

**PILOT** Corporation



# **Business Report**

2006(January 1~December 31)



President & CEO

## Kiyoshi Takahashi

### Q: Could you comment on the results for the term (5<sup>th</sup> term)?

A: The performance exceeded the promise we made at the end of the previous year. The stock price fluctuated in the first half, but turned upward in the second half to reach new post-listing highs.

I sincerely appreciate the consistent support we have received from our shareholders.

### Q: Both sales and profits substantially exceeded the forecasts announced at the end of the previous year. What were the factors behind this?

A: Although the domestic sales remained largely unchanged, G-2 (a gel-inked retractable rolling ball pen) sold much better than expected in overseas markets, and this drove our performance. Since we began selling G-2 pens ten years ago or so, sales have increased every year, especially in the United States. During the term under review, the number of units manufactured on an annual basis exceeded 100 million units. We were able to further reduce costs through manufacturing economies of scale, and consequently, G-2 pens made a marked contribution to profit growth.

### Q: The proportion of overseas sales has been rising. What is the situation of overseas sales by region?

A: In the United States, the market for writing instruments is mature, and the market size remains unchanged. In this environment, the Group has maintained the number one share of gel-inked roller ball pen and water-based roller ball pen markets. The retail industry is becoming increasingly oligopolistic in nature, and the main sales channels are shifting from stationery retailers to superstores like Staples and discount stores like Wal-Mart. To secure selling space at those shops, we

aim to maintain large shares of those markets where we can make a strong showing, while increasing market share in the oil-based ink roller ball pen market.

In Europe, Pilot Corporation of Europe S.A. controls operations, mainly in EU member countries. Using the company's strong marketing power, we plan to make FRIXION ball, an erasable roller ball pen, and eco-writing instrument, Begreen (known as Ecomate in Japan) as our new mainstay products in addition to the V Series (Hi-Tecpoint V5/V7 GRIP, etc.), which has been continuing to register healthy sales.

We also operate in the Middle East, Asia, and Oceania. These are vast areas and home to various ethnic groups, cultures, and religions, and the market in each country is different. We'll be putting particular priority on China and India. In both countries we are still striving to build the Pilot brand. As the brand penetrates these markets, we will grow sales with a focus on middle- and high-income groups that seek quality.

### Q: What is the situation in Japan?

A: There has been a gradual contracting tendency in the market over the past several years, reflecting the low birthrate and the prevalence of information technology. As the market has already matured, domestic writing instrument manufacturers vie for market share using the strengths of each company.

The Group adds high value to its products in terms of function and design and sells them at reasonable prices without engaging in price competition. As a result, margins are improving, although sales have fallen from their peak.

### Q: How do you see the future direction of the business?

A: As a comprehensive writing instruments manufacturer which made it start as a manufacture of fountain pens, the Group will continue to emphasize its writing instruments business.

But the Group also has a number of other technologies, such as the precious metals processing technology used in its jewelry business and ink technology used in the toys business of The Pilot Ink Co., Ltd. These technologies have been developed out of the production of writing instruments.

We have particularly high hopes for the future with respect to the ceramics processing technology of The Pilot Precision Co., Ltd., which we expect will find application in a wide array of fields related to the ceramics market. Using our technologies, we will develop our Group ceramics business into a major operation.



**Q: The Group plans to reorganize its production bases. Do you aim to cut costs through a workforce reduction?**

A: We have three major plants in the Hiratsuka area: the Hiratsuka plant, the Company's main plant, and the head office (Tamura) plant and Higashitoyoda plant of The Pilot Precision Co., Ltd. Although these three facilities do not produce the same products, they have overlapping Group production functions at different sites located close to one another. The Group has consequently decided to consolidate the overlapping production functions into the Hiratsuka plant so that we can bolster cost competitiveness with greater production efficiency and improve its ability to develop products by fusing each plant's capacity for technological development. The objective of the consolidation is not to reduce the personnel headcount.

We intend to complete the consolidation as early as possible, say within three years. Unfortunately I cannot disclose the details of the plan because we are still discussing them internally. We have announced the consolidation plan merely to indicate a change to the Group reorganization plan previously released: The Pilot Ink Co., Ltd. and The Pilot Precision Co., Ltd. will stay as they are, the Company's production function will be separated as a wholly-owned subsidiary, and the Company will control three manufacturing subsidiaries. We will announce a more specific plan and the expected effect of the consolidation as soon as we conclude the internal discussions.

**Q: The Company has introduced takeover defense measures. Does this mean that there has been an attempt to take over the Company?**

A: The Company is not at risk of being taken over at the moment. However, since we are a public company, we can never say definitively that there will be no takeover bid. We have introduced the takeover defense measures so that the Company and its shareholders are able to make their own sound judgments in the event of any takeover bid.

However, it is not only takeover defense measures that we introduced at that time; we believe the best takeover defense measure is to improve our corporate value and raise the stock price as a matter of first priority.

**Q: The Company disposed of treasury stocks through a private placement in December last year. Was that part of the takeover defense measures?**

A: Since we disposed of only 1,300 shares of treasury stock, that alone cannot constitute takeover defense measures. As mentioned in the news release, our objectives were to strengthen ties with our associates and to raise some of the funds we needed for the reorganization of production bases.

**Q: The Company has developed a shareholder special benefit plan. Is this designed to increase the number of individual shareholders?**

A: The Company achieved increases in both sales and profit in the current fiscal term (the 5<sup>th</sup> term), thanks to the support of the shareholders. In recognition of this support, we decided to increase the year-end dividend by 1,000 yen and present individual shareholders with familiar products of the Company as another way to distribute profits.

Although we have been introducing new products as well as products that are contributing to our performance, both in the financial reports and in the business report, we cannot effectively convey the features of the products with text and photographs alone. We would like to provide the opportunity for shareholders to try them out themselves, so that they can have a better understanding of the products and of the Group. Consequently, we would be delighted if this benefit plan helped increase the number of individual shareholders.

**Q: Finally, do you have a message for investors?**

A: To ensure that our IR activities satisfy investors, we need to support our initiatives by building experience. In the meantime, we will be addressing each individual issue in a step-by-step process. We welcome any opinions or inquiries.



## Business Overview

As for the performance for the term under review, consolidated net sales amounted to ¥80,593 million, up 8.2% year on year. Of consolidated net sales, domestic sales were ¥30,846 million, down 1.3% year-on-year, and overseas sales were ¥49,747 million, rising 15.1% from the previous year.

Consolidated operating income became ¥6,262 million, increasing 52.1% from the previous year. Consolidated ordinary profit was ¥4,348 million, up 76.6% year-on-year. Net income was ¥1,684 million, up 69.3% year-on-year.

### Business Results and Assets of the Pilot Group

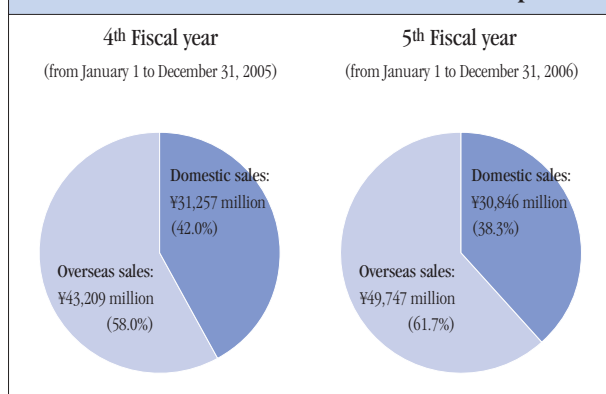
(¥ in millions, except for net income per share)	4 <sup>th</sup> Fiscal year (FY2005)	5 <sup>th</sup> Fiscal year (FY2006)
Net sales	74,467	80,593
Ordinary profit	2,462	4,348
Net income	994	1,684
Net income per share	21,753.10	37,716.89
Total assets	81,269	83,869
Net assets	27,255	30,762

Note 1. The figures of less than one million yen are omitted, except for net income per share.

Note 2. As for net income per share, the Accounting Standards of Net Income per Share (issued on September 25, 2002 by the Accounting Standards Board of Japan; ASBJ Standard No.2) and the ASBJ Guidance Standards for Net Income per Share (issued on September 25, 2002; ASBJ Guidance No. 4) are applied.

Note 3. Starting 5<sup>th</sup> Fiscal year, the Group applies the Accounting Standards for Presentation of Net Assets in the Balance Sheet (issued on December 9, 2005; ASBJ Standard No. 5) and Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet (issued on December 9, 2005; ASBJ Guidance No. 8).

### Domestic and Oversea Sales of the Pilot Group



Review of business operations and results by segment are as follows:

#### (1) Stationery

[Domestic sales]

In the domestic market, sales of writing instruments including the CUSTOM 74, a traditional fountain pen, Capless décimo, as a slender fountain pen, SUPER GRIP and Rexgrip (a mechanical pencil and a roller ball pen), and other products such as Opt. (a mechanical pencil and a roller ball pen) with adjustable tight clip which was launched in the current fiscal term, and HI-TEC-C Coletto (a pen with changeable refills in choice of gel ink colors) were strong.

Among of writing instruments launched in the second half of

the current fiscal term, the gold-lacquered Shishi-Komainu and Nioh fountain pens produced to mark the Company's 88th anniversary, Capless FERMO, a fountain pen equipped with a retractable (revolving) pen tip, Latte, a water-based roller ball pen that can write on metal, plastic, glass, and photographs, and the FRIXION Line (known as FRIXION light in overseas) marker pen, which uses Metamo ink that changes color depending on the temperature, were all well received.

We also launched the Alphabit's series of stationery for schoolchildren developed based on the Metamo ink function above, the dense, powerful SUPER Glue Tape, and NOTE IT!, a high-quality standard notebook that is simple and easy to use. Each of these products proved popular.

As for computer-related accessories and supplies, we are reviewing sales strategies for some of them, taking into account their potential and profitability.

[Overseas sales]

Overseas sales of G-2 (a gel-inked retractable roller ball pen), Hi-Tecpoint V5/V7 (a water-based roller ball pen), and FRIXION ball which uses Metamo ink and was launched in Europe in the previous fiscal year, have been growing steadily, mainly in the United States and Europe.

In particular, sales of G-2 (a gel-inked retractable roller ball pen) far exceeded the forecast made at the beginning of the current fiscal year. Consequently, the Company has increased the number of domestic production lines and production capacity, thereby bolstering its ability to respond to orders.

Among the new products launched in the current term, New V-Ball Grip (a water-based roller ball pen) and G-2 mini (a gel-inked retractable roller ball pen) were also well received.

#### (2) Others

(a) Jewelry business

The Company manufactures marriage rings, eternity rings (a new product), ID pendants and other items using its unique precious metals processing technology, and sells them in the domestic jewelry market. Consolidated sales for this business stood at ¥1,545 million, up 11.3% year on year.

(b) Toys business

The Pilot Ink Co., Ltd. (Nagoya, Aichi Prefecture), a domestic consolidated subsidiary, manufactures Mellchan dolls, Suisui Oekaki, cognitive education toy for drawing pictures, and bath toys, using its unique Metamo ink technologies and expertise, and sells them in both domestic and overseas markets. Consolidated sales were ¥5,407 million up 19.3% year-on-year.

(c) Opt-ceramics business

The Pilot Precision Co., Ltd. (Hiratsuka, Kanagawa Prefecture), a domestic consolidated subsidiary, manufactures and sells narrow through tube ceramic products, applying burning and extrusion molding technologies used in the production of pencil leads. The Pilot Precision Co., Ltd. is developing applications not only with optical communications devices and various sensors but also with medical equipment.



## Medium- and Long-term Business Strategy and Issues to Address

The medium- and long-term business strategy is to focus on the centralization of the management resources on the Company's core business—namely, the writing instruments business—based on the Company's core policy of customer orientation. Competition in the writing instruments market, both overseas and domestic, is intensifying. Reviewing and strengthening existing domestic sales and production systems, in particular, is therefore an important strategic challenge that will determine the direction of the value of the Group in terms of management strategy.

### (1) Reviewing and strengthening the Group's domestic sales system

The major challenges the Group is facing include not only improving market share for each writing instrument items and accelerating the development of major strategic products but also successfully introducing new products and establishing them in the market. For other major stationery products, including notebooks, bags, magnetic panel boards, and computer-related accessories and supplies, the Company is committed to reviewing and strengthening effective product planning and sales development.

### (2) Issues and future tasks for overseas business

Since each overseas writing instrument market has its own unique characteristics, the Group uses individual marketing techniques and develops multiple sales strategies.

Major issues and future tasks for overseas business are as follows:

- (a) Bolstering sales promotion in key areas
- (b) Measures against the risk of competitors developing low-price writing instruments, including PB products
- (c) Planning, developing, and launching the new products quickly
- (d) Reviewing the system of the Group's management of overseas subsidiaries

### (3) Strengthening the Group's domestic production system

#### 1. Group reorganization plan of production bases

The Company announced on November 27, 2006 a plan by the Group to reorganize its production bases (the "Reorganization Plan").

Under the Reorganization Plan, the Group will merge The Pilot Precision Co., Ltd. (Hiratsuka, Kanagawa Prefecture), a subsidiary which mainly produces mechanical pencils and other writing instruments, within three years. In relation to the merger, the Company will consolidate The Pilot Precision's production plants, or the Group's production bases in that area, into the Company's Hiratsuka plant (Hiratsuka, Kanagawa Prefecture).

Following the merger, the Company will step up research and development by fusing the unique technologies that each of the Company and The Pilot Precision Co., Ltd. has in relation to the development of writing instruments and the building of new

businesses. At the same time, the Company will accelerate efficient investment in development, improve production efficiency, and cost reduction.

#### 2. Disposal of treasury stock by private placement

The Company announced on November 27, 2006 a notice on the disposal of treasury stock by a private placement, in which it transferred 1,300 shares of treasury stock held by the Company to nine trading partners. The objectives of the disposal are to strengthen the Company's relations with the trading partners and raise the necessary funds to execute the Reorganization Plan described in the preceding paragraph through transferring part of the treasury stock held by the Company.

#### 3. Introduction of a plan against large-scale purchases of Company shares (takeover defense measures)

As announced on November 27, 2006 in a notice on the introduction of a plan against large-scale purchases of Company shares (takeover defense measures), a meeting of the Board of Directors, held the same day, resolved to introduce a plan against large-scale purchases of Company shares (the "Plan") to prevent abusive takeover bids and secure and improve the Company's corporate value and the shareholders' common interests.

Since the Company is a public company, it needs to assume that there are people, either individuals or individuals acting in concert, who may try to acquire shares in order to influence the management rights of the Company (the "Bidders"). In the event of a takeover bid, individual shareholders should make a decision in principle whether the shares should be sold to the Bidders or not, or whether the management of the Company should be left to the Bidders or not.

The Company confirmed the intention of shareholders at the annual shareholders' meeting held on March 29, 2007, which resolved to introduce the plan.

### (4) Internal controls

The Company established an Internal Control Office on September 1, 2006, in line with the Basic Policy on Internal Controls announced on May 26, 2006. The Company then started to develop internal controls and has been taking steps to put in place systems to assess and supervise internal controls related to business operations and accounting processes, among other areas.

### (5) Reforming the personnel system for developing human resources

In January 2007, the Company started a new personnel system that incorporates a performance evaluation mechanism to improve and bolster the development of human resources.

### (6) Shareholder benefit plan

The Company began to implement a shareholder benefit plan as announced in the notice on the establishment of a shareholder benefit plan published on September 25, 2006.



## Consolidated balance sheet

(millions of yen)

Item	Term	FY2006 (as of December 31)	Item	Term	FY2006 (as of December 31)
<b>(Assets)</b>			<b>(Liabilities)</b>		
<b>Current assets</b>		<b>47,221</b>	<b>Current liabilities</b>		<b>33,979</b>
Cash and deposits		4,688	Trade notes and accounts payable		13,400
Trade notes and accounts receivable		19,961	Short-term borrowings		11,188
Inventories		17,668	Current portion of long-term debt		3,435
Deferred tax assets		3,008	Current portion of corporate bonds		100
Others		2,229	Income taxes payable		651
Allowance for doubtful accounts		(335)	Accrued expenses		2,911
			Reserve for bonuses		602
			Reserve for directors' and corporate auditors' bonuses		30
			Others		1,659
<b>Long-term assets</b>		<b>36,647</b>	<b>Long-term liabilities</b>		<b>19,127</b>
<b>Tangible fixed assets</b>		<b>22,199</b>	Corporate bonds		1,150
Buildings and structures		8,251	Long-term debt		12,671
Machinery, equipment and vehicles		4,332	Deferred tax liabilities		1,478
Land		7,256	Reserve for employees' retirement benefits		1,227
Others		2,358	Reserve for directors' retirement allowances		249
			Negative goodwill		1,811
			Others		537
<b>Intangible assets</b>		<b>4,798</b>	<b>Total liabilities</b>		<b>53,106</b>
Leaseholds		4,545	<b>(Net assets)</b>		
Others		253	<b>Shareholders' equity</b>		<b>27,981</b>
			<b>Common stock</b>		<b>2,340</b>
<b>Investments and other assets</b>		<b>9,649</b>	<b>Capital surplus</b>		<b>8,788</b>
Investment securities		7,868	<b>Retained earnings</b>		<b>16,935</b>
Deferred tax assets		398	<b>Treasury stock</b>		<b>(83)</b>
Prepaid expense for employees' retirement benefits		365	<b>Valuation and translation adjustments, etc.</b>		<b>2,047</b>
Others		1,240	Net unrealized gain on available-for-sale securities		1,891
Allowance for doubtful accounts		(223)	<b>Deferred hedge gains and losses</b>		<b>(1)</b>
			Foreign currency translation adjustments		157
			<b>Minority interests</b>		<b>733</b>
<b>Total assets</b>		<b>83,869</b>	<b>Total net assets</b>		<b>30,762</b>
			<b>Total liabilities and net assets</b>		<b>83,869</b>



## Consolidated statement of income

(millions of yen)

Item	Term	FY2006 (year ended December 31)
<b>Net sales</b>		<b>80,593</b>
<b>Cost of sales</b>		<b>45,928</b>
<b>Gross profit on sales</b>		<b>34,665</b>
Selling, general and administrative expenses		28,402
<b>Operating income</b>		<b>6,262</b>
<b>Non-operating income</b>		<b>706</b>
Interest and dividend income		287
Depreciation of negative goodwill		123
Others		295
<b>Non-operating expenses</b>		<b>2,620</b>
Interest expenses		643
Amortization of transition obligation of accounting standard for employees' retirement benefits		577
Loss on devaluation and disposal of inventories		221
Exchange loss		508
Others		668
<b>Ordinary profit</b>		<b>4,348</b>
<b>Extraordinary income</b>		<b>42</b>
Gain on sale of long-term assets		18
Gain on sale of investment securities		6
Gains on prior year adjustments		14
Others		3
<b>Extraordinary expenses</b>		<b>1,128</b>
Loss on sale of long-term assets		41
Loss on disposal of long-term assets		119
Loss on revaluation of investments in affiliates		29
Loss on liquidation of affiliates		212
Impairment loss		710
Others		15
<b>Income before income taxes</b>		<b>3,263</b>
Corporate, inhabitant and enterprise taxes		1,532
Deferred taxes		(15)
Minority interests in earnings of consolidated subsidiaries		62
<b>Net income</b>		<b>1,684</b>

## Consolidated statement of cash flow

(millions of yen)

Item	Term	FY2006 (year ended December 31)
<b>Net cash flow from operating activities</b>		<b>3,623</b>
<b>Net cash flow from investing activities</b>		<b>(3,256)</b>
<b>Net cash flow from financing activities</b>		<b>119</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>203</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>690</b>
<b>Cash and cash equivalents at beginning of the term</b>		<b>3,427</b>
<b>Net increase in cash and cash equivalents due to inclusion of newly consolidated subsidiaries</b>		<b>75</b>
<b>Cash and cash equivalents at end of the term</b>		<b>4,194</b>



## Consolidated statements of changes in net assets (FY2006 year ended December 31)

(millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance as of December 31, 2005</b>	<b>2,340</b>	<b>7,868</b>	<b>15,552</b>	<b>(251)</b>	<b>25,510</b>
<b>Changes during the year ended December 31, 2006</b>					
Cash dividends			(288)		(288)
Bonuses for directors and corporate auditors			(40)		(40)
Net income			1,684		1,684
Effect of increase in number of consolidated subsidiaries			27		27
Acquisition of treasury stock				(21)	(21)
Disposal of treasury stock		919		189	1,109
Net changes of items other than shareholders' equity					—
<b>Total changes during the year ended December 31, 2006</b>	<b>—</b>	<b>919</b>	<b>1,382</b>	<b>167</b>	<b>2,470</b>
<b>Balance as of December 31, 2006</b>	<b>2,340</b>	<b>8,788</b>	<b>16,935</b>	<b>(83)</b>	<b>27,981</b>

	Valuation and translation adjustments, etc.				Minority interests	Total net assets
	Net unrealized gain on available-for-sale securities	Deferred hedge gains and losses	Foreign currency translation adjustments	Total valuation and translation adjustments, etc.		
<b>Balance as of December 31, 2005</b>	<b>2,303</b>	<b>—</b>	<b>(558)</b>	<b>1,744</b>	<b>668</b>	<b>27,923</b>
<b>Changes during the year ended December 31, 2006</b>						
Cash dividends				—		(288)
Bonuses for directors and corporate auditors				—		(40)
Net income				—		1,684
Effect of increase in number of consolidated subsidiaries				—		27
Acquisition of treasury stock				—		(21)
Disposal of treasury stock				—		1,109
Net changes of items other than shareholders' equity	(411)	(1)	715	302	65	367
<b>Total changes during the year ended December 31, 2006</b>	<b>(411)</b>	<b>(1)</b>	<b>715</b>	<b>302</b>	<b>65</b>	<b>2,838</b>
<b>Balance as of December 31, 2006</b>	<b>1,891</b>	<b>(1)</b>	<b>157</b>	<b>2,047</b>	<b>733</b>	<b>30,762</b>



## Non-consolidated balance sheet

(millions of yen)

Item	Term	FY2006 (as of December 31)
<b>(Assets)</b>		
<b>Current assets</b>		<b>22,671</b>
<b>Long-term assets</b>		<b>37,799</b>
Tangible fixed assets		10,387
Intangible assets		4,664
Investments and other assets		22,747
<b>Total assets</b>		<b>60,471</b>
<b>(Liabilities)</b>		
<b>Current liabilities</b>		<b>23,621</b>
<b>Long-term liabilities</b>		<b>14,733</b>
<b>Total liabilities</b>		<b>38,355</b>
<b>(Net assets)</b>		
<b>Shareholders' equity</b>		<b>20,594</b>
Common stock		2,340
Capital surplus		10,926
Retained earnings		7,410
Treasury stock		(83)
Valuation and translation adjustments, etc.		1,521
Net unrealized gain on available-for-sale securities		1,522
Deferred hedge gains and losses		(1)
<b>Total net assets</b>		<b>22,116</b>
<b>Total liabilities and net assets</b>		<b>60,471</b>

## Non-consolidated statement of income

(millions of yen)

Item	Term	FY2006 (year ended December 31)
<b>Net sales</b>		<b>53,258</b>
<b>Cost of sales</b>		<b>38,202</b>
<b>Gross profit on Sales</b>		<b>15,056</b>
<b>Selling, general and administrative expenses</b>		<b>13,341</b>
<b>Operating income</b>		<b>1,714</b>
<b>Non-operating income</b>		<b>1,678</b>
<b>Non-operating expenses</b>		<b>1,116</b>
<b>Ordinary profit</b>		<b>2,276</b>
<b>Extraordinary income</b>		<b>6</b>
<b>Extraordinary expenses</b>		<b>954</b>
<b>Income before income taxes</b>		<b>1,328</b>
Corporate, inhabitant and enterprise taxes		337
Deferred taxes		120
<b>Net income</b>		<b>870</b>



## Non-consolidated statements of changes in net assets (FY2006 year ended December 31)

(millions of yen)

	Shareholders' equity								
	Common stock	Capital surplus		Legal reserve	Retained earnings			Treasury stock	Total shareholders' equity
		Additional paid-in capital	Other capital surplus		Reserve for dividends	Other retained earnings			
						Special reserve	Retained earnings brought forward		
<b>Balance as of December 31, 2005</b>	2,340	10,005	1	315	240	4,980	1,309	(251)	18,941
<b>Changes during the year ended December 31, 2006</b>									
Cash dividends							(288)		(288)
Transfer to special reserve						520	(520)		—
Bonuses for directors and corporate auditors							(16)		(16)
Net income							870		870
Acquisition of treasury stock								(21)	(21)
Disposal of treasury stock			919					189	1,109
Net changes of items other than shareholders' equity									—
<b>Total changes during the year ended December 31, 2006</b>	—	—	919	—	—	520	45	167	1,653
<b>Balance as of December 31, 2006</b>	2,340	10,005	921	315	240	5,500	1,355	(83)	20,594

	Valuation and translation adjustments, etc.			Total net assets
	Net unrealized gain on available-for-sale securities	Deferred hedge gains and losses	Total valuation and translation adjustments, etc.	
<b>Balance as of December 31, 2005</b>	1,673	—	1,673	20,614
<b>Changes during the year ended December 31, 2006</b>				
Cash dividends			—	(288)
Transfer to special reserve			—	—
Bonuses for directors and corporate auditors			—	(16)
Net income			—	870
Acquisition of treasury stock			—	(21)
Disposal of treasury stock			—	1,109
Net changes of items other than shareholders' equity	(150)	(1)	(152)	(152)
<b>Total changes during the year ended December 31, 2006</b>	(150)	(1)	(152)	1,501
<b>Balance as of December 31, 2006</b>	1,522	(1)	1,521	22,116



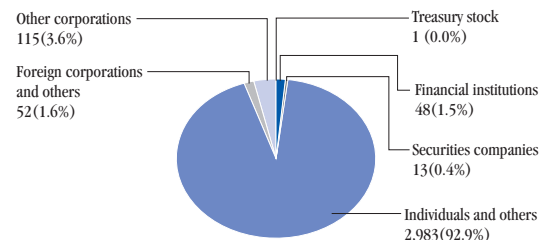
Number of shares authorized to issue      180,000  
 Number of shares issued                      46,814.56  
 Number of shareholders                        3,212

## Major shareholders

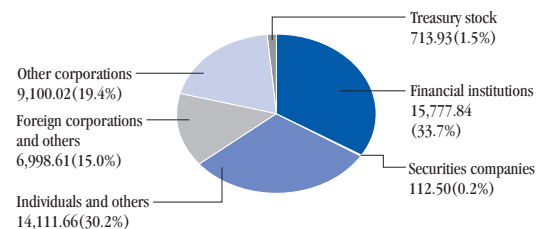
Name	Equity contribution to the Company	
	Number of shares held	% of total voting right
Ko Hong Myong	5,823	12.6
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,718	3.7
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	1,602	3.4
Japan Trustee Services Bank, Ltd. (Trust placed in Mitsui Asset Trust and Banking Co., Ltd. and Trust Account of CMTB Equity Investments Co., Ltd.)	1,540	3.3
Employees' Stockholding	1,422	3.0
Asahi Mutual Life Insurance Company	1,134	2.4
Mitsubishi UFJ Trust and Banking Corporation	1,100	2.3
The Master Trust Bank of Japan, Ltd. (Trust account)	986	2.1
Shochiku Co., Ltd.	972	2.1
The Dai-ichi Mutual Life Insurance Company	900	1.9

Note: The calculation of percentage of total voting right does not include treasury stock 713.93 shares.

## Breakdown of shareholders by sector (number)



## Breakdown of shares by sector (shares)



## Major businesses of the Pilot Group

The Pilot Group consists of PILOT CORPORATION, 22 subsidiaries and 4 affiliates. The Group is mainly engaged in manufacture, purchase and sales of stationery products and other related products.

The Company, as an operating holding company, also engages in management and supervision of the Group companies through share holding and exercise of rights as a shareholder.

### Writing instruments

Fountain pens, mechanical pencils, roller ball pens, marker pens, ink, pencil leads, etc.

### Stationery

Notebooks, pocketbooks, writing cases, pass holders, carbon paper, bags, whiteboards, picture frames, files, magnetic panel boards, etc.

### Computer supplies

Computer ribbons, computer-related accessories and supplies, office equipment, and desk-top calculators, etc.

### Jewelry

Rings, necklaces, earrings, and other accessories, etc.

### Toys

Bath toys, cognitive education toys, and dolls, etc.

### Others

FOUNFLOW (micro dispenser), ceramics parts, and service business (inter-group logistics, wrapping), etc.



## Corporate profile

<b>Corporate name:</b>	PILOT CORPORATION
<b>Headquarters:</b>	2-6-21, Kyobashi, Chuo-ku, Tokyo 104-8304 Japan
<b>Telephone:</b>	+81-3-3538-3700 (Main)
<b>Foundation:</b>	January 4, 2002
<b>Operation:</b>	January 27, 1918
<b>Common stock:</b>	2,340,728,000 yen
<b>Number of employees:</b>	1,133



## Directors and Corporate auditors

President & CEO	<b>Kiyoshi Takahashi</b>	President of The Pilot Precision Co., Ltd.	Director	<b>Hiroshi Murata</b>	General Manager of Domestic Plant
Senior Managing Director	<b>Yuichi Takasago</b>	In charge of Accounting Department and General Affairs Department	Director	<b>Hiromoto Watanabe</b>	General Manager of Product Planning Division
Managing Director	<b>Masanori Kishi</b>	General Manager of Production Division	Director	<b>Kozo Okamoto</b>	General Manager of Western Sales Division
Managing Director	<b>Masayoshi Imai</b>	General Manager of Domestic Sales Division	Director	<b>Tatsuo Soutome</b>	Manager of Product Development Division
Director	<b>Ronald G. Shaw</b>	President of Pilot Corporation of America	Standing Corporate Auditor	<b>Tohru Kuroki</b>	
Director	<b>Marcel R. Ringeard</b>	President of Pilot Corporation of Europe S.A.	Standing Corporate Auditor	<b>Yoshio Kokubo</b>	
Director	<b>Norikazu Nakasuji</b>	President of The Pilot Ink Co., Ltd.	Corporate Auditor	<b>Takayasu Ohkawa</b>	Lawyer
Director	<b>Kazuyuki Mochida</b>	Deputy General Manager of Domestic Sales Division	Corporate Auditor	<b>Hiromi Niwa</b>	Certificate Public Accountant, Tax Accountant

(Note) Corporate Auditors, Takayasu Ohkawa and Hiromi Niwa are outside corporate auditors as defined in Item 15, Article 2 of the Corporation Law.

## Executive officers

Executive Officer	<b>Yoshikazu Tsujii</b>	President of Pilot Pen Do Brasil S/A	Executive Officer	<b>Ikuo Goto</b>	General Manager of Eastern Sales Division
Executive Officer	<b>Takashi Ishii</b>	General Manager of International Division	Executive Officer	<b>Ryo Narumai</b>	General Manager of International Administration Division
Executive Officer	<b>C. H. Tan</b>	President of Pilot Pen (S) Pte Ltd.	Executive Officer	<b>Hiroshi Asaba</b>	General Manager of Corporate Planning Office
Executive Officer	<b>Takashi Suzuki</b>	General Manager of Human Resources Department			
Executive Officer	<b>Masami Tokunaga</b>	General Manager of Hiratsuka Plant			