneer.jp. If we make any substantive amendments to the Code of Conduct or grant any waivers, including any implicit waiver, from a provision of this code to our chief executive officer, principal financial officer or corporate controller, we will disclose the nature of such amendment or waiver on our website.

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Item 16C. Principal Accountant Fees and Services

Aggregate fees billed to the Company for the fiscal years ended March 31, 2005 and 2006 by our principal accounting firm, Deloitte Touche Tohmatsu (a Japanese member firm of Deloitte Touche Tohmatsu, Swiss Verein), the other member firms of Deloitte Touche Tohmatsu (Swiss Verein), and their respective affiliates (collectively, Deloitte Touche Tohmatsu), were as follows.

	Year ended March 31	
	2005	2006
	(In millions of yen)	
Audit Fees (1)	¥ 343	¥ 417
Audit-Related Fees (2)	48	96
Tax Fees (3)	58	74
All Other Fees (4)	42	46
Total	¥ 491	¥ 633

(1) Includes fees for the audit of our annual financial statements included in our Form 20-F and for services provided in connection with statutory and regulatory filings or engagements. This also includes fees billed for issuance of comfort letters and consent letters.

(2) Includes fees for assurance and related services that are performed by the independent accountant which include employee benefit plan audits,

accounting consultations and audits in connection with internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.

(3) Includes fees for services related to tax compliance, including the preparation of tax returns and claims for refund, tax planning and tax advice.

(4) Includes fees for other than the services reported in paragraphs (1) through (3).

Policy and procedures of the Board of Corporate Auditors for pre-approval

In accordance with the regulations of the SEC, the Board of Corporate Auditors has adopted the policy and procedures for the pre-approval regarding the engagements of the independent audit firm and its affiliates (the auditor). The following is a summary of the policy and procedures.

All audit and permissible non-audit services provided by the auditor to Pioneer and its consolidated subsidiaries must be pre-approved by the Board of Corporate Auditors, prior to the engagement of the auditor. In the case that pre-approvals are requested, the description of the services including types of the service, periods of the service, and estimated fees, must be submitted to the Board of Corporate Auditors. Our pre-approval procedures have two different forms, Comprehensive pre-approval and Individual pre-approval. Under the Comprehensive pre-approval procedure, all audit and permissible non-audit services scheduled for the following fiscal year are pre-approved by resolution of the Board of Corporate Auditors meeting. All audit and permissible non-audit services regarding the specific projects which are not included in the Comprehensive pre-approval must be subject to the Individual pre-approval. For the purpose of providing such pre-approval in a timely manner, the Board of Corporate Auditors may delegate Individual pre-approval authority to full time Corporate Auditors. Full-time Corporate Auditors shall report any Individual pre-approval decisions to the Board of Corporate Auditors meeting to be held immediately after such pre-approval.

None of the services provided by the auditor in fiscal 2005 and 2006 were waived from the pre-approval requirement pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth the information with respect to any purchase made by Pioneer of its common stock during fiscal 2006 ended March 31, 2006.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2005	287	¥ 1,909.01		
May 1 to May 31, 2005	208	¥ 1,759.39		
June 1 to June 30, 2005	241	¥ 1,702.98		
July 1 to July 31, 2005	982	¥ 1,651.51		
August 1 to August 31, 2005	1,142	¥ 1,695.36		
September 1 to September 30, 2005	638	¥ 1,716.43		
October 1 to October 31, 2005	442	¥ 1,637.51		
November 1 to November 30, 2005	678	¥ 1,542.05		
December 1 to December 31, 2005	798	¥ 1,646.15		
January 1 to January 31, 2006	625	¥ 1,596.48		
February 1 to February 28, 2006	592	¥ 1,789.29		
March 1 to March 31, 2006	559	¥ 1,832.59		
Total	7,192	¥ 1,688.21		

Note: A holder of shares constituting less than one unit may require Pioneer to purchase such shares at their market value in accordance with the provision of the Share Handling Regulations of Pioneer, under the Company Law of Japan. All purchases in the above table were made in accordance with such requests.

PART III

Item 17. Financial Statements

See Consolidated Financial Statements. Reference is made to Item 19 for a list of all financial statements filed as part of this annual report.

Item 18. Financial Statements

We have responded to Item 17 in lieu of responding to this Item.

Item 19. Exhibits

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Exhibits

1.01	The Articles of Incorporation, as amended and currently in effect (English translation)
1.02	Regulations of the Board of Directors, as amended and currently in effect (English translation)
2.01	Share Handling Regulations, as amended and currently in effect (English translation)
12.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

PIONEER CORPORATION
(Registrant)

Date: July 7, 2006

By /s/ Hajime Ishizuka
Hajime Ishizuka
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Pioneer Corporation:

We have audited the accompanying consolidated balance sheets of Pioneer Corporation and subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended March 31, 2006 (all expressed in Japanese yen). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, except for the omission of segment information disclosures, such consolidated financial statements present fairly, in all material respects, the financial position of Pioneer Corporation and subsidiaries as of March 31, 2005 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Tokyo, Japan
June 29, 2006

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Consolidated Balance Sheets
Pioneer Corporation and Subsidiaries
March 31

Assets	Millions of Yen 2005	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2006
Current assets:			
Cash and cash equivalents			
Cash, including time deposits of ¥48,211 million $412,060 thousand (¥52,275 million in 2005)	¥ 116,681	**¥ 121,680**	**$ 1,040,000**
Trade receivables			
Notes	2,516	**1,729**	**14,778**
Accounts (Note 6)	132,110	**108,893**	**930,709**
Allowance for doubtful notes and accounts (Note 23)	(2,450)	**(3,059)**	**(26,145)**
Inventories (Note 7)	109,015	**104,226**	**890,820**
Deferred income taxes (Note 13)	25,519	**27,802**	**237,624**
Assets held for sale (Note 4)		**25,577**	**218,607**
Prepaid expenses and other current assets	43,505	**41,824**	**357,470**
Total current assets	426,896	**428,672**	**3,663,863**
Investments and long-term receivables:			
Available-for-sale securities (Note 5)	22,268	**24,733**	**211,393**
Investments in and advances to affiliated companies (Note 8)	2,987	**1,705**	**14,573**
Sundry investments (Notes 5 and 21)	3,388	**3,189**	**27,257**
Long-term receivables, less allowance for doubtful accounts of ¥106 million $906 thousand (¥160 million in 2005) (Note 23)	185	**145**	**1,239**
Total investments and long-term receivables	28,828	**29,772**	**254,462**
Property, plant and equipment (Note 10 and 11)**:**			
Land	32,965	**30,611**	**261,633**
Buildings	136,372	**119,312**	**1,019,761**
Machinery and equipment	293,359	**243,811**	**2,083,855**
Construction in progress	1,056	**1,999**	**17,085**
Total	463,752	**395,733**	**3,382,334**
Accumulated depreciation	(253,607)	**(235,502)**	**(2,012,838)**
Net property, plant and equipment	210,145	**160,231**	**1,369,496**
Other assets:			
Intangible assets (Note 9)	24,052	**20,576**	**175,863**

Deferred income taxes (Note 13)	25,420	**28,933**	**247,291**
Other	9,826	**9,862**	**84,290**
Total other assets	59,298	**59,371**	**507,444**
Total assets	¥ 725,167	**¥ 678,046**	**$ 5,795,265**

See notes to consolidated financial statements.

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Liabilities and Shareholders Equity	Millions of Yen 2005	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2006
Current liabilities:			
Short-term borrowings (Note 11)	¥ 33,152	**¥ 23,205**	**$ 198,333**
Current portion of long-term debt (Note 11)	19,276	**7,165**	**61,239**
Trade payables	96,335	**102,082**	**872,496**
Accrued liabilities			
Taxes on income	4,938	**6,987**	**59,718**
Payroll	17,203	**16,640**	**142,222**
Royalty	14,811	**17,579**	**150,248**
Other	36,843	**56,656**	**484,239**
Warranty reserve (Note 23)	5,722	**6,603**	**56,436**
Dividends payable	2,180	**436**	**3,727**
Liabilities held for sale (Note 4)		**17,863**	**152,675**
Other current liabilities	20,710	**17,076**	**145,949**
Total current liabilities	251,170	**272,292**	**2,327,282**
Long-term liabilities:			
Long-term debt (Note 11)	81,219	**92,970**	**794,615**
Accrued pension and severance cost (Note 12)	40,022	**23,475**	**200,641**
Deferred income taxes (Note 13)	1,630	**1,718**	**14,684**
Other long-term liabilities	719	**232**	**1,983**
Total long-term liabilities	123,590	**118,395**	**1,011,923**
Commitments and contingent liabilities (Note 24)			
Minority interests	18,168	**14,109**	**120,590**
Shareholders equity (Note 14)**:**			
Common stock, no par value			
Authorized 400,000,000 shares			
Issued 180,063,836 shares 2005 and 2006	49,049	**49,049**	**419,222**
Capital surplus	82,735	**82,910**	**708,632**
Retained earnings	260,556	**173,826**	**1,485,692**
Accumulated other comprehensive loss (Note 16)	(47,669)	**(20,092)**	**(171,726)**
Treasury stock at cost, 5,635,190 shares 2005 and 5,641,946 shares 2006	(12,432)	**(12,443)**	**(106,350)**
Total shareholders equity	332,239	**273,250**	**2,335,470**

Total liabilities and shareholders equity	¥725,167	**¥678,046**	**$ 5,795,265**

See notes to consolidated financial statements.

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Consolidated Statements of Operations
Pioneer Corporation and Subsidiaries
Years ended March 31

			Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2005	**2006**	**2006**
Revenues:				
Operating revenue:				
Net sales	¥672,928	¥700,805	**¥746,424**	**$ 6,379,692**
Royalty revenue	11,821	10,237	**8,540**	**72,991**
Total operating revenue	684,749	711,042	**754,964**	**6,452,683**
Interest income	1,420	1,929	**2,658**	**22,718**
Other income (Notes 5 and 18)	479	3,424	**6,789**	**58,026**
Total revenues	686,648	716,395	**764,411**	**6,533,427**
Cost and expenses:				
Cost of sales (Note 12)	473,972	564,457	**593,238**	**5,070,410**
Selling, general and administrative expenses (Note 12)	164,951	194,591	**178,135**	**1,522,522**
Subsidy from the government (Note 12)		(48,697)		
Interest expense	2,154	1,741	**1,479**	**12,641**
Loss on sale and disposal of fixed assets	3,454	34	**2,704**	**23,111**
Other deductions (Notes 10, 17 and 18)	1,589	6,336	**60,020**	**512,991**
Total cost and expenses	646,120	718,462	**835,576**	**7,141,675**
Income (loss) from continuing operations before income taxes	40,528	(2,067)	**(71,165)**	**(608,248)**
Income taxes (Note 13)**:**				
Current	17,118	7,169	**8,074**	**69,009**
Deferred	1,051	(2,882)	**(12,734)**	**(108,838)**
Total income taxes	18,169	4,287	**(4,660)**	**(39,829)**
Income (loss) from continuing operations before minority interest and equity in losses	22,359	(6,354)	**(66,505)**	**(568,419)**
Minority interest in losses (earnings) of subsidiaries	(651)	(690)	**4,774**	**40,804**
Equity in losses of affiliated companies (Note 8)	(2,244)	(3,068)	**(24,027)**	**(205,359)**
Income (loss) from continuing operations	19,464	(10,112)	**(85,758)**	**(732,974)**
Income from discontinued operations, net of tax (Note 4)	5,374	1,323	**772**	**6,598**

Net income (loss)	¥ 24,838	¥ (8,789)	**¥ (84,986)**	**$ (726,376)**

	2004	2005	Yen **2006**	U.S. Dollars **2006**
Per share of common stock (Note 22)**:**				
Basic:				
Continuing operations	¥ 110.95	¥ (57.65)	**¥ (491.66)**	**$ (4.20)**
Discontinued operations	30.63	7.54	**4.43**	**0.04**
Net income (loss)	¥ 141.58	¥ (50.11)	**¥ (487.23)**	**$ (4.16)**
Diluted:				
Continuing operations	¥ 110.09	¥ (57.65)	**¥ (491.66)**	**$ (4.20)**
Discontinued operations	30.43	7.54	**4.43**	**0.04**
Net income (loss)	¥ 140.52	¥ (50.11)	**¥ (487.23)**	**$ (4.16)**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders Equity
Pioneer Corporation and Subsidiaries
Years ended March 31

Millions of Yen

	Number of Shares Issued (Thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders Equity
Balance at March 31, 2003	180,064	¥ 49,049	¥ 82,159	¥ 253,266	¥ (55,629)	¥ (10,452)	¥ 318,393
Comprehensive income (loss):							
Net income				24,838			24,838
Other comprehensive loss (Note 16)					(6,200)		(6,200)
Comprehensive income							18,638
Value ascribed to stock options (Note 15)			305				305
Purchase of treasury stock (Note 14)						(14)	(14)
Sales of treasury stock						2	2
Cash dividends (¥25.00 per share)				(4,386)			(4,386)
Balance at March 31, 2004	180,064	49,049	82,464	273,718	(61,829)	(10,464)	332,938
Comprehensive income (loss):							
Net loss				(8,789)			(8,789)
Other comprehensive income (Note 16)					14,160		14,160
Comprehensive income							5,371
Value ascribed to stock options (Note 15)			270				270
Purchase of treasury stock (Note 14)						(1,979)	(1,979)
Sales of treasury stock			1			11	12
Cash dividends (¥25.00 per share)				(4,373)			(4,373)
Balance at March 31, 2005	180,064	49,049	82,735	260,556	(47,669)	(12,432)	332,239
Comprehensive income (loss):							
Net loss				**(84,986)**			**(84,986)**
Other comprehensive income (Note 16)					**27,577**		**27,577**
Comprehensive loss							**(57,409)**
Value ascribed to stock options (Note 15)			**175**				**175**
Purchase of treasury stock (Note 14)						**(12)**	**(12)**
Sales of treasury stock						**1**	**1**
Cash dividends (¥10.00 per share)				**(1,744)**			**(1,744)**
Balance at March 31, 2006	**180,064**	**¥ 49,049**	**¥ 82,910**	**¥ 173,826**	**¥ (20,092)**	**¥ (12,443)**	**¥ 273,250**

Thousands of U.S. Dollars (Note 1)
Accumulated

	Common Stock	Capital Surplus	Retained Earnings	Other Comprehensive Loss	Treasury Stock	Total Shareholders Equity
Balance at March 31, 2005	$ 419,222	$ 707,137	$ 2,226,974	$ (407,427)	$ (106,256)	$ 2,839,650
Comprehensive income (loss):						
Net loss			**(726,376)**			**(726,376)**
Other comprehensive income (Note 16)				**235,701**		**235,701**
Comprehensive loss						**(490,675)**
Value ascribed to stock options (Note 15)		**1,495**				**1,495**
Purchase of treasury stock (Note 14)					**(103)**	**(103)**
Sales of treasury stock					**9**	**9**
Cash dividends ($0.09 per share)			**(14,906)**			**(14,906)**
Balance at March 31, 2006	**$ 419,222**	**$ 708,632**	**$ 1,485,692**	**$ (171,726)**	**$ (106,350)**	**$ 2,335,470**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Pioneer Corporation and Subsidiaries
Years ended March 31

			Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2005	**2006**	**2006**
Operating activities:				
Net income (loss)	¥ 24,838	¥ (8,789)	**¥ (84,986)**	**$ (726,376)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	41,047	46,990	**46,703**	**399,171**
Minority interest in (losses) earnings of subsidiaries	654	692	**(4,773)**	**(40,795)**
Equity in losses of affiliated companies, less dividends	2,248	3,072	**24,031**	**205,393**
Deferred income taxes	758	(2,846)	**(13,056)**	**(111,590)**
Provision for pension and severance cost, less payments	3,579	2,463	**(2,862)**	**(24,462)**
Loss on sale and disposal of fixed assets	3,464	40	**2,704**	**23,111**
Impairment of long-lived assets		4,460	**41,422**	**354,034**
Write-down of available-for-sale securities and sundry investments	245	51	**133**	**1,137**
Gains on sale of available-for-sale securities and sundry investments, net	(37)	(2,309)	**(5,673)**	**(48,487)**
Gain on sale of discontinued operations	(1,825)		**(434)**	**(3,709)**
Stock-based compensation expenses	305	270	**175**	**1,495**
Decrease (increase) in trade notes and accounts receivable	(7,797)	(12,322)	**19,329**	**165,205**
Decrease (increase) in inventories	(20,724)	6,317	**9,530**	**81,453**
Increase in prepaid expenses and other current assets	(12,688)	(5,051)	**(7,898)**	**(67,504)**
Increase in trade payables	18,289	4,405	**13,941**	**119,154**
Increase (decrease) in accrued taxes on income	3,559	(4,473)	**2,069**	**17,684**
Increase (decrease) in other accrued liabilities	7,530	(5,898)	**22,045**	**188,419**
Other	(3,067)	(7,126)	**5,929**	**50,676**
Net cash provided by operating activities	60,378	19,946	**68,329**	**584,009**
Investing activities:				
Payment for purchase of fixed assets	(57,978)	(63,866)	**(40,325)**	**(344,658)**
Payment for purchase of investment securities	(595)	(510)	**(6)**	**(51)**
Payment for purchase of available-for-sale securities	(53)		**(1)**	**(9)**
Payment for purchase of a subsidiary, net of cash acquired		(34,015)		

Payment for other assets	(953)	(1,252)	**(578)**	**(4,940)**
Proceeds from sale of fixed assets	1,458	2,184	**3,049**	**26,060**
Proceeds from sale of discontinued operations	4,897		**754**	**6,444**
Proceeds from sale of investment securities	53	12	**282**	**2,410**
Proceeds from sale of available-for-sale securities	156	3,091	**7,068**	**60,410**
Other	261	840	**(2)**	**(16)**
Net cash used in investing activities	(52,754)	(93,516)	**(29,759)**	**(254,350)**
Financing activities:				
Proceeds from issuance of convertible bonds (net of issuance cost ¥1,586 million)	60,514			
Payment of long-term debt	(934)	(6,246)	**(26,123)**	**(223,274)**
Increase (decrease) in short-term borrowings	(3,509)	9,025	**(8,616)**	**(73,641)**
Purchase of treasury stock (Note 14)	(14)	(1,979)	**(12)**	**(103)**
Proceeds from sale of treasury stock	2	12	**1**	**9**
Dividends paid	(3,947)	(4,386)	**(3,499)**	**(29,906)**
Dividends paid to minority interests	(285)	(445)	**(302)**	**(2,581)**
Net cash provided by (used in) financing activities	51,827	(4,019)	**(38,551)**	**(329,496)**
Effect of exchange rate changes on cash and cash equivalents	(9,512)	1,851	**4,980**	**42,563**
Net increase (decrease) in cash and cash equivalents	49,939	(75,738)	**4,999**	**42,726**
Cash and cash equivalents, beginning of year	142,480	192,419	**116,681**	**997,274**
Cash and cash equivalents, end of year	¥ 192,419	¥ 116,681	**¥ 121,680**	**$ 1,040,000**

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Pioneer Corporation and Subsidiaries

1. Basis of presentation and significant accounting policies:

1) Basis of Presentation

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which Pioneer Corporation (Pioneer Kabushiki Kaisha) (the parent company) is incorporated. The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2006 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117 to U.S.$1.00, the approximate rate of exchange prevailing at the Tokyo Foreign Exchange Market at March 31, 2006. Such translation should not be construed as a representation that Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

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

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

Nature of Operations

The Company is engaged in the development, manufacture and sale of electronics products. The Company is one of the leading manufacturers of consumer- and commercial-use electronics such as audio, video and car electronics on a global scale.

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

Use of Estimates

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

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

2) Summary of Significant Accounting Policies

Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the parent company and its majority-owned

subsidiaries. Investments in 20% to 50% owned companies are accounted for by the equity method of accounting. All significant intercompany transactions have been eliminated.

Foreign Currency Translation

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

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

Revenue Recognition

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

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

Cash and Cash Equivalents

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

Available-for-Sale Securities

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

The Company reviews the fair value of its available-for-sale securities on a regular basis to determine if the fair value of any individual security has declined below its cost and if such decline is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value and the resulting realized loss is included in the consolidated statements of

operations. For such marketable debt and equity securities, we assume the decline is other than temporary when market value is less than cost for a period of six months, or sooner depending on severity of decline or other factors.

Sundry Investments

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

Inventories

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

Property, Plant and Equipment and Depreciation

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

The principal ranges of estimated useful lives are as follows:

Buildings	15	65 years
Machinery and equipment	2	10 years

Goodwill and Other Intangible Assets

Under SFAS No. 142, Goodwill and Other Intangible Assets, acquired goodwill and other intangible assets that are determined to have an indefinite life are no longer amortized. Instead, the carrying values of these assets are reviewed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets that are determined to have a definite life are amortized over their estimated useful lives. At March 31, 2006, the Company had no goodwill. Amortization of intangible assets with definite lives is computed using the straight-line method with no residual value. The cost of patents is amortized principally over seven years and software is amortized principally over two to five years.

Long-Lived Assets

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

Warranty Reserve

The Company engages in extensive product quality programs and processes including actively monitoring and

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

Long-term Debt

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

Income Taxes

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

Research and Development Costs and Advertising Cost

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

Shipping and Handling Charges

Shipping and handling costs totaled ¥11,151 million, ¥12,502 million and ¥16,512 million ($141,128 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

Accounting for Stock-Based Compensation

The Company accounts for its stock-based compensation agreements using the fair value based method in accordance with SFAS No. 123, Accounting for Stock-Based Compensation.

Earnings (loss) per Share

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

Derivatives

Derivative financial instruments utilized by the Company are comprised principally of forward exchange contracts, currency options and currency swaps. Forward exchange contracts and currency options, the majority of which mature within six months, and currency swaps, which mature from 2006 to 2008, are utilized to hedge exposures to foreign exchange risk and interest risk. The Company does not hold or issue derivative financial instruments for trading purposes.

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

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

Forward exchange contracts and currency swaps are utilized to hedge certain foreign currency and interest rate exposures. However, none of these derivatives were designated as hedging instruments under SFAS No. 133 at March 31, 2004, 2005 and 2006. Unrealized gains and losses on such instruments are recognized currently in earnings.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. In 2006, the cash flows attributable to the operating, investing and financing activities of the discontinued operations were not presented separately from the cash flows attributable to such activities of the continuing operations. In prior periods, the cash flows attributable to such activities of continuing operations were reported separately from the cash flows of discontinued operations.

New Accounting Standards

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies the language used in Accounting Research Bulletin No. 43 with respect to accounting for abnormal amounts of idle facility expenses, freight, handling costs and spoilage. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005, and is required to be adopted by the Company effective April 1, 2006. The adoption of this standard is not expected to have any material impact on the Company s consolidated statements of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29, which will become effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Accounting Principles Board (APB) Opinion No. 29 generally requires that exchanges of nonmonetary assets be measured based on fair value of the assets exchanged but provided an exception for nonmonetary exchanges of similar productive assets, which did not result in a change in carrying value for the new asset acquired even if the cash flows resulting from the exchange would change significantly. SFAS No. 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Nonmonetary exchanges lack commercial substance if the cash flows to the entity will not change significantly as a result of the exchange. The adoption of this standard is not expected to have any material impact on the Company s consolidated statements of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS No. 123R. SFAS No. 123R supersedes APB Opinion No. 25, which requires recognition of an expense when goods or services are provided, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25, and allowed under the original provisions of SFAS No. 123. SFAS No. 123R is effective at the beginning of the first interim and annual reporting period beginning after June 15, 2005. The adoption of this standard is not expected to have any material impact on the Company s consolidated statements of operations or financial position because the Company accounts for its stock-based compensation agreements using the fair value based method, not the intrinsic value method prescribed by APB Opinion No. 25.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB Opinion No. 20,

Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. SFAS No. 154 also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to have any material impact on the Company s consolidated statements of operations or financial position.

In June 2005, the FASB staff issued FASB Staff Position (FSP) FAS 143-1, Accounting for Electronic Equipment Waste Obligations (FSP 143-1). FSP 143-1 provides guidance on the accounting for certain obligations associated with the Waste Electrical and Electronic Equipment Directive (the Directive) adopted by the European Union (EU). Under the Directive, the waste management obligation for historical equipment (products put on the market on or prior to August 13, 2005) remains with the commercial user until the customer replaces the equipment. FSP 143-1 is required to be applied to the later of the first reporting period ending after June 8, 2005, or the date of the Directive s adoption into law by the applicable EU-member countries. The Company adopted FSP 143-1 during the year ended March 31, 2006 and has determined that its effect did not have a material impact on its consolidated results of operations and financial position.

In November 2005, the FASB staff issued FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1), which effectively replaces EITF Issue No. 03-1. FSP 115-1 contains a three-step model for evaluating impairments and carries forward the disclosure requirements in EITF Issue No. 03-1 pertaining to securities in an unrealized loss position is considered impaired; an evaluation is made to determine whether the impairment is other-than-temporary; and, if an impairment is considered other-than-temporary, a realized loss is recognized to write the security s cost or amortized cost basis down to fair value. FSP 115-1 references existing other-than-temporary impairment guidance for determining when impairment is other-than-temporary and clarifies that subsequent to the recognition of an other-than-temporary impairment loss for debt securities, an investor shall account for the security using the constant effective yield method. FSP 115-1 is effective for reporting periods beginning after December 15, 2005, with earlier application permitted. The adoption of this standard is not expected to have any material impact on the Company s consolidated statements of operations or financial position.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and provides a means to simplify the accounting for these instruments. Specifically, SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have any material impact on the Company s consolidated statements of operations or financial position.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets. SFAS No. 156 was issued to simplify the accounting for servicing assets and servicing liabilities and reduce the volatility that results from the use of different measurement attributes for servicing rights and the related financial instruments used to hedge risks associated with those servicing rights. SFAS No. 156 clarifies when to separately account for servicing rights, requires separately recognized servicing rights to be initially measured

at fair value, and provides the option to subsequently account for those servicing rights at either fair value or under the amortization method previously required under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. The adoption of this standard is not expected to have any material impact on the Company s consolidated statements of operations or financial position.

2. Supplemental cash flow information:

Selected cash payments and noncash activities for the years ended March 31, 2004, 2005 and 2006 were as follows:

		Millions of Yen		Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Cash payment for interest	¥ 2,458	¥ 2,038	**¥ 1,652**	**$ 14,120**
Cash payment for income taxes	14,260	17,195	**9,039**	**77,256**
Noncash investing activities:				
Acquisition of a subsidiary:				
Fair value of assets, net of cash acquired		60,736		
Liability assumed including capital lease obligation of ¥12,882 million		(26,721)		
Payment for acquisition of a subsidiary, net of cash acquired		34,015		
Sales of discontinued operations:				
Transferred assets	14,932		**1,527**	**13,051**
Transferred liabilities	(11,823)		**(1,080)**	**(9,231)**
Foreign currency translation adjustments	(37)		**(127)**	**(1,085)**
Gain on sales	1,825		**434**	**3,709**
Cash received net	4,897		**754**	**6,444**
Noncash financing activities:				
Assumption of long-term debts from an affiliated company			**25,357**	**216,726**

3. Acquisition:

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

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

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

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Millions of Yen
Current assets	¥ 15,390
Property, plant and equipment	37,426
Acquired intangible asset of patent	6,937
Other assets	2,065
Current liabilities	(17,420)
Long-term liabilities	(9,301)
Net assets acquired	¥ 35,097

The following unaudited pro forma information shows the results of the Company s consolidated operations for the years ended March 31, 2004 and 2005 as if the acquisition had been completed at the beginning of each fiscal year presented.

	Unaudited Millions of Yen	
	2004	2005
Revenues	¥ 736,697	¥ 731,563
Net income (loss)	17,332	(19,002)

	Yen	
	2004	2005
Net income (loss) per share:		
Basic	¥ 98.80	¥ (108.34)
Diluted	98.02	(108.34)

4. Discontinued operations:

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

The discontinued operations for the year ended March 31, 2004 were as follows:

Pioneer LDC, Inc. and Pioneer Entertainment (USA) Inc.

In order to improve management efficiency by concentrating resources in strategic business, the Company reached an agreement to sell 100% of its shares in two of its wholly-owned subsidiaries, Pioneer LDC, Inc. and Pioneer Entertainment (USA) Inc., to Dentsu Inc., Japan s largest comprehensive advertising agency. These subsidiaries were engaged in the audio/video software businesses in Tokyo, Japan and in California, the United States of America, respectively. The transfers of 100% of the shares of Pioneer LDC, Inc. and 90% of the shares of Pioneer Entertainment (USA) Inc. owned by the Company were completed in the year ended March 31, 2004. The remaining shares of Pioneer Entertainment (USA) Inc. are expected to be transferred to Dentsu Inc. during the year ending March 31, 2007.

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Q-Tec, Inc.

In March 2004, Q-Tec, Inc., which had been a 99.26% owned subsidiary of the Company, became an independent company through a management buyout after acquiring all of the shares owned by the Company, with a business alliance of Vision Capital Corporation and Memory-Tech Corporation.

Summarized selected financial information for the year ended March 31, 2004 for the discontinued operations reclassified during the year ended March 31, 2004 was as follows:

		Millions of Yen
		2004
Revenues	¥	16,664
Cost and expenses		16,324
Income before income taxes		340
Gain on sales of discontinued operations		1,825
Income taxes benefit		2,310
Income from discontinued operations	¥	4,475

The discontinued operations for the year ended March 31, 2006 were as follows:

Pioneer Digital Technologies, Inc.

During the year ended March 31, 2006, the Company decided to sell 100% of its shares in Pioneer Digital Technologies, Inc. through a management buyout. Pioneer Digital Technologies, Inc. was a wholly-owned subsidiary which was engaged in development of operating software for cable TV set-top boxes in the United States. The Company sold the shares for a cash consideration of ¥754 million ($6,444 thousand) and recognized a gain on the sale of ¥282 million ($2,410 thousand), net of taxes, in the year ended March 31, 2006. The Company has no continuing involvement with Pioneer Digital Technologies, Inc.

Pioneer Precision Machinery Corporation and its subsidiaries

In order to improve management efficiency by concentrating resources in strategic business, on March 31, 2006, the Company reached a preliminary agreement with OMRON Corporation on the transfer to OMRON of the Company s entire shares of Pioneer Precision Machinery Corporation, a 99.5% owned subsidiary of the Company, which was engaged in manufacturing and marketing of high-precision parts for electronic equipment.

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

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

	Millions of Yen 2006	Thousands of U.S. Dollars 2006
Current assets held for sale:		
Trade receivables	¥ **10,421**	$ **89,068**
Inventories	**1,569**	**13,410**
Other current assets	**10,775**	**92,094**
Property, plant and equipment	**2,258**	**19,299**
Other assets	**554**	**4,736**
Total	¥ **25,577**	$ **218,607**
Current liabilities held for sale:		
Trade payables	¥ **10,673**	$ **91,222**
Accrued liabilities	**1,129**	**9,650**
Other current liabilities	**4,629**	**39,564**
Other long-term liabilities	**1,432**	**12,239**
Total	¥ **17,863**	$ **152,675**

Summarized selected financial information for the years ended March 31, 2004, 2005 and 2006 for the discontinued operations reclassified during the year ended March 31, 2006 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Revenues	¥ 16,161	¥ 22,598	¥ **30,282**	$ **258,821**
Cost and expenses	14,844	20,720	**29,462**	**251,812**
Income before income taxes	1,317	1,878	**820**	**7,009**
Gain on sales of discontinued operations			**434**	**3,709**
Income taxes	418	555	**482**	**4,120**
Income from discontinued operations	¥ 899	¥ 1,323	¥ **772**	$ **6,598**

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

Cost, gross unrealized holding gains, gross unrealized holding losses and the aggregate fair value of available-for-sale securities at March 31, 2005 and 2006 were as follows:

	Millions of Yen							
	2005				**2006**			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Marketable equity securities:								
Non-current	¥ 5,734	¥ 16,438	¥ 2	¥ 22,170	**¥ 4,627**	**¥ 19,982**		**¥ 24,609**
Marketable debt securities:								
Non-current	94	4		98	**94**	**30**		**124**
Total	¥ 5,828	¥ 16,442	¥ 2	¥ 22,268	**¥ 4,721**	**¥ 20,012**		**¥ 24,733**

	Thousands of U.S. Dollars			
	2006			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Marketable equity securities:				
Non-current	**$ 39,547**	**$ 170,786**		**$ 210,333**
Marketable debt securities:				
Non-current	**803**	**257**		**1,060**
Total	**$ 40,350**	**$ 171,043**		**$ 211,393**

At March 31, 2006, the fair values of marketable debt securities by contractual maturities for securities classified as available-for-sale due in one year through five years were ¥124 million ($1,060 thousand).

Gross realized gain on available-for-sale securities for the years ended March 31, 2004, 2005 and 2006 were ¥43 million, ¥2,300 million and ¥5,626 million ($48,085 thousand), respectively. Gross realized losses for the years ended March 31, 2004 and 2005 were ¥6 million, ¥1 million, respectively. There was no gross realized loss on available-for-sale securities recorded for the year ended March 31, 2006. The Company owns marketable equity securities of customers and financial institutions for the purpose of maintaining long-term relationships, whose share prices are highly volatile. For the years ended March 31, 2004 and 2005, losses on other than temporary impairment of marketable equity securities were ¥27 million, ¥3 million, respectively. There was no loss on other than temporary impairment of marketable equity securities recorded for the year ended March 31, 2006. For the year ended March 31, 2005, a loss on other-than-temporary impairment of marketable debt securities was ¥3 million. There was no loss on other than temporary impairment of marketable debt securities recorded for the years ended March 31, 2004 and 2006.

Sundry investments consist of non-marketable equity securities and memberships. The aggregate cost of the Company s non-marketable equity securities totaled ¥2,977 million and ¥2,793 million ($23,872 thousand) at March 31, 2005 and 2006, respectively. Investments with an aggregate cost of ¥2,970 million and ¥2,690 million

($22,991 thousand) were not evaluated for impairment because (a) it was not practicable to estimate the fair value and (b) the Company did not identify any events or changes in circumstances that may have had significant adverse effect on the fair value of those investments.

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6. Accounts receivable securitization programs:

In the United States of America, the Company has established PUSA Receivables Funding Corporation, Inc., a wholly owned bankruptcy remote-special purpose entity and set up an accounts receivable securitization program of eligible trade accounts receivable. A bankruptcy-remote subsidiary is a company that has been structured to make it highly unlikely that it would be drawn into a bankruptcy of the Company, or any of its subsidiaries. Through this program, the Company can securitize and sell, without recourse, on a revolving basis, an undivided interest up to $100,000 thousand in that pool of receivables to third party conduits owned by a bank. The value assigned to undivided interests retained in securitized trade receivables is based on the relative fair values of the interest retained and sold in the securitization. The Company has assumed that the fair value of the retained interest is equivalent to its carrying value as the receivables are short-term in nature and high quality. These securitization transactions are accounted for as sales in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, because the Company has surrendered control over the receivables.

The Company sold a total of ¥9,706 million ($82,957 thousand) of receivables under this program for the year ended March 31, 2006. The Company s subordinated net retained interest in accounts receivable for securitization and recorded, as a component of accounts receivable, was ¥5,268 million ($45,026 thousand) at March 31, 2006. The Company recognized a loss of ¥42 million ($359 thousand) on the securitization of receivables for the year ended March 31, 2006. The Company continues to service the sold receivables and is compensated at what we believe to be market rates. Accordingly, no servicing asset or liability has been recorded.

In Japan, the Company set up several accounts receivable sales programs of eligible trade accounts receivable. Through these programs, the Company can sell receivables, without recourse, to financial institutions. These transactions are accounted for as sales in accordance with SFAS No. 140, because the Company has surrendered control over the receivables. The Company sold a total of ¥5,636 million ($48,171 thousand) of receivable under this program for the year ended March 31, 2006. Losses from these transactions were ¥24 million ($205 thousand) for the year ended March 31, 2006. Although the Company continues servicing the sold receivables, no servicing liabilities are recorded because costs for collection of the sold receivables are immaterial.

7. Inventories:

Inventories at March 31, 2005 and 2006 comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Finished products	¥ 52,807	**¥ 48,622**	**$ 415,572**
Work in process	26,330	**27,175**	**232,265**
Materials and supplies	29,878	**28,429**	**242,983**
Total	¥ 109,015	**¥ 104,226**	**$ 890,820**

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8. Investments in and advances to affiliated companies:

Investments in and advances to affiliated companies principally represent the Company s equity in the underlying assets of 20% to 50% owned companies. Dividends received from companies accounted for by the equity method of accounting were ¥4 million, ¥4 million and ¥4 million ($34 thousand), respectively, for the years ended March 31, 2004, 2005 and 2006.

Retained earnings include the parent company s and its consolidated subsidiaries equity in undistributed earnings of 20% to 50% owned companies accounted for by the equity method of accounting in the amount of ¥329 million and ¥339 million ($2,897 thousand) at March 31, 2005 and 2006, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Current assets	¥ 8,427	**¥ 2,528**	**$ 21,607**
Property, plant and equipment	25,326	**638**	**5,453**
Other assets	403	**210**	**1,795**
Total assets	¥ 34,156	**¥ 3,376**	**$ 28,855**
Current liabilities	¥ 5,116	**¥ 1,110**	**$ 9,487**
Long-term liabilities	24,736	**294**	**2,513**
Shareholders equity	4,304	**1,972**	**16,855**
Total liabilities and shareholders equity	¥ 34,156	**¥ 3,376**	**$ 28,855**

	Millions of Yen			Thousands of U.S. Dollars
Years ended March 31	2004	2005	**2006**	**2006**
Net sales	¥ 8,408	¥ 9,229	**¥ 6,974**	**$ 59,607**
Gross profit (loss)	1,004	(1,932)	**941**	**8,043**
Net loss	5,023	5,801	**24,720**	**211,282**

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9. Intangible assets:

Intangible assets subject to amortization acquired during the year ended March 31, 2006 totaled ¥9,223 million ($78,829 thousand) and primarily consisted of software of ¥8,941 million ($76,419 thousand) and patents of ¥29 million ($248 thousand). The weighted-average amortization periods for software, patents and total acquired during the year ended March 31, 2006 were 3.6 years, 12.6 years and 3.9 years, respectively.

Intangible assets subject to amortization are comprised of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2005		**2006**		**2006**	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Software	¥ 34,281	¥ (19,595)	**¥ 30,503**	**¥ (17,164)**	**$ 260,709**	**$ (146,701)**
Patents	28,107	(20,538)	**30,319**	**(24,593)**	**259,137**	**(210,197)**
Other	2,737	(940)	**2,588**	**(1,077)**	**22,120**	**(9,205)**
Total	¥ 65,125	¥ (41,073)	**¥ 63,410**	**¥ (42,834)**	**$ 541,966**	**$ (366,103)**

The aggregate amortization expense for intangible assets for the years ended March 31, 2004, 2005 and 2006 was ¥6,109 million, ¥7,229 million and ¥8,662 million ($74,034 thousand), respectively. The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 7,786	$ 66,547
2008	4,485	38,333
2009	3,109	26,573
2010	1,539	13,154
2011	827	7,068

10. Impairment losses of long-lived assets:

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

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

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

The Company recognized impairment losses of long-lived assets in the aggregate of ¥41,422 million ($354,034 thousand) for the year ended March 31, 2006.

During the year ended March 31, 2006, the Company reviewed the production facilities of plasma display (PPD s production facilities and other) and DVD recorder related products for impairment because of significant decreases in gross profit margins for plasma display and DVD recorder related products due to a sharp decline in market prices. As a result of the review, an impairment loss of ¥31,915 million ($272,778 thousand) in plasma display and ¥8,950 million ($76,496 thousand) in DVD recorder related products were recognized as the excess of the carrying value of the asset group over the estimated fair value of the asset group. Fair value was determined using the present value of estimated cash flows.

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

Short-term borrowings at March 31, 2005 and 2006 comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Bank loans:			
Weighted-average interest rate 1.25% at March 31, 2005 and 1.62% at March 31, 2006:			
Uncollateralized	¥33,152	**¥23,205**	**$ 198,333**

Long-term debt at March 31, 2005 and 2006 comprises the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Loans, principally from banks, maturing serially through 2013 interest ranging from 2.90% to 3.06% at March 31, 2005 and from 0.95% to 2.90% at March 31, 2006:			
Collateralized	¥ 1,960	**¥ 4,916**	**$ 42,017**
Uncollateralized	50	**15,452**	**132,068**
2.35% Uncollateralized bonds due 2005	15,000		
2.80% Uncollateralized bonds due 2008	10,000	**10,000**	**85,470**
Zero coupon convertible bonds due 2011, including unamortized issue premium, ¥1,779 million at March 31, 2005 and ¥1,479 million ($12,641 thousand) at March 31, 2006 (effective annual rate 0.5%)	61,779	**61,479**	**525,462**
Long-term capital lease obligations, 1.25% to 3.26% at March 31, 2005 and 2006 due principally 2012	11,129	**8,251**	**70,521**
Industrial development U.S. dollar revenue bonds due 2005 with fluctuating interest rates (1.70% at March 31, 2005), subject to maximum rate of 15% in 2005 and other	577	**37**	**316**
Total	100,495	**100,135**	**855,854**
Less Portion due within one year	19,276	**7,165**	**61,239**
Total	¥ 81,219	**¥ 92,970**	**$ 794,615**

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

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

¥4,022. Market price of common stock at the date of issuance of the Bonds was ¥3,220.

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

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

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

Unused lines of credit for short-term financing at March 31, 2006 approximated ¥254,482 million ($2,175,060 thousand) of which ¥30,000 million ($256,410 thousand) relates to commercial paper programs. There were no unused commitments for long-term financing arrangements at March 31, 2006. There were no commitment fees.

Land and buildings with a book value of ¥7,366 million ($62,957 thousand) were pledged as collateral for certain long-term loans of the Company at March 31, 2006.

The aggregate annual maturities of long-term debt during the five years ending March 31, 2011 and thereafter are as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 7,165	$ 61,239
2008	6,632	56,684
2009	13,694	117,043
2010	3,271	27,957
2011	3,267	27,923
2012 and thereafter	66,106	565,008
Total	¥ 100,135	$ 855,854

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

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12. Pension plans and accrued severance cost:

The parent company and major domestic subsidiaries have non-contributory defined benefit pension plans which cover substantially all of their employees. The benefits are in the form of annuity payments and/or lump-sum payments and are based on 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 which covers substantially all of its Japanese employees. The benefits are based on sum of cumulative points; which are accumulated based on years of service, job class and conditions under which termination occurs.

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

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

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

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

Substantially all of the employees of U.S. and European subsidiaries are covered by defined benefit pension plans. Under such plans, the related cost of benefit is funded or accrued. The benefits are based on the level of salary at retirement or earlier termination of employment, the years of service and conditions under which termination occurs.

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

Net periodic benefit costs for the domestic and foreign defined benefit pension plans for the years ended March 31, 2004, 2005 and 2006 consisted of the following:

					Millions of Yen		Thousands of U.S. Dollars	
	2004		2005		**2006**		**2006**	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Service cost	¥ 5,752	¥ 542	¥ 4,540	¥ 565	**¥ 4,552**	**¥ 417**	**$ 38,906**	**$ 3,564**
Interest cost	4,819	639	5,224	693	**2,361**	**755**	**20,179**	**6,453**
Expected return on assets	(3,127)	(442)	(3,729)	(580)	**(2,313)**	**(684)**	**(19,769)**	**(5,846)**
Amortization of unrecognized net actuarial loss	4,060	11	3,225	52	**2,211**	**45**	**18,897**	**385**
Amortization of unrecognized net assets at date of application	(504)		(504)		**(504)**		**(4,308)**	
Amortization of unrecognized prior service (gain) loss	(899)	16	(899)	4	**(1,573)**	**3**	**(13,444)**	**25**
Settlement loss			51,893					
Curtailment (gain) loss		(18)		26	**(15)**		**(128)**	
Derecognition of previously accrued salary progression			(2,402)					
Net periodic benefit cost	¥10,101	¥ 748	¥57,348	¥ 760	**¥ 4,719**	**¥ 536**	**$ 40,333**	**$ 4,581**
Actuarial assumptions used to determine net periodic pension cost:								
Discount rate	3.2%	6.1%	3.4%	5.6%	**2.5%**	**5.4%**		
Rate of salary increase	2.6%	3.9%	2.6%	4.0%	*	**4.0%**		
Long-term rate of return on plan assets	3.9%	7.6%	3.9%	7.0%	**3.9%**	**7.2%**		

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

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

	Millions of Yen				Thousands of U.S. Dollars	
	2005		**2006**		**2006**	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Change in benefit obligation:						
Benefit obligation at beginning of year	¥ 154,125	¥ 12,574	**¥ 94,410**	**¥ 13,595**	**$ 806,923**	**$ 116,197**
Service cost	4,540	565	**4,552**	**417**	**38,906**	**3,564**
Interest cost	5,224	693	**2,361**	**755**	**20,179**	**6,453**
Plan participants contribution	39	110		**113**		**966**
Actuarial loss	36,091	781	**1,222**	**1,784**	**10,444**	**15,248**
Lump-sum cash payments	(1,878)		**(2,462)**		**(21,043)**	
Benefits paid	(1,910)	(228)	**(1,655)**	**(298)**	**(14,145)**	**(2,547)**
Transfer of substitutional portion	(92,219)					
Plan amendment	(9,602)		**(1,219)**		**(10,419)**	
Curtailment		(1,412)	**(141)**		**(1,204)**	
Translation adjustments		512		**695**		**5,940**
Benefit obligation at end of year	¥ 94,410	¥ 13,595	**¥ 97,068**	**¥ 17,061**	**$ 829,641**	**$ 145,821**
Change in plan assets:						
Fair value of plan assets at beginning of year	¥ 95,595	¥ 7,656	**¥ 59,325**	**¥ 9,330**	**$ 507,051**	**$ 79,744**
Actual return on plan assets	2,704	499	**14,385**	**1,339**	**122,949**	**11,444**
Employer contribution	5,895	990	**7,661**	**726**	**65,479**	**6,205**
Plan participants contribution	39	110		**113**		**966**
Lump-sum cash payments	(1,878)		**(2,462)**		**(21,043)**	
Benefits paid	(1,910)	(228)	**(1,655)**	**(298)**	**(14,145)**	**(2,547)**
Transfer of substitutional portion	(41,120)					
Translation adjustments		303		**538**		**4,598**
Fair value of plan assets at end of year	¥ 59,325	¥ 9,330	**¥ 77,254**	**¥ 11,748**	**$ 660,291**	**$ 100,410**
Funded status	(35,085)	(4,265)	**(19,814)**	**(5,313)**	**(169,350)**	**(45,411)**
Unrecognized actuarial loss	44,957	1,814	**31,770**	**2,775**	**271,538**	**23,719**
	(935)		**(431)**		**(3,684)**	

Unrecognized net assets at the date of application						
Unrecognized prior service cost (gain)	(20,612)	58	**(20,258)**	**55**	**(173,145)**	**470**
Net amount recognized	¥ (11,675)	¥ (2,393)	**¥ (8,733)**	**¥ (2,483)**	**$ (74,641)**	**$ (21,222)**
Amounts recognized in the statement of financial position consist of:						
Accrued benefit liabilities	¥ (32,759)	¥ (3,263)	**¥ (15,893)**	**¥ (4,106)**	**$ (135,838)**	**$ (35,094)**
Accumulated other comprehensive income	21,084	870	**7,160**	**1,623**	**61,197**	**13,872**
Net amount recognized	¥ (11,675)	¥ (2,393)	**¥ (8,733)**	**¥ (2,483)**	**$ (74,641)**	**$ (21,222)**
Accumulated benefit obligation at end of year	¥ 92,074	¥ 12,344	**¥ 92,161**	**¥ 15,435**	**$ 787,701**	**$ 131,923**
Actuarial assumptions used to determine benefit obligations:						
Discount rate	2.5%	5.4%	**2.5%**	**4.9%**		
Rate of salary increase	*	4.0%	*****	**2.5%**		

* The benefit obligations are determined using cumulative points and not salaries. The benefit obligations at March 31, 2005 and 2006 were calculated on the basis of an annual increase in points of 3.0%.

The aggregate projected benefit obligations and the aggregate fair value of plan assets for the domestic pension plans for which projected benefit obligations exceed plan assets are ¥90,741 million ($775,564 thousand) and ¥70,872 million ($605,744 thousand) at March 31, 2006.

The aggregate accumulated benefit obligations and the aggregate fair value of plan assets for the domestic pension plans for which accumulated benefit obligations exceed plan assets are ¥87,035 million ($743,889 thousand) and ¥70,872 million ($605,744 thousand) at March 31, 2006.

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Accumulated benefit obligations	¥11,474	**¥15,161**	**$ 129,581**
Fair value of plan assets	8,369	**11,447**	**97,838**

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

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

The pension plan weighted-average asset allocations at March 31, 2005 and 2006, by asset category are as follows:

Asset Category	2005	**2006**
Equity securities	53%	**57%**
Debt securities	34	**35**
Other	13	**8**
Total	100%	**100%**

The Company s investment policy is to maintain a diversified portfolio of asset classes with the primary goal of producing an adequate return that, when combined with the Company s contribution, will maintain the fund s ability to meet future cash requirements for pension benefit payments. For primary domestic pension plans, the target asset allocation is established based on long-term pension plan asset/liability studies, and the weighted-average target asset allocation for these plans at March 31, 2006 is; equity securities 56%, debt securities 41%, other 3%. All the assets are externally managed and investment managers have discretion to carry out investment operations within their respective mandates specified by the Company.

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

The Company expects to contribute ¥6,701 million ($57,274 thousand) to its defined benefit plans in the year ending March 31, 2007.

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

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 9,402	$ 80,359
2008	3,435	29,359
2009	3,878	33,145
2010	4,309	36,829
2011	4,965	42,436
Years 2012 2016	25,830	220,769

13. Income taxes:

The Company is subject to a number of different income taxes which, in the aggregate, indicate a normal statutory tax rate of approximately 42% for the year ended March 31, 2004 and 41% for the years ended March 31, 2005 and 2006 in Japan.

Income tax expense for the year ended March 31, 2004 included ¥682 million charges resulting from the settlement of a proposed assessment from the U.S. Internal Revenue Service relating to an adjustment to transfer prices between affiliated companies for the years ended March 31, 1997 through 1999.

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

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Computed tax expense at normal statutory tax rate	¥ 17,022	¥ (847)	**¥ (29,178)**	**$ (249,385)**
Increase (decrease) resulting from:				
Loss operations	1,294	6,137	**39,814**	**340,291**
Realization of tax benefit of operating loss carryforwards	(395)	(671)	**(1,005)**	**(8,590)**
Expenses not deductible for tax purpose:				
Domestic	272	243	**192**	**1,641**
Foreign	120	413	**205**	**1,752**
Difference in foreign and Japanese tax rates	(1,535)	(1,784)	**(1,383)**	**(11,820)**
Effect of tax rate change on deferred taxes	432			
Liquidation of ELDis, Inc.			**(13,503)**	**(115,410)**
Tax benefit for discontinued operations	3,025			
Tax credit for research and development expenses	(898)	(232)	**(141)**	**(1,205)**
Other	(1,168)	1,028	**339**	**2,897**
Provision for income taxes	¥ 18,169	¥ 4,287	**¥ (4,660)**	**$ (39,829)**

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Total income taxes provided for the years ended March 31, 2004, 2005 and 2006 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Provision for income taxes (benefit) on income from continuing operations	¥ 18,169	¥ 4,287	**¥ (4,660)**	**$ (39,829)**
Provision for income taxes (benefit) on income from discontinued operations	(1,892)	555	**482**	**4,120**
Shareholders equity directly charged (credited):				
Minimum pension liability adjustments	6,953	8,225	**5,505**	**47,051**
Net unrealized gains on securities	4,009	(593)	**1,460**	**12,479**
Total	¥ 27,239	¥ 12,474	**¥ 2,787**	**$ 23,821**

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

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Income (loss) from continuing operations before income taxes:				
Domestic	¥ 16,737	¥ 2,649	**¥ (69,834)**	**$ (596,872)**
Foreign	23,791	(4,716)	**(1,331)**	**(11,376)**
Total	¥ 40,528	¥ (2,067)	**¥ (71,165)**	**$ (608,248)**
Income taxes Current:				
Domestic	¥ 9,935	¥ 6,260	**¥ 5,232**	**$ 44,718**
Foreign	7,183	909	**2,842**	**24,291**
Total	¥ 17,118	¥ 7,169	**¥ 8,074**	**$ 69,009**
Income taxes Deferred:				
Domestic	¥ (837)	¥ (1,659)	**¥ (13,854)**	**$ (118,410)**
Foreign	1,888	(1,223)	**1,120**	**9,572**
Total	¥ 1,051	¥ (2,882)	**¥ (12,734)**	**$ (108,838)**

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The significant components of the deferred tax assets and liabilities at March 31, 2005 and 2006 are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2005		**2006**		**2006**	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Inventories	¥ 5,590		**¥ 6,198**		**$ 52,974**	
Marketable equity securities	2,040	¥ 4,445	**2,092**	**¥ 7,074**	**17,880**	**$ 60,461**
Allowance for notes and accounts receivable	824		**871**		**7,445**	
Accrued expenses	16,316		**22,549**		**192,726**	
Warranty reserve	1,863		**1,969**		**16,829**	
Tax loss carryforwards	21,232		**52,832**		**451,556**	
Pension and severance cost	15,116		**8,905**		**76,111**	
Property	4,230		**17,981**		**153,684**	
Depreciation	3,029	490	**4,119**	**342**	**35,205**	**2,923**
Royalty receivable	539		**472**		**4,034**	
Other	6,539	2,469	**2,275**	**4,718**	**19,445**	**40,325**
Total	77,318	7,404	**120,263**	**12,134**	**1,027,889**	**103,709**
Valuation allowance	(20,605)		**(53,112)**		**(453,949)**	
Total	¥ 56,713	¥ 7,404	**¥ 67,151**	**¥ 12,134**	**$ 573,940**	**$ 103,709**

The changes in the valuation allowance for the years ended March 31, 2004, 2005 and 2006 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
Valuation Allowance	2004	2005	**2006**	**2006**
Balance at beginning of year	¥ 15,292	¥ 11,591	**¥ 20,605**	**$ 176,111**
Addition*	1,956	12,851	**35,118**	**300,154**
Deduction	(5,469)	(3,963)	**(2,948)**	**(25,196)**
Translation adjustments	(188)	126	**337**	**2,880**
Balance at end of year	¥ 11,591	¥ 20,605	**¥ 53,112**	**$ 453,949**

* Addition includes valuation allowance of ¥7,953 million recognized by PPD at the time of acquisition at September 30, 2004.

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

Decrease in valuation allowance for the year ended March 31, 2004 was mainly due to the reversal of valuation allowance for discontinued operations. Increase in valuation allowance for the year ended March 31, 2005 was mainly due to losses incurred at certain subsidiaries for which the realization of the related deferred tax assets was determined

not to be more likely than not. Increase in valuation allowance for the year ended March 31, 2006 was mainly due to losses incurred at the parent company and certain subsidiaries.

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At March 31, 2006, the Company has tax loss carryforwards which are available to reduce taxable income in subsequent periods. If not utilized, such loss carryforwards expire as follows:

Years ending March 31		Millions of Yen		Thousands of U.S. Dollars
2007	¥	542	$	4,633
2008		624		5,333
2009		285		2,436
2010		3,196		27,316
2011		7,307		62,453
Thereafter		123,075		1,051,923
Total	¥	135,029	$	1,154,094

No provision for income taxes is recognized on undistributed earnings of foreign subsidiaries that are not expected to be remitted in the foreseeable future. Undistributed earnings of foreign subsidiaries (including related foreign currency translation adjustments) at March 31, 2005 and 2006 amounted to approximately ¥115,606 million and ¥134,148 million ($1,146,564 thousand), respectively. It is not practical to estimate the amount of taxes that might be payable on the eventual remittance of such earnings.

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

14. Shareholders equity:

Common Stock and Capital Surplus

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

Companies in the United States issuing shares in similar transactions would be required to account for them as stock dividends. Had the distributions been accounted for in the manner adopted by the United States companies, ¥179,076 million ($1,530,564 thousand) would have been transferred from retained earnings to appropriate capital accounts at March 31, 2006.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus.

Retained Earnings

Retained earnings consist of legal reserve and unappropriated retained earnings.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash payments applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for appropriations by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the

amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payments as described above, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥77,625 million ($663,462 thousand) at March 31, 2006, based on the amount recorded in the parent company s general books and records maintained in accordance with accepted Japanese accounting practices. The adjustments are included in the accompanying consolidated financial statements to conform to U.S. GAAP, but are not recorded in the books, and have no effect on the determination of retained earnings available for dividends under the Code.

On May 1, 2006, the Company Law became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 31, 2006. The significant changes in the Company Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Company Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends 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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends.

(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 a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Company Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. 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 specific formula.

At the general meeting of shareholders held on June 27, 2002, the shareholders of the parent company authorized the purchase of up to 10,000,000 shares of the parent company s common stock. In August 2002, November 2002, February 2003 and March 2005, the parent company purchased 1,610,000 shares, 2,000,000 shares, 1,500,000 shares and 1,000,000 shares of its common stock, respectively, in the market for the aggregate cost of ¥13,455 million as a publicly announced plan to improve capital efficiency

pursuant to a revision in the Code.

The appropriations of retained earnings for the year ended March 31, 2006, which have been incorporated in the accompanying consolidated financial statements, will be proposed for approval at the general meeting of shareholders to be held on June 29, 2006 and will be recorded in the parent company s general books of account after shareholders approval.

15. Stock-based compensation plans:

The Company has a stock option plan as an incentive plan for directors, executive officers and selected employees.

In accordance with approval at the general meeting of shareholders on June 28, 2001, the Company granted share subscription rights to employees. Also, in accordance with approval at the general meetings of shareholders on June 27, 2002, June 27, 2003, June 29, 2004, and June 29, 2005, the Company granted share acquisition rights to directors, executive officers and certain employees of the Company. These options are vested and immediately exercisable after two years from the date of grant, and exercise periods are three years from the vesting. The Company recorded the fair value of the stock option as a part of their remuneration.

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

			Yen		
Years ended March 31	Plan	Exercisable Period	Weighted-Average Exercise Price	Weighted-Average Grant Date Share Price	Number of Shares (Thousands)
2002	Stock option	From July 1, 2003 to June 30, 2006	¥ 3,791	¥ 3,750	191
2003	Stock option	From July 1, 2004 to June 29, 2007	2,477	2,170	564
2004	Stock option	From July 1, 2005 to June 30, 2008	2,951	2,845	313
2005	Stock option	From July 3, 2006 to June 30, 2009	2,944	2,660	316
2006	Stock option	From July 2, 2007 to June 30, 2010	**1,828**	**1,658**	**315**

			U.S. Dollars	
Year ended March 31	Plan	Exercisable Period	Weighted-Average Exercise Price	Weighted-Average Grant Date Share Price
2006	Stock option	From July 2, 2007 to June 30, 2010	**$ 15.62**	**$ 14.17**

Remuneration costs recognized for stock-based compensation plans for the years ended March 31, 2004, 2005 and 2006 were ¥305 million, ¥270 million and ¥175 million ($1,495 thousand), respectively.

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The weighted-average fair value per share at the date of grant for the stock options granted during the years ended March 31, 2004, 2005 and 2006 were ¥907, ¥654 and ¥306 ($2.62), respectively. The fair value of the stock options granted on the date of grant, which is amortized to expense over the vesting period, is estimated using the Black-Scholes option-valuation model with the following weighted-average assumptions:

	2004	2005	**2006**
Risk-free interest rate	0.34%	0.50%	**0.23%**
Expected lives	3.48 years	3.48 years	**3.48 years**
Expected volatility	48.13%	40.02%	**31.98%**
Expected dividends	0.88%	0.93%	**0.90%**

A summary of the status of the Company s warrants, which expired through August 26, 2004, and options at March 31, 2004, 2005 and 2006, and changes during the years is as follows:

	Number of Shares	Weighted-Average Remaining Life	Weighted-Average Exercise Price per Share	
	(Thousands)	(Years)	Yen	U.S. Dollars
Outstanding at March 31, 2003	1,643	2.5	¥ 3,441	
Granted	313		2,951	
Expired	(284)		4,728	
Outstanding at March 31, 2004	1,672	2.4	¥ 3,131	
Granted	316		2,944	
Exercised	(4)		2,477	
Expired	(413)		3,266	
Outstanding at March 31, 2005	1,571	2.5	¥ 3,059	$ 26.15
Granted	**315**		**1,828**	**15.62**
Expired	**(191)**		**4,400**	**37.61**
Outstanding at March 31, 2006	**1,695**	**2.3**	**¥ 2,679**	**$ 22.90**
Exercisable at March 31, 2005	942		¥ 3,133	
Exercisable at March 31, 2006	**1,064**		**¥ 2,852**	**$ 24.38**

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16. Other comprehensive income:

Change in accumulated other comprehensive income (loss) is as follows:

				Millions of Yen
	Minimum Pension Liability Adjustments	Net Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2003	¥ (32,675)	¥ 3,348	¥ (26,302)	¥ (55,629)
Adjustments for the year	9,745	5,755	(21,700)	(6,200)
Balance at March 31, 2004	(22,930)	9,103	(48,002)	(61,829)
Adjustments for the year	11,744	(853)	3,269	14,160
Balance at March 31, 2005	(11,186)	8,250	(44,733)	(47,669)
Adjustments for the year	**7,506**	**2,102**	**17,969**	**27,577**
Balance at March 31, 2006	**¥ (3,680)**	**¥ 10,352**	**¥ (26,764)**	**¥ (20,092)**

				Thousands of U.S. Dollars
	Minimum Pension Liability Adjustments	Net Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income -Loss)
Balance at March 31, 2005	$ (95,607)	$ 70,513	$ (382,333)	$ (407,427)
Adjustments for the year	**64,154**	**17,966**	**153,581**	**235,701**
Balance at March 31, 2006	**$ (31,453)**	**$ 88,479**	**$ (228,752)**	**$ (171,726)**

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

	Millions of Yen			
	Before-Tax Amount	Tax (Expense) or Benefit	Minority Interest	Net-of-Tax Amount
2004:				
Minimum pension liability adjustments	¥ 16,803	¥ (6,953)	¥ (105)	¥ 9,745
Net unrealized gains on securities:				
Unrealized holding gains arising during year	9,790	(4,013)	(16)	5,761
Less Reclassification adjustment for gains realized in net income	(10)	4		(6)
Net unrealized gains	9,780	(4,009)	(16)	5,755
Foreign currency translation adjustments:				
Foreign currency translation adjustments arising during year	(23,010)		912	(22,098)
Less Reclassification adjustment for losses realized in net income	398			398
Net foreign currency translation adjustments	(22,612)		912	(21,700)
Other comprehensive income (loss)	¥ 3,971	¥ (10,962)	¥ 791	¥ (6,200)
2005:				
Minimum pension liability adjustments	¥ 20,003	¥ (8,225)	¥ (34)	¥ 11,744
Net unrealized gains on securities:				
Unrealized holding gains arising during year	843	(347)	4	500
Less Reclassification adjustment for gains realized in net income	(2,293)	940		(1,353)
Net unrealized losses	(1,450)	593	4	(853)
Foreign currency translation adjustments	3,292		(23)	3,269
Other comprehensive income (loss)	¥ 21,845	¥ (7,632)	¥ (53)	¥ 14,160
2006				
Minimum pension liability adjustments	**¥ 13,171**	**¥ (5,505)**	**¥ (160)**	**¥ 7,506**
Net unrealized gains on securities:				
Unrealized holding gains arising during year	**9,534**	**(3,904)**	**(10)**	**5,620**
Less Reclassification adjustment for gains realized in net income	**(5,962)**	**2,444**		**(3,518)**
Net unrealized gains	**3,572**	**(1,460)**	**(10)**	**2,102**
Foreign currency translation adjustments:				
Foreign currency translation adjustments arising during year	**18,986**		**(865)**	**18,121**

	Before-Tax Amount	Tax (Expense) or Benefit	Minority Interest	Net-of-Tax Amount
Less Reclassification adjustment for gains realized in net income	**(152)**			**(152)**
Foreign currency translation adjustments	**18,834**		**(865)**	**17,969**
Other comprehensive income (loss)	**¥ 35,577**	**¥ (6,965)**	**¥ (1,035)**	**¥ 27,577**

	Thousands of U.S. Dollars			
	Before-Tax Amount	Tax (Expense) or Benefit	Minority Interest	Net-of-Tax Amount
2006				
Minimum pension liability adjustments	**$ 112,573**	**$ (47,051)**	**$ (1,368)**	**$ 64,154**
Net unrealized gains on securities:				
Unrealized holding gains arising during year	**81,487**	**(33,368)**	**(85)**	**48,034**
Less Reclassification adjustment for gains realized in net income	**(50,957)**	**20,889**		**(30,068)**
Net unrealized gains	**30,530**	**(12,479)**	**(85)**	**17,966**
Foreign currency translation adjustments:				
Foreign currency translation adjustments arising during year	**162,273**		**(7,393)**	**154,880**
Less Reclassification adjustment for gains realized in net income	**(1,299)**			**(1,299)**
Foreign currency translation adjustments	**160,974**		**(7,393)**	**153,581**
Other comprehensive income (loss)	**$ 304,077**	**$ (59,530)**	**$ (8,846)**	**$ 235,701**

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17. Restructuring plans:

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

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

During the year ended March 31, 2005, the Company made a decision to close a car electronics plant in Mexico as part of the integration plan in foreign manufacturing companies. As a result of this closure, this subsidiary recognized an impairment loss of ¥477 million for the year ended March 31, 2005 and recorded involuntary special termination benefits of ¥197 million ($1,684 thousand) for the year ended March 31, 2006. These were recorded in Impairment of long-lived assets and Special termination benefits of other deductions of cost and expenses, respectively. This restructuring activity was substantially completed in the year ended March 31, 2006 and no liability existed at March 31, 2006.

During the year ended March 31, 2006, the Company decided to close a car electronics plant in Belgium as part of the integration plan in foreign manufacturing companies. As a result of this decision, this subsidiary recorded involuntary special termination benefits of ¥2,977 million ($25,444 thousand) and an impairment loss of ¥557 million ($4,761 thousand) related to the property and equipment for the year ended March 31, 2006. These were included in Special termination benefits and Impairment of long-lived assets of other deductions of cost and expenses, respectively. Furthermore, the Company recorded contract termination costs of ¥253 million ($2,162 thousand) and other associated costs of ¥595 million ($5,085 thousand) which were included in Other of other deductions of cost and expenses for the year ended March 31, 2006. This restructuring activity was substantially completed and the remaining liability balance at March 31, 2006 was ¥2,754 million ($23,538 thousand).

In addition to the restructuring efforts disclosed above, the Company has undergone several head count reduction programs to further reduce operating costs. In Japan, twelve Pioneer Group domestic companies, including the parent company, implemented voluntary early retirement programs in February 2006. In relation to these programs, the Company recorded special termination benefits of ¥10,760 million ($91,966 thousand) for the year ended March 31, 2006 when employees accepted the offer and the amount could be reasonably estimated. The remaining liability balance at March 31, 2006 of ¥10,760 million ($91,966 thousand) will be paid during the year ending March 31, 2007. In addition, certain foreign subsidiaries recorded voluntary special termination benefits of ¥161 million ($1,376 thousand) for the year ended March 31, 2006. There were included in Special termination benefits of other deductions of cost and expenses in the consolidated statements of operations.

In connection with the restructuring plan, during the year ended March 31, 2006, the Company decided to withdraw from the TFT substrate business which had been carried out by ELDis, Inc., an equity method investee, which was 47.5% owned by Tohoku Pioneer Corporation, a 67.1% owned subsidiary. ELDis, Inc. was liquidated in March 2006 with the Company assuming its long-term debt amounting to ¥25,357 million ($216,726 thousand). The Company recorded losses of ¥24,139 million ($206,316 thousand) in Equity in losses of affiliated companies in the consolidated statements of operations for the year ended March 31, 2006; which included the long-term debt assumed of ¥25,357 million and gain on disposal and others of ¥1,922 million ($16,427 thousand).

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18. Supplemental information:

Supplemental information for the years ended March 31, 2004, 2005 and 2006 is as follows:

		Millions of Yen		Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Research and development expenses charged to cost and expenses	¥51,449	¥55,858	**¥63,442**	**$ 542,239**
Advertising costs charged to expense as incurred	12,813	11,587	**10,961**	**93,684**

Other income of revenues for the years ended March 31, 2004, 2005 and 2006 consisted of the following:

		Millions of Yen		Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Gain on sale of available-for-sale securities and sundry investments	¥ 37	¥2,309	**¥5,711**	**$ 48,812**
Foreign exchange gain, net		480		
Dividend income	319	378	**481**	**4,111**
Other	123	257	**597**	**5,103**
Total other income	¥ 479	¥3,424	**¥6,789**	**$ 58,026**

Other deductions of cost and expenses for the years ended March 31, 2004, 2005 and 2006 consisted of the following:

		Millions of Yen		Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Impairment of long-lived assets		¥4,460	**¥41,422**	**$ 354,034**
Special termination benefits		25	**14,095**	**120,470**
Write-down of available-for-sale securities and sundry investments	¥ 245	51	**133**	**1,137**
Foreign exchange loss, net	1,192		**2,326**	**19,880**
Other	152	1,800	**2,044**	**17,470**
Total other deductions	¥1,589	¥6,336	**¥60,020**	**$ 512,991**

19. Leased assets:

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

An analysis of assets under capital leases was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Machinery and equipment	¥ 12,625	**¥ 13,041**	**$ 111,461**
Accumulated depreciation	(1,794)	**(5,066)**	**(43,299)**
Total	¥ 10,831	**¥ 7,975**	**$ 68,162**

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The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments at March 31, 2006:

Years ending March 31		Millions of Yen		Thousands of U.S. Dollars
2007	¥	3,277	$	28,009
2008		2,649		22,641
2009		650		5,555
2010		640		5,470
2011		629		5,376
2012 and thereafter		790		6,752
Total minimum lease payments		8,635		73,803
Less Amount representing interest		384		3,282
Present value of net minimum lease payment		8,251		70,521
Less Current obligations		3,094		26,444
Long-term capital lease obligations	¥	5,157	$	44,077

Rental expenses under operating leases for the years ended March 31, 2004, 2005 and 2006 aggregated ¥5,991 million, ¥8,123 million and ¥7,520 million ($64,274 thousand), respectively. Such rentals relate principally to cancelable leases which are renewable upon expiration.

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The net minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2006 are as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 2,511	$ 21,462
2008	1,976	16,889
2009	1,470	12,564
2010	849	7,256
2011	472	4,034
Thereafter	1,171	10,009
Total minimum future rentals	¥ 8,449	$ 72,214

20. Financial instruments:

Derivatives

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

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

The notional amounts of forward exchange contracts at March 31, 2005 and 2006 were ¥34,950 million and ¥38,864 million ($332,171 thousand), respectively. The notional amounts of currency options purchased at March 31, 2006 were ¥9,128 million ($78,017 thousand). The notional amounts of currency options written at March 31, 2006 were ¥9,128 million ($78,017 thousand).

To change currency and interest rate features of intercompany finance transactions, the Company enters into currency swap contracts with banks. Currency swap contracts effectively change, in substance, the U.S. dollars floating interest rate intercompany borrowings into Japanese yen fixed and floating interest rate borrowings and euro fixed interest rate borrowings. The notional amounts of currency swap contracts at March 31, 2005 and 2006 were ¥35,489 million and ¥ 55,667million ($475,786 thousand), respectively.

Concentration of Credit Risk

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

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

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

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21. Fair value of financial instruments:

The following table presents the carrying amounts and fair values of the Company s financial instruments at March 31, 2005 and 2006:

	Millions of Yen				Thousands of U.S. Dollars	
	2005		**2006**		**2006**	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Assets:						
Available-for-sale securities	¥ 22,268	¥ 22,268	**¥ 24,733**	**¥ 24,733**	**$ 211,393**	**$ 211,393**
Sundry investments	411	452	**396**	**479**	**3,385**	**4,094**
Long-term receivables	185	179	**145**	**140**	**1,239**	**1,197**
Other financial instruments:						
Forward exchange contracts	50	50	**105**	**105**	**897**	**897**
Currency swap	190	190	**2,706**	**2,706**	**23,128**	**23,128**
Currency option			**69**	**69**	**590**	**590**
Liabilities:						
Long-term debt, including current maturity	(100,495)		**(100,135)**		**(855,854)**	
Less Capital lease obligations	11,129		**8,251**		**70,521**	
Long-term debt net	(89,366)	(84,301)	**(91,884)**	**(86,316)**	**(785,333)**	**(737,744)**
Other financial instruments:						
Forward exchange contracts	(555)	(555)	**(352)**	**(352)**	**(3,009)**	**(3,009)**
Currency swap	(3,009)	(3,009)	**(125)**	**(125)**	**(1,068)**	**(1,068)**
Currency option			**(60)**	**(60)**	**(513)**	**(513)**

Estimation of Fair Values

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

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

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

Sundry investments included non-marketable equity securities, amounting to ¥2,977 million and ¥2,793 million ($23,872 thousand) at March 31, 2005 and 2006, respectively, and memberships amounting to ¥411 million and ¥ 396million ($3,385 thousand) at March 31, 2005 and 2006, respectively. The corresponding fair values of non-marketable equity securities at those dates were not computed as such estimation is not practicable. The fair values of memberships were estimated based on the market price.

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

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

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

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

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22. Basic and diluted earnings per share:

A reconciliation of the numerators and denominators of basic and diluted net income (loss) per share computation for the years ended March 31, 2004, 2005 and 2006 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Income (loss) from continuing operations	¥19,464	¥(10,112)	**¥(85,758)**	**$ (732,974)**
Effect of dilution Zero coupon convertible bonds	(21)			
Income (loss) from continuing operations diluted	¥19,443	¥(10,112)	**¥(85,758)**	**$ (732,974)**
Income from discontinued operations, net of tax	¥ 5,374	¥ 1,323	**¥ 772**	**$ 6,598**
Net income (loss)	¥24,838	¥ (8,789)	**¥(84,986)**	**$ (726,376)**
Effect of dilution Zero coupon convertible bonds	(21)			
Net income (loss) diluted	¥24,817	¥ (8,789)	**¥(84,986)**	**$ (726,376)**

	Number of Shares (Thousands)		
Weighted-average common shares outstanding	175,433	175,389	**174,426**
Effect of dilutive convertible bonds	1,115		
Effect of stock options	61		
Diluted common shares outstanding	176,609	175,389	**174,426**

	Yen			U.S. Dollars
Basic net income per share:				
Income (loss) from continuing operations	¥110.95	¥(57.65)	**¥(491.66)**	**$ (4.20)**
Income from discontinued operations, net of tax	30.63	7.54	**4.43**	**0.04**
Net income (loss)	¥141.58	¥(50.11)	**¥(487.23)**	**$ (4.16)**
Diluted net income per share:				
Income (loss) from continuing operations	¥110.09	¥(57.65)	**¥(491.66)**	**$ (4.20)**
Income from discontinued operations, net of tax	30.43	7.54	**4.43**	**0.04**
Net income (loss)	¥140.52	¥(50.11)	**¥(487.23)**	**$ (4.16)**

23. Supplemental schedule:

The changes in the allowance for doubtful receivables for the years ended March 31, 2004, 2005 and 2006 are as follows:

Allowance for Doubtful Receivables	Millions of Yen 2004	2005	**2006**	Thousands of U.S. Dollars **2006**
Balance at beginning of year	¥ 4,631	¥ 3,534	**¥ 2,610**	**$ 22,308**
Charged (credited) to costs and expenses	(667)	(515)	**850**	**7,265**
Deductions for accounts written off	(13)	(497)	**(517)**	**(4,419)**
Translation adjustments	(417)	88	**222**	**1,897**
Balance at end of year	¥ 3,534	¥ 2,610	**¥ 3,165**	**$ 27,051**

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The changes in the warranty reserve for the years ended March 31, 2004, 2005 and 2006 are as follows:

Warranty Reserve	Millions of Yen 2004	Millions of Yen 2005	Millions of Yen **2006**	Thousands of U.S. Dollars **2006**
Balance at beginning of year	¥ 6,493	¥ 5,419	**¥ 5,722**	**$ 48,906**
Provision	6,050	8,030	**9,506**	**81,248**
Payments	(6,669)	(7,844)	**(8,972)**	**(76,684)**
Translation adjustments	(455)	117	**347**	**2,966**
Balance at end of year	¥ 5,419	¥ 5,722	**¥ 6,603**	**$ 56,436**

24. Commitments and contingent liabilities:

Commitments outstanding at March 31, 2006 for the purchase of property, plant and equipment and raw materials, and other payments approximated ¥26,133 million ($223,359 thousand).

Contingent liabilities at March 31, 2006 principally for loans guaranteed in the ordinary course of business amounted to ¥235 million ($2,009 thousand).

Loans guaranteed at March 31, 2006 are as follows:

Guarantee for	Guaranteed until	Guaranteed Amount Millions of Yen	Guaranteed Amount Thousands of U.S. Dollars
Affiliated company	April 1, 2006 March 31, 2007	**¥ 235**	**$ 2,009**

The Company entered into this guarantee agreement to sustain the business relationships.

The Company will be required to pay the guaranteed amounts if the affiliated companies are unable to repay.

Pioneer Electronics Deutschland GmbH (PED), a wholly owned subsidiary, received an assessment from the German tax authorities in December 2000, which stated income adjustment of EUR44.4 million (¥6,341 million translated at the foreign exchange rate at March 31, 2006) covering the fiscal years ended March 31, 1993 to 1995, concerning its intercompany purchase prices from Pioneer Europe NV, a wholly owned subsidiary in Belgium. PED, in 2001, contested the assessment and has requested the German and the Belgian tax authorities to try to reach an agreement (through an arbitration proceeding) on the arm s length transfer prices and avoid double taxation. The German tax authorities notified PED in February 2006 that they were not able to reach an agreement with the Belgian tax authorities. PED has requested the German and Belgian tax authorities to continue the arbitration proceeding to resolve the issue. PED, in February 2006, received a tax audit memo (which outlines its preliminary views but does not yet constitute an assessment) from the German tax authorities which stated income adjustment of EUR50.7 million (¥7,240 million) covering the fiscal years ended March 31, 1996 to 1999. PED made objection to the German tax authorities regarding the basis of this memo. The German tax authorities have not yet issued an assessment for the fiscal years covered in the said tax audit memo. Also, PED understands that the German tax authorities have completed transfer pricing audit for the fiscal years ended March 31, 2000 to 2004. The result of the audit has not been communicated to PED.

The Company, at the date of this report, is unable to reasonably determine the resolution and is unable to currently estimate the amount of the loss, if any, associated with the foregoing assessment, tax audit memo and completed

transfer pricing audit.

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

The aggregate remuneration (including bonuses and stock-based compensation [see Note 15]) charged to income by the parent company for directors, executive officers and corporate auditors for the years ended March 31, 2004, 2005 and 2006 totaled ¥1,238 million, ¥1,136 million and ¥974 million ($8,325 thousand), respectively.