

Business Report

2014 (January 1 – December 31)



In this interview, President Hiromoto Watanabe discussed the PILOT Group's results and achievements in fiscal 2014, the year ended December 31, 2014.



Hiromoto Watanabe
Representative Director and President

Q. How did the PILOT Group perform in fiscal 2014?

A. Looking back on fiscal 2014, it was a challenging year overall as economic conditions remained unclear worldwide. The spread of deflation was a growing concern in Europe, and growth rates in emerging economies declined. In Japan, however, corporate earnings appeared to improve steadily as a result of government reforms, including the ambitious monetary easing policy by the Bank of Japan and the resulting depreciation of the yen.

Amid these economic circumstances, the PILOT Group focused on marketing its highly profitable products, led by its *FRIXION* series, in the stationery products market, its main business area. At the same time, the Group continued to build on initiatives undertaken in the previous fiscal year for enhancing R&D capabilities and further cutting costs by optimizing the efficiency of its operations, as it worked to develop distinct new product lineups and achieve a globally cost-competitive production system.

As a result of these efforts, together with yen depreciation and favorable performance in the stationery business, which is our mainstay, the PILOT Group achieved higher revenues and profits than in the previous fiscal year, with consolidated net sales increasing 9.3% year on year to 90,268 million yen, and consolidated ordinary income jumping 55.5% to a record-high level of 14,778 million yen.

Q. Sales outside Japan accounted for 65% of consolidated net sales. Could you tell us about PILOT's international sales strategies going forward?

A. At present, the scale of the stationery market in Japan is not expected to grow overall because the country's birthrate has been declining in recent years. Internationally, however, stationery markets are projected to expand in the future on the back of economic growth in emerging countries. Owing to this growth, sales outside Japan accounted for 65% of PILOT's consolidated net sales in fiscal 2014, and increased 12.8% year on year to 58,612 million yen. Taking into consideration the tremendous size of international markets, we hope to boost our overseas sales ratio to 75% by 2018, the year of PILOT's 100th anniversary.

All over the world, preferences related to stationery differ, just as cultures differ depending on countries and regions. In this context, the Company's competitive advantages are the PILOT brand's strong reputation for quality, and the PILOT Group's outstanding marketing capabilities and sales network operating in countries throughout the globe. By leveraging these competitive advantages, in the future we intend to increase our market share of ballpoint pens and markers with oil-based ink, for which the global market scale is huge, as well as for products that are currently big sellers like *FRIXION BALL* and the *G-2* series of gel ink roller balls.

In advanced markets, we intend to establish a core business through our ballpoint pens with oil-based ink, positioning *ACROBALL* pens as global strategic products. Meanwhile, in emerging markets, we are putting in place a production network that can supply oil-based ink ballpoint pens at comparatively lower prices to suit these markets. Toward this end, PILOT constructed a new factory in Brazil in 2012 and commenced operations at its new factory in Indonesia in 2014. In these ways, we are enhancing the PILOT Group's global production system, with factories in Japan at the core. These efforts should generate positive results.

Q. It is said that PILOT's corporate culture is undergoing change. Could you comment on that?

A. Yes, it is true. Recently it has been a real pleasure to visit our production plants. I can see clearly how the motivation of employees has changed. If people feel they are being forced to work for others, they cannot develop and the work they do will not be engaging. We wanted to make sure that none of our employees felt that way, so we pursued initiatives to transform our corporate culture. These initiatives have progressed gradually, but it is exciting to see the changes take shape. I look forward to this year because we expect our employees to develop further.

Q. What are the Group's financial forecasts for fiscal 2015?

A. Both inside and outside Japan, the economic outlook remains unclear, and we do not expect this to change significantly. Moreover, exchange rate trends could negatively affect our business results. As such, the PILOT Group's operating environment continues to be uncertain.

In these circumstances, as our 100th anniversary approaches in the next three years, we remain committed to giving satisfaction to our customers. This is the starting point of

our business and the spirit behind PILOT's foundation.

In our forecast of consolidated financial results for fiscal 2015, we project net sales of 91,000 million yen, operating income of 15,000 million yen, ordinary income of 14,000 million yen, and net income of 9,000 million yen.

Q. What message would you like to give to the Company's shareholders this year?

A. As PILOT Corporation approaches the 100th anniversary of its establishment in 2018, we aim to be a manufacturer of writing instruments that provides the highest level of customer satisfaction in the world. All members of the PILOT Group are doing their very best to promote and establish the *PILOT* and *NAMIKI* brands throughout the world as symbols of outstanding quality and superior value.

To express our gratitude for our shareholders' ongoing generous support, we plan to distribute a dividend of 20 yen per share for the interim period of fiscal 2015, comprising an ordinary dividend of 15 yen per share, up from 10 yen in fiscal 2014, along with a commemorative dividend of 5 yen per share to celebrate the 10th anniversary of our sales launch of the *FRIXION* series. We also plan to pay an ordinary year-end dividend of 15 yen per share, also increased from 10 yen per share in fiscal 2014.

In closing, we humbly ask for continued support and suggestions from our shareholders in the years to come.

Highlights of PILOT Product Releases in 2014

Applying its technological capabilities and unique strengths in product development, the PILOT Group released a broad range of high-quality products tailored to users' needs in fiscal 2014.

Topic 1

MAKI-E

Gold-lacquered fountain pens elegantly designed using traditional craftsmanship



Treasure *Pine, Bamboo, and Plums* *Crane and Turtle*

The body and cap of these luxury fountain pens are finished in gold lacquer over a base of black lacquer. Each pen is decorated with images of good luck and happiness.

MAKI-E fountain pens sell for 100,000 yen plus tax per pen. The 18-karat gold nib is available in fine and medium nibs.

Topic 2

Capless Wooden Pens

Wooden pens offering a unique texture that becomes finer with use



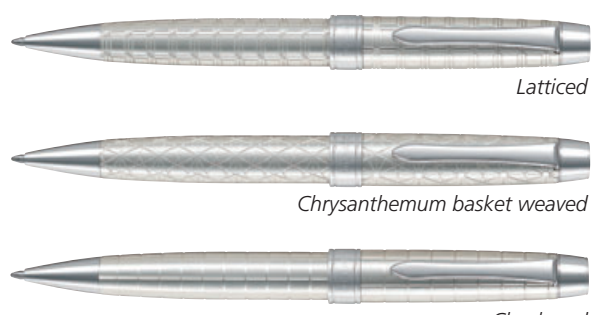
These retractable-type fountain pens are made with machined, resin-impregnated birch wood. Users can appreciate the unique wooden texture of these pens every time they write with them.

Capless Wooden Pens sell for 25,000 yen plus tax per fountain pen. The 18-karat gold nib is available in extra-fine, fine and medium points.

Topic 3

CUSTOM FACET

Ballpoint pens featuring faceted glass blowing patterns engraved in sterling silver



Latticed

Chrysanthemum basket weaved

Checkered

Introducing ballpoint pens engraved with three faceted patterns—latticed, chrysanthemum basket weaved, and checkered—on a sterling silver body.

CUSTOM FACET ballpoint pens with oil-based ink sell for 30,000 yen plus tax per pen.

Topic 4

kakuno



Kakuno fountain pens earned widespread praise in 2014

Kakuno fountain pens have been highly acclaimed since their sales launch, winning a Good Design Award as well as a special prize from the chairman of the judging committee at the Eighth Kids Design Awards in recognition of the product concept of a fountain pen made for children.

The Kakuno fountain pen sells for 1,000 yen plus tax per pen; stainless steel nibs are available in fine and medium points.



キッズデザイン賞
KIDS DESIGN AWARD 2014

The prize received at the Eighth Kids Design Awards

Topic
5

Dr. Grip G-SPEC



We added 0.3-mm and 0.9-mm mechanical pencils to the Dr. Grip G-SPEC series

PILOT has expanded its *Dr. Grip G-SPEC* series of mechanical pencils with a 0.3-mm pencil for writing beautiful, fine lettering, and a 0.9-mm model for writing bolder, easy-to-read lettering. Lead of 0.3 mm in diameter is perfect for small lettering in datebooks and notebooks, while 0.9-mm lead is excellent for bolder, more visible writing in transcripts* and memo pads.

*In some cases, using a pencil to write in transcripts is not permitted.

Dr. Grip G-SPEC 0.3-mm and 0.9-mm mechanical pencils sell for 600 yen plus tax per pencil.

0.3 mm

Recommended uses



0.9 mm

Recommended uses



Topic
6

Acroball 2·3·4

With ACROBALL INK for smooth writing

New series of ACROBALL smooth-writing ballpoint pens in multi-color

Extra-fine 0.5 mm Fine lettering 0.7 mm

Now ACROBALL ballpoint pens come in multi-color: two colors, three colors and four colors. Filled with ACROBALL INK for smooth writing, these pens make writing easier and more comfortable.

Multi-color ballpoint pens:
ACROBALL 2 sells for 300 yen plus tax per pen.
ACROBALL 3 sells for 400 yen plus tax per pen.
ACROBALL 4 sells for 450 yen plus tax per pen.

Acroball 2



Acroball 3



Acroball 4



ACROBALL smooth-writing



Topic
7

BOARD MASTER S

**Perfect for home use
New whiteboard markers with an eraser and magnet attached**

PILOT's *BOARD MASTER S* series of ink cartridge whiteboard markers includes a small eraser attached at the end. These markers continue to make thick lines without smudging from the first use until the ink cartridge runs out.

The *BOARD MASTER S* whiteboard markers with ultra-fine and fine lettering tips sell for 150 yen plus tax per marker (includes cap with attached magnet and eraser). *BOARD MASTER S* ink cartridges sell for 80 yen plus tax each.



Replacing the ink cartridge is easy.

Topic
8

FRIXION stamp

**Mistakes are not a problem, and the ink does not bleed through paper.
A stamp uses FRIXION INK—so images can be erased.**

PILOT introduced a new erasable ink stamp that is handy for decorating notebooks and cards. Since the stamp uses erasable *FRIXION INK*, users can stamp images and erase them as many times as they like. With 30 different stamp designs available, users can have fun adding images in notebooks and cards.

Available in 30 designs, *FRIXION stamp* sells for 120 yen plus tax per stamp.

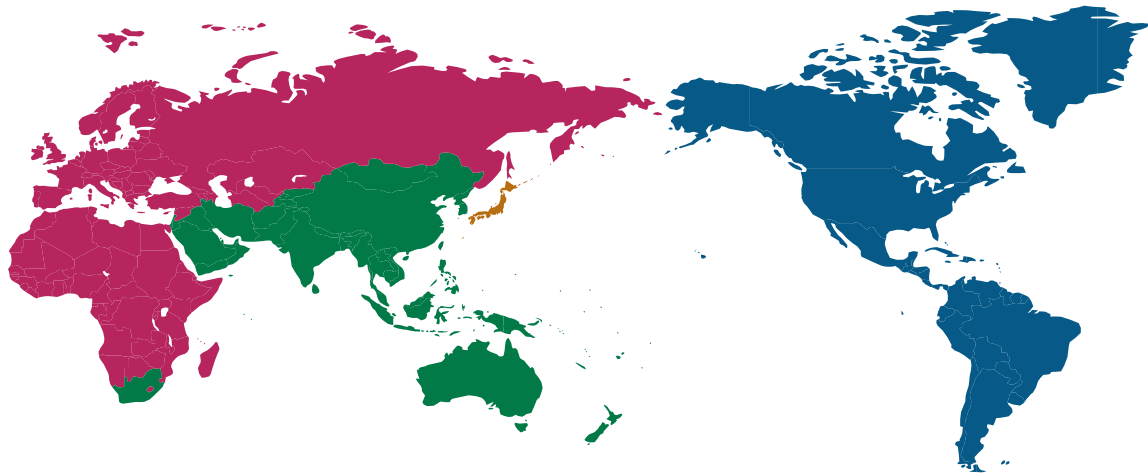


There are 30 different stamp designs.

It is great for decorating notebooks, cards, and letters.



Review of Operations by Geographical Segment



Japan

Net sales
38,503 million yen



In Japan, PILOT's strength is its marketing system, which is based on direct sales to retail stores. Leveraging this competitive advantage, PILOT is channeling its efforts into marketing its own highly profitable products. PILOT has achieved steady sales in Japan by marketing products as a series tailored to the personal tastes of targeted consumers. In the *FRIXION* series, sales of *FRIXION LIGHT* highlighters, *FRIXION IROENPITSU* (color pencils), and the popular *FRIXION BALL KNOCK* pens were particularly strong, while sales of replacement pen refills grew dramatically. Sales of the series overall rose substantially compared to the previous fiscal year, reflecting PILOT's efforts to respond to increasingly diverse customer needs with a wider lineup of products, including *FRIXION stamp*, a handy erasable stamp for decorating notebooks, letters, and cards.

Europe

Net sales
20,301 million yen



In Europe, especially in France and East European countries, sales of the *FRIXION* series rose significantly, while sales of whiteboard markers were robust on the back of a recovery in demand for office supplies.

The Americas

Net sales
22,306 million yen



In the Americas, the PILOT Group's main sales region, sales expanded for the popular *G-2* series of mainstay retractable-type gel ink roller balls. Sales of the *FRIXION* series grew steadily as the products became better known in the market, but advertising expenses for related sales campaigns also increased.

In Brazil, sales rose for oil-based markers and whiteboard markers.

Asia and Other Regions

Net sales
9,155 million yen



Sales of whiteboard markers were strong throughout Asia. In China, PILOT modified its sales system to ensure stable growth and achieved progress in marketing activities, resulting in strong sales particularly for the *G-2* series and *FRIXION* series.

In Taiwan, Hong Kong, Singapore, and elsewhere in Asia, sales increased by volume as a result of proactive marketing campaigns centered on the *Juice* series of gel ink roller balls series and the *FRIXION* series. In other regions, the Group continued to carry out medium- and long-term initiatives aimed at expanding sales in Australia and South Africa.

Balance Sheet (Summary)

(Millions of yen)

| Item | Term | FY2014 (as of December 31, 2014) |
|--|------|-------------------------------------|
| ■ Assets | | |
| Current assets | | 63,527 |
| Noncurrent assets | | 34,426 |
| Property, plant and equipment | | 21,473 |
| Intangible assets | | 5,070 |
| Investments and other assets | | 7,882 |
| Total assets | | 97,953 |
| ■ Liabilities | | |
| Current liabilities | | 32,636 |
| Noncurrent liabilities | | 7,847 |
| Total liabilities | | 40,484 |
| ■ Net assets | | |
| Shareholders' equity | | 56,006 |
| Accumulated other comprehensive income | | 433 |
| Minority interests | | 1,030 |
| Total net assets | | 57,469 |
| Total liabilities and net assets | | 97,953 |

Statement of Income (Summary)

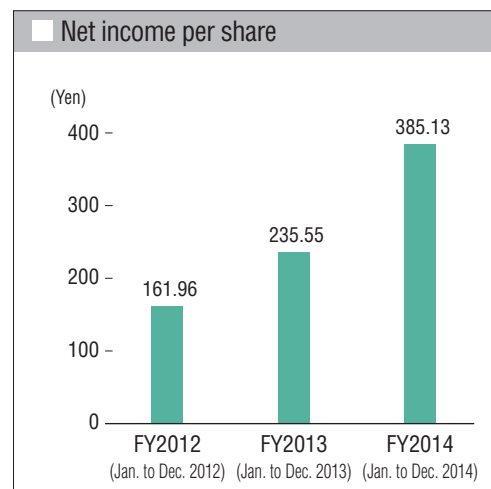
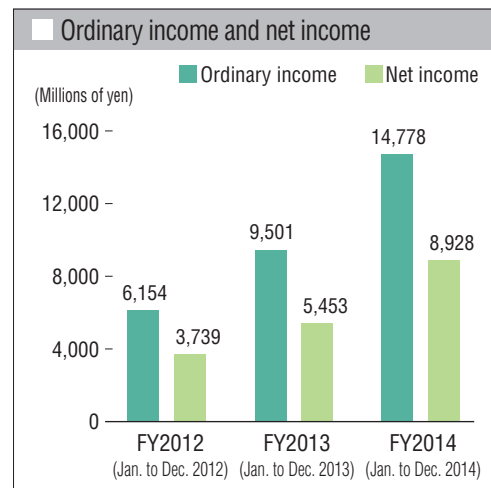
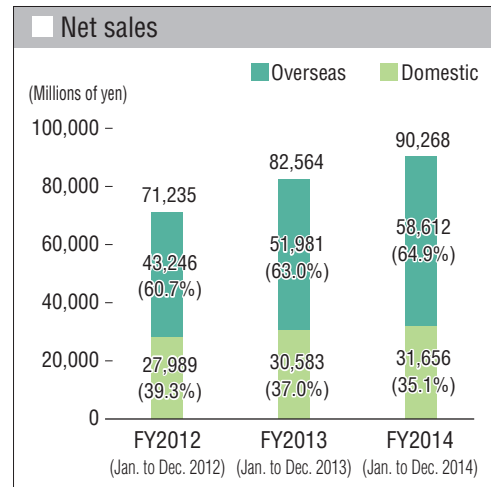
(Millions of yen)

| Item | Term | FY2014 (year ended December 31, 2014) |
|---|------|--|
| Net sales | | 90,268 |
| Cost of sales | | 44,936 |
| Gross profit | | 45,332 |
| Selling, general and administrative expenses | | 31,060 |
| Operating income | | 14,271 |
| Non-operating income | | 1,519 |
| Non-operating expenses | | 1,013 |
| Ordinary income | | 14,778 |
| Extraordinary income | | 144 |
| Extraordinary losses | | 260 |
| Income before income taxes and minority interests | | 14,661 |
| Income taxes | | 5,667 |
| Income before minority interests | | 8,993 |
| Minority interests in income | | 65 |
| Net income | | 8,928 |

Statement of Cash Flows (Summary)

(Millions of yen)

| Item | Term | FY2014 (year ended December 31, 2014) |
|---|------|--|
| Net cash provided by operating activities | | 12,107 |
| Net cash used in investing activities | | (2,182) |
| Net cash used in financing activities | | (5,729) |
| Effect of exchange rate change on cash and cash equivalents | | (155) |
| Net increase in cash and cash equivalents | | 4,039 |
| Cash and cash equivalents at beginning of period | | 10,919 |
| Cash and cash equivalents at end of period | | 14,959 |



Major Businesses of the PILOT Group

The major businesses of the PILOT Group are the manufacture, purchase and sales of writing instruments, other stationery products and toys, as well as services incidental to these products.

The details of the business of the Group by geographical segment are shown in the table at right.

| Geographical segment | Business details |
|----------------------|--|
| Japan | Manufacture, purchase and sales of writing instruments and other stationery goods, toys, rings and other precious metal accessories, ceramic parts, etc. |
| Americas | Manufacture and sales of writing instruments, etc. |
| Europe | Manufacture and sales of writing instruments, etc. |
| Asia | Sales of writing instruments, etc. |
| Other regions | Manufacture and sales of writing instruments, etc. |

Note: "Other regions" includes Africa and Oceania.

Shareholder Information (as of December 31, 2014)

Number of shares authorized ————— 90,000,000

Number of shares issued ————— 23,407,200

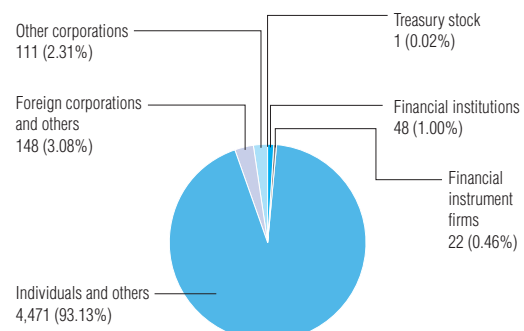
Number of shareholders ————— 4,801

Major shareholders

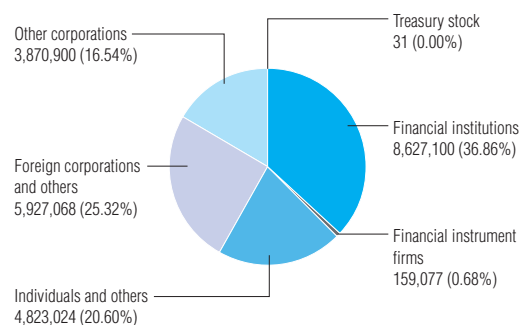
| Name | Number of shares held | % of total voting rights |
|--|-----------------------|--------------------------|
| Daiwa Capital Markets Singapore Ltd. Nominee Ko Hong Myong | 4,355,300 | 18.60 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 859,300 | 3.67 |
| Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd. | 801,000 | 3.42 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 739,400 | 3.15 |
| Employees' Stockholding | 648,400 | 2.77 |
| Asahi Mutual Life Insurance Company | 567,000 | 2.42 |
| Mitsubishi UFJ Trust and Banking Corporation | 550,200 | 2.35 |
| SHOCHIKU Co., Ltd. | 486,000 | 2.07 |
| The Dai-ichi Life Insurance Company, Limited | 450,000 | 1.92 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 427,800 | 1.82 |

Note: Treasury stock (31 shares) is not included in the calculation of the shareholding ratio.

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 |
| URL: | http://www.pilot.co.jp/company/english/ |
| Foundation: | January 4, 2002 |
| Establishment: | January 27, 1918 |
| Capital stock: | 2,340,728,000 yen |
| Number of employees: | 1,077 |



Directors

| | |
|---------------------------------------|-------------------|
| Director and Chairman | Kiyoshi Takahashi |
| Representative Director and President | Hiramoto Watanabe |
| Managing Directors | Norikazu Nakasuji |
| | Ikuo Goto |
| | Yoshio Kokubo |
| | Yoshikazu Tsujii |
| Directors | Shu Itoh |
| | Ryo Narumai |
| | Hiroshi Asaba |
| | Masami Muramatsu |
| | Yasuo Horiguchi |

Corporate Auditors

| | |
|-----------------------------|-----------------|
| Standing Corporate Auditors | Masami Tokunaga |
| | Takashi Suzuki |
| External Corporate Auditors | Hiromi Niwa |
| | Sachio Itasawa |

Executive Officers

| | |
|---------------------------|--------------------|
| Senior Executive Officers | Dennis Burleigh |
| | C. H. Tan |
| | Takashi Kataoka |
| | Tatsuo Soutome |
| Executive Officers | Masahiko Suzuki |
| | Naoki Soramoto |
| | Masakazu Shirakawa |
| | Hiroyuki Kyozone |

Front cover photo: Japanese bush warbler

The Japanese bush warbler is a bird in the tree sparrow (passerine) family. It is regarded as one of the three songbirds of Japan, together with the blue-and-white flycatcher and the Japanese robin.

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