

# Business Report

2010 (January 1~ December 31)





Representative Director and President  
**Hiromoto Watanabe**

**Q.** Looking over your second year as president, could you explain the main points of the results?

**A.** During the term under review my philosophy and policies spread throughout the Company, and this was the year in which they started to appear in concrete form. However, contrary to our expectations, the economic environment was particularly harsh.

The stationery market, the main business area of the Group, continued to show depressed consumption in Japan and overseas, with no clear signs of recovery. At the same time, however, our *FRIXION* series of erasable roller balls became a massive success, with global annual production and sales reaching 100 million units. These are revolutionary items never produced by our competitors, and I felt that the trend of differences in product appeal affecting results is becoming more marked than ever.

In this economic environment, the Group was able to increase revenue and profits over the previous term by cutting costs through management optimization and by focusing on bolstering and enriching our research and development capability.

**Q.** What was your product strategy during the term under review (the ninth term)?

**A.** In July we added the long-awaited slide-type *FRIXION BALL KNOCK 0.5/0.7* to our *FRIXION* series, which proved hugely popular due to the erasable ink, and this invigorated the series overall. In addition, by introducing the *DELFUL* mechanical pencil, with its novel mechanism, and adding four- and five-color multi-function pen bodies to *HI-TEC-C coletto*, we enjoyed the support of customers ranging from students to businesses. In October, we added the multicolor *Acroball 3* to the oil-based *Acroball* ballpoint pen series, which features lower viscosity ink and a tire-tread grip. We also released the smooth *neox GRAPHITE* mechanical pencil lead, featuring high-purity graphite, and *FRIXION COLORS*, a lineup of 12 color pens in the *FRIXION* series. With items such as these, we were able to give our users new products with high added value.

**Q.** What is the situation regarding the vacant plant at the headquarters of Pilot Precision Co., Ltd., which was part of the Production Facilities Restructuring Plan?

**A.** Pilot Precision was a wholly owned subsidiary of PILOT CORPORATION, and the merger between the two on July 1, 2008, was a pillar of the Production Facilities Restructuring Plan. From the perspective of efficient utilization of assets, the vacant plant at the headquarters was disposed of by sale to a third party for 2,325 million yen, and we ultimately realized a gain of 2,180 million yen from the transfer. This marked the completion of the Production Facilities Restructuring Plan, which we had started in the sixth term (FY2007).

**Q.** The shareholder benefit products have been very well received. Please comment on them.

**A.** Every year, we present our shareholders with products from our lineup. I would very much like our shareholders to enjoy using our products, and to feel their quality and functionality.

In the term under review, we lined up two types of shareholder benefit product, which we will give on the basis of the number of shares held. We will present shareholders with five or more shares with two fountain pens from the limited-edition *PRERA iro-ai* series. This series, which went on sale in November of last year, allows the color of the ink inside the body to be seen. Shareholders will receive the transparent body red (fine) and transparent body royal blue (medium). The pens will come with two inks, moonlight and wild grape, from the *iroshizuku* line of richly-colored inks created from the beauty of Japan's scenery. The set will come in a deluxe box specially made for our shareholders.

We will present shareholders with four or fewer shares with a black and a red *FRIXION BALL KNOCK* and a *FRIXION LIGHT*, which are business writing instruments with the very latest technology; an *ACROBALL 3* three-color, low-viscosity oil-based ballpoint pen; and a twin marker *NAMAE PEN*, which is resistant to detergents and is suitable for writing one's name on clothing. This set will come in a box specially made for our shareholders, and we hope these pens will give lasting writing pleasure.

**Q.** Please let us know your forecasts for the next term (the 10th term).

**A.** I do not anticipate a sharp recovery in consumption in the domestic and overseas stationery markets in the next term. Also, the basic trend of a high yen and the tendency toward lower-priced items mean that the circumstances surrounding the Company still do not allow for optimism.

Under these circumstances, we will focus on quickly addressing three challenges to survive this market: improving profitability on domestic sales, achieving a recovery in overseas sales, and boosting our production technology development capability.

As we approach the 100th anniversary in 2018 of our establishment, we have stated our aim of becoming the world's best writing instrument company in terms of customer satisfaction. To achieve this, everyone in the entire Group will strive to spread and establish throughout the world the *PILOT* and *NAMIKI* brands, which symbolize quality and added value, to boost the corporate value of the Group overall, and to further increase the profits we share with our shareholders. We would like to ask for the continued support and guidance of our shareholders over the years to come.

# Hot New PILOT Products for 2010

During the ninth term (FY2010), we continued to release high-quality products that accurately meet the needs of users through our development and technology capabilities brimming with PILOT originality.

## 1 A new lineup for the popular *FRIXION* series, with the long-awaited slide-type roller balls and color pens!



1

### FRIXION BALL KNOCK



FRIXION COLORS

### The long-awaited *FRIXION* slide-type roller ball **FRIXION BALL KNOCK**

At last, the release of the long-awaited *FRIXION* slide-type roller ball! The slide type is made possible by ink that is resistant to drying out and a hermetic roller ball tip. The roller ball slides out when the clip is pushed, allowing speedy use for notebooks and documents.

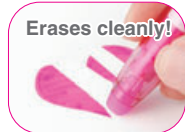
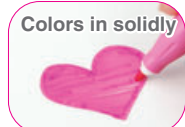


When the color appears in the window, the roller ball is OUT.

### Color pens that can be rubbed out **FRIXION COLORS**

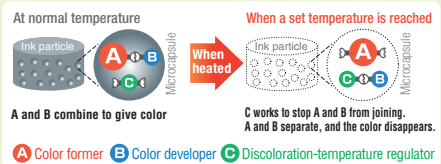
*FRIXION COLORS*, the first color pens in the *FRIXION* series, have now been released. The color pen allows large areas to be colored in with ease, and the colors can be rubbed out cleanly.

The lineup of 12 colors includes not only the standard colors like black, red, and blue, but also vibrant pop colors like pink, orange, and light blue. Essential for illustrating your memo pads and notebooks!



### How *FRIXION* erasable ink works

The color in *FRIXION* ink comes from special microcapsules. Friction heat changes the way three components within the microcapsules are combined, making the ink transparent.



## 2 *DELFUL*, the mechanical pencil with a new mechanism



2

### *DELFUL*, the mechanical pencil with a new mechanism



The pencil tip retracts to prevent scratches or marks

### **DELFUL**

The *DELFUL* mechanical pencil is a PILOT original, combining a mechanism that propels the lead out just by shaking and a click to bring out or retract the tip. A built-in stopper function ensures that shaking the pencil will not bring out the lead when the tip is retracted. This system keeps your pencil case clean and prevents the lead from breaking.

Pencil tip out



Shake to bring out the lead



Pencil tip retracted



The lead is locked!

3

**A mechanical pencil lead with high-purity graphite mixture**



High purity graphite mixture gives smooth-writing leads that do not break easily

**neox GRAPHITE**

*neox GRAPHITE* is a pencil lead made with top-grade graphite that has been highly purified through our original method. Not only does the highly pure graphite allow thick, clear handwriting, but also the extremely low level of impurities in the graphite gives writing a smooth feel. The strong bonding of the carbon makes the lead break-resistant and reduces marks on the paper or the hands if the writing is rubbed. There is a lineup of 27 different leads of varying diameter and thickness.

**High purity graphite**  
Made with top-grade graphite, purified to an exceptionally high level through our own method.

Conventional product  
Highly pure graphite

1 Smooth 2 Does not smudge 3 Thick

4

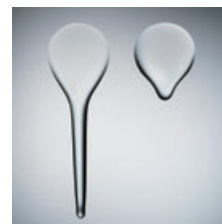
**A three-color ballpoint pen with easy grasp and smooth writing**



**Handy three-color ballpoint pen with Acro-Ink Acroball 3**

The handy, three-color *ACROBALL 3* is a new release in the *ACROBALL* ballpoint pen series, which features low viscosity oil-based ink for a smooth feel and thick handwriting with no skipping. The slide lever allows rapid selection of the desired color.

Another feature is the easy grasp afforded by the non-slip tire-tread grip. Also, the pen has a moveable lift clip mechanism that can be used to clip the pen 100,000 times without any damage (based on our own experiments). The *ACROBALL 3* can be clipped to surfaces such as the pocket of a bag, a pocket of thick cloth, or a notebook, and will stay firmly in place.



*ACROBALL* ink (left) and conventional ink (right) compared for viscosity (PILOT data)



Non-slip tire-tread grip for firm grasp

5

**The CUSTOM HERITAGE see-through model lets you see the color of the ink inside**



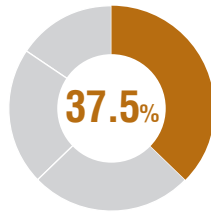
**See-through fountain pen with screw-top filling mechanism CUSTOM HERITAGE 92**

The *CUSTOM HERITAGE 92* is a screw-top fountain pen that lets you see the color of the ink inside. The pen has a transparent body with a beautiful luster. This system not only lets you see at a glance how much ink is left, but also lets you enjoy the color of the ink from the outside. There are four widths of nib in 14K gold.





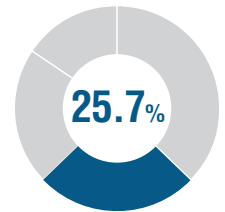
## Japan



Amid continued depressed consumption by both individual and corporate customers, shops faced an uphill struggle. Despite this environment, we introduced new slide-type pens into the *FRIXION* series, which is popular due to its erasable ink. At the same time, sales of products such as the new four- and five-color multi-function pen body *HI-TEC-C coleteo*, the oil-based *Acroball 3* multicolor ballpoint pen, and *neox GRAPHITE* mechanical pencil lead contributed to earnings recovery.

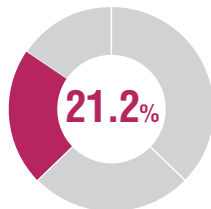
With demand from our corporate customers remaining stagnant, we carried out a special offer of engraved gift items. As a result, items such as the popular *FRIXION LIGHT* and the three- and four-color *FEED LIFTEC* contributed to increased revenue.

## Americas



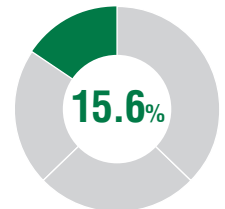
In the United States, a major market, there were increasing fears of continued high unemployment and a deteriorating economy. As a result, customers remained price-sensitive. Amid this environment, sales expanded for the gel-ink retractable roller ball *G-2* and the water-based roller ball *Hi-Tecpoint V5/V7*, which are already known as leading writing instruments. The *FRIXION* series, introduced the year before last, also increased its buoyant sales as its convenience steadily penetrated. In Brazil, the economy prospered and we enjoyed buoyant sales of oil-based markers and whiteboard markers, areas where PILOT is the main brand.

## Europe



The convenient, unique features of the *FRIXION* series products are well suited to European culture and the series has enjoyed the support of consumers, so strong sales continued. In the *BEGREEN* series of environmentally friendly products, the design of the *B2P* roller ball, reminiscent of a PET bottle, contributed to its increased sales in the European region as an ecological product.

## Asia and other regions



We worked proactively to bolster our sales system in China, expanding sales mainly of the *FRIXION* series and achieving growth that set new sales records. We continued to enjoy a high share in Singapore, Taiwan, Hong Kong and Indonesia.

## Balance Sheet (Summary)

(millions of yen)

Item	Term	FY2010 (as of December 31, 2010)
<b>(Assets)</b>		
Current assets		42,778
Noncurrent assets		29,564
Property, plant and equipment		19,335
Intangible assets		4,991
Investments and other assets		5,238
<b>Total assets</b>		<b>72,343</b>
<b>(Liabilities)</b>		
Current liabilities		27,871
Noncurrent liabilities		12,975
<b>Total liabilities</b>		<b>40,846</b>
<b>(Net assets)</b>		
Shareholders' equity		36,524
Valuation and translation adjustments		(5,653)
Minority interests		624
<b>Total net assets</b>		<b>31,496</b>
<b>Total liabilities and net assets</b>		<b>72,343</b>

### Point 1

Inventories decreased 1,331 million yen from the end of the previous term as a result of Group-wide efforts to reduce our inventories.

### Point 2

Declined 1,630 million yen from the end of the previous term due to depreciation.

### Point 3

Compared with the end of the previous term, current liabilities decreased 1,725 million yen. The main factor behind this was a decline of 1,833 million yen in the total of short-term loans payable and the current portion of long-term loans payable.

Noncurrent liabilities decreased 3,339 million yen compared with the end of the previous term, primarily attributable to a reduction of 3,488 million yen in long-term loans payable.

## Statement of Income (Summary)

(millions of yen)

Item	Term	FY2010 (year ended December 31, 2010)
Net sales		69,363
Cost of sales		39,649
Gross profit		29,713
Selling, general and administrative expenses		24,497
Operating income		5,216
Non-operating income		918
Non-operating expenses		1,502
Ordinary income		4,631
Extraordinary income		2,281
Extraordinary losses		136
Income before income taxes and minority interests		6,776
Income taxes		1,940
Minority interests in income		11
Net income		4,824

### Point 1

Increased 2,708 million yen attributable to a shift toward greater shipping volume in response to the completion of a full cycle of current inventory adjustments in overseas markets, as well as buoyant domestic and overseas sales of the *FRIXION* series.

### Point 2

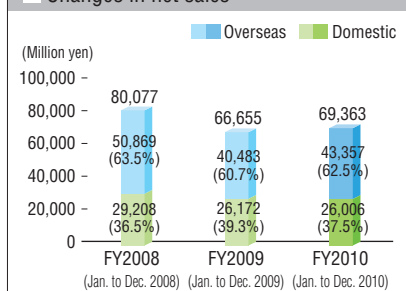
The main factor was a capital gain of 2,180 million yen from the transfer of the site of the plant at the headquarters of Pilot Precision Co., Ltd., which was a wholly owned subsidiary of PILOT CORPORATION (the two merged on July 1, 2008).

## Statement of Cash Flows (Summary)

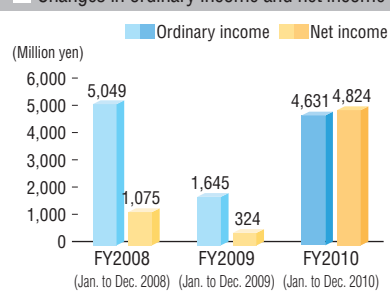
(millions of yen)

Item	Term	FY2010 (year ended December 31, 2010)
Net cash provided by operating activities		6,153
Net cash provided by investing activities		918
Net cash used in financing activities		(5,650)
Effect of exchange rate change on cash and cash equivalents		(312)
Net increase in cash and cash equivalents		1,108
Cash and cash equivalents at beginning of period		7,116
Cash and cash equivalents at end of period		8,224

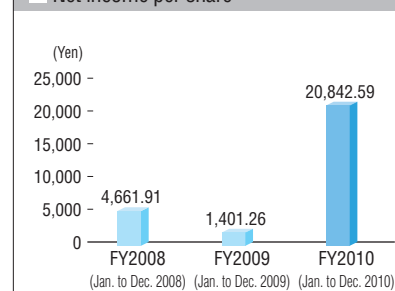
### Changes in net sales



### Changes in ordinary income and net income



### Net income per share



## Major Businesses of the PILOT Group

The PILOT Group consists of PILOT CORPORATION and 24 subsidiaries and affiliates. The Group is mainly engaged in manufacture, purchase and sales of stationery products and related products and services incidental to them.

The main products of each business are shown on the right.

Business division	Main products
Stationery products business	Fountain pens, mechanical pencils, ballpoint pens, roller balls, markers, ink, pencil leads, notebooks, bags, files, magnetic panel boards, printer ribbons, computer-related accessories and supplies, etc.
Other businesses	Toys, rings and other precious metal accessories, ceramic parts

## Shareholder Information (as of December 31, 2010)

Number of shares authorized ————— 900,000

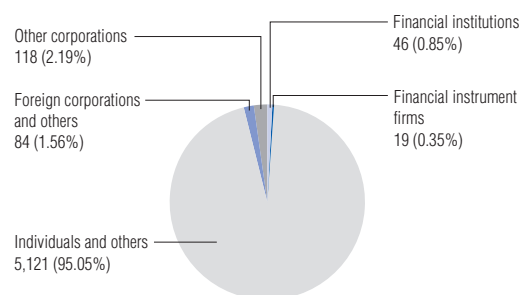
Number of shares issued ————— 234,072

Number of shareholders ————— 5,388

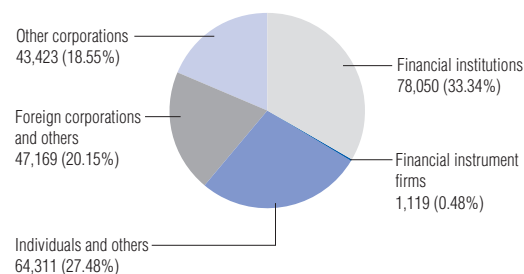
### Major shareholders

Name	Number of shares held	% of total voting rights
Daiwa Capital Markets Singapore Ltd. Nominee Ko Hong Myong	38,588	16.48
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	8,593	3.67
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	8,010	3.42
Employees' Stockholding	7,093	3.03
Asahi Mutual Life Insurance Company	5,670	2.42
Mitsubishi UFJ Trust and Banking Corporation	5,502	2.35
Shochiku Co., Ltd.	4,860	2.07
Japan Trustee Services Bank, Ltd. (Trust Account)	4,708	2.01
The Dai-ichi Mutual Life Insurance Company	4,500	1.92
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,721	1.58

### Breakdown of shareholders by sector



### Breakdown of shares by sector (shares)



## Outline

Corporate name:	PILOT CORPORATION
Headquarters:	2-6-21, Kyobashi, Chuo-ku, Tokyo 104-8304, Japan
Telephone:	+81-3-3538-3700 (Main)
URL:	<a href="http://www.pilot.co.jp/company/english/">http://www.pilot.co.jp/company/english/</a>
Foundation:	January 4, 2002
Establishment:	January 27, 1918
Capital stock:	2,340,728,000 yen
Number of employees:	1,181



## Directors

Representative Director and Chairman	Kiyoshi Takahashi
Representative Director and President	Hiramoto Watanabe
Managing Directors	Masayoshi Imai
	Kazuyuki Mochida
	Hiroshi Murata
	Norikazu Nakasuji
Directors	Kozo Okamoto
	Tatsuo Soutome
	Ikuo Goto
	Yoshio Kokubo
	Takashi Suzuki
	Yoshikazu Tsujii
	Shu Itoh
	Marcel Ringear
	Dennis Burleigh

## Corporate auditors

Standing Corporate Auditors	Masami Tokunaga
	Norio Okamura
External Corporate Auditors	Hiromi Niwa
	Sachio Itasawa

## Executive officers

Senior Executive Officers	C. H. Tan
	Ryo Narumai
	Hiroshi Asaba
Executive Officers	Masami Muramatsu
	Masanori Shinomoto
	Masahiro Kameda
	Masahiko Suzuki
	Naoki Soramoto
	Yasuo Horiguchi

### Front cover: Red-flanked bluetail

A bird that breeds in summer in Japan in north and central Honshu and Shikoku, and overwinters in central and south Honshu.

This Business Report is an English translation of the Business Report for shareholders in Japan.