

Wacom Co., Ltd.  
Annual Report

2004



## HISTORY

### July 1983

- Wacom Co., Ltd. is established in Ageo City, Saitama, Japan, with common stock of 48 million yen.
- Operations of Electronic Systems and Devices (ESD) and Engineering Collaborative Solutions (ECS) businesses begin.

### June 1988

- Wacom Computer Systems GmbH (presently Wacom Europe GmbH, a consolidated subsidiary) is established in Neuss, West Germany, as a sales base in Europe.

### August 1991

- Wacom Technology Corporation (presently a consolidated subsidiary) is established in Vancouver, Washington, U.S.A., as a sales base in America.

### March 1998

- Marketing of SmartPDM, a Product Data Management (PDM) system, begins.

### September 1998

- Marketing of Intuos, a line of professional graphics tablets, begins.

### June 1999

- Marketing of ECAD/dio, a CAD system for electrical engineering, begins.

### November 1999

- Marketing of FAVO/Graphire, a line of consumer graphics tablets, begins.

### March 2000

- Wacom China Corporation (presently a consolidated subsidiary) is established in Beijing, China, as a sales base in China.

### September 2001

- Marketing of Cintiq, a line of integrated LCD tablets, begins.

### October 2001

- Marketing of Intuos2 professional graphics tablets begins.
- Wacom Component Europe (presently a consolidated subsidiary) is established in Cambridge, U.K., as a marketing and R&D base for a pen sensor component business.

### April 2002

- Electronic Human Interfaces (EHI) Company is established.

### April 2003

- The Company's stock is listed on the JASDAQ market.

### September 2003

- Marketing of Graphire3/FAVO F-430, F-630 begins.
- Marketing of ECAD/dio Ver 4.0 begins.

### April 2004

- Wacom Digital Solutions Co., Ltd. (presently a consolidated subsidiary) is established in Seoul, South Korea, as a sales base in South Korea.

## PROFILE

Adhering to our corporate philosophy of advocating "the harmonious development between man and technology," we at Wacom Co., Ltd. strive to offer products that expand the innate creativity of mankind. Our primary goal is to develop tools that people can use intuitively and effortlessly regardless of their background or the tools' technological pedigree.

In the 1980s, we pioneered the development of a pen tablet—a picture-drawing tool for PCs—that made battery-free, cordless computer input possible for the first time. The pen tablet's user-friendly interface and rendering versatility were cherished by computer graphics creators around the world, and it has since become an indispensable tool in the field. Integrated LCD tablets, which allow users to write directly on LCD displays, are now popular among a wide range of businesses, including medical firms, transportation/shipping companies, and a host of other enterprises in which entering information via keyboard is impractical. Furthermore, by incorporating pen-sensor components into tablet PCs, we've made it possible for mobile users—such as delivery truck drivers—to enter information into a computer system.

Our tablets are continuing to expand their fields of application, and we plan to continue revolutionizing the workplace and the wider world with our proprietary user-interface technology.

## CONTENTS

|  |    |
|--|----|
| FINANCIAL HIGHLIGHTS TO OUR SHAREHOLDERS                       | 1  |
| BUSINESS OVERVIEW  | 2  |
| OUR THREE STRENGTHS  | 4  |
| SEGMENT INFORMATION  | 5  |
| FINANCIAL SECTION  | 6  |
| CORPORATE DATA   | 8  |
| BOARD OF DIRECTORS, CORPORATE AUDITORS, AND EXECUTIVE OFFICERS | 24 |
| INVESTOR INFORMATION   | 24 |
|  | 25 |

## DISCLAIMER

Forward-looking statements regarding future events and performance contained in this annual report are based on currently available information and involve risks and uncertainties, including macroeconomic conditions, trends of the industry in which the company is engaged, and progress in new technologies. Please note that actual results could materially differ from those expressed or implied by the forward-looking statements in this annual report due to these risks and uncertainties.



# FINANCIAL HIGHLIGHTS

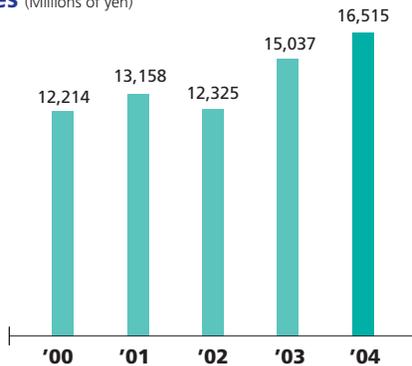
Wacom Co., Ltd. and Consolidated Subsidiaries

|   | Thousands of yen    |             | Thousands of U.S. dollars (Note 1) |
|---|---------------------|-------------|------------------------------------|
|   | Year ended March 31 |             | Year ended March 31                |
|   | 2003                | 2004        | 2004                               |
| <b>For the year:</b>                              |                     |             |                                    |
| Net sales .....                                   | ¥15,036,968         | ¥16,514,894 | \$156,332                          |
| Gross profit .....                                | 7,441,678           | 8,585,086   | 81,267                             |
| Operating income.....                             | 1,034,784           | 1,702,168   | 16,113                             |
| Net income.....                                   | 502,763             | 589,098     | 5,576                              |
| <b>At year end:</b>                               |                     |             |                                    |
| Total assets.....                                 | 12,299,482          | 12,990,943  | 122,974                            |
| Total shareholders' equity .....                  | 4,901,184           | 5,697,957   | 53,938                             |
| <b>Per share (Yen and U.S. dollars : Note 2):</b> |                     |             |                                    |
| Net income  |                     |             |                                    |
| Basic.....  | ¥28,088.55          | ¥ 6,154.03  | \$ 58.25                           |
| Diluted.....                                      | -                   | 5,837.32    | 55.26                              |
| Cash dividends .....                              | 5,000.00            | 2,000.00    | 18.93                              |

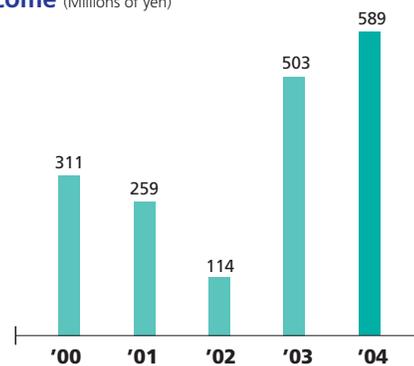
Note 1: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥105.64=U.S.\$1, the approximate exchange rate prevailing on March 31, 2004.

Note 2: On November 20, 2003, each share of common stock was split into five shares. Accordingly, per share amounts for the year ended March 31, 2004, were calculated on the basis that such a stock split was carried out at the beginning of the period.

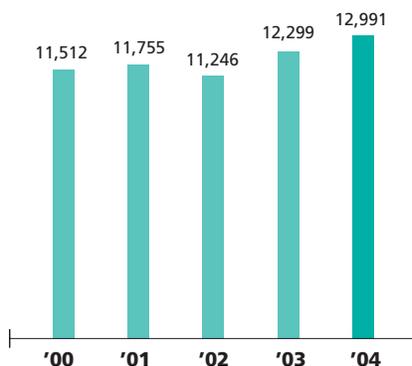
**Net sales** (Millions of yen)



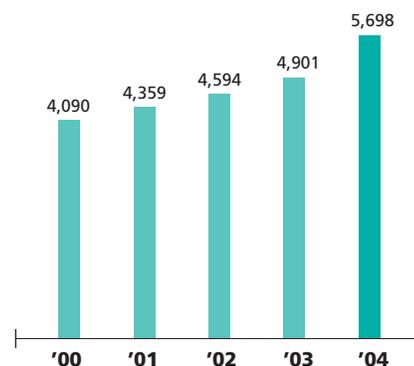
**Net income** (Millions of yen)



**Total assets** (Millions of yen)



**Total shareholders' equity** (Millions of yen)



### WACOM IS COMMITTED TO ENHANCING THE GLOBAL LEADERSHIP IN HUMAN-FRIENDLY INTERFACES

#### Dear Wacom shareholders,

On behalf of Wacom, I would like to extend my greetings and express our sincere appreciation for your unchanging support. We are pleased to present the Wacom Annual Report for the 21st fiscal year from April 1, 2003, through March 31, 2004.

Since opening our doors in 1983, Wacom has focused on researching and developing new user interfaces designed to enhance human creativity. Under the corporate philosophy of "the harmonious development between man and technology," Wacom has served customers worldwide while growing into a global company with a presence in all the major regions.

Today, Wacom is recognized as the standard tool provider of pen tablets—indispensable for professional designers and artists in the film, animation, game, and other graphics industries. Further, the recent growth of broadband communication, digital photography, and liquid crystal displays has led to a rapid increase in the number of recreational Wacom consumers, which has coincided with our expansion into alternative applications, such as within the medical and education fields. We also plan to position Wacom technology as the de facto standard of the digital paper era by extending our reach to a new generation of mobile phones and info appliances, in addition to the tablet PCs. To ensure long-term growth and to generate higher corporate values, we will invest in new technologies and establish a global brand leadership.

At Wacom, we will continue our commitment to the expansion of human creativity by offering natural, intuitive, and human-friendly interface solutions.

#### Business developments and performance in the 21st fiscal year

In the first half of the 21st fiscal year, the Japanese economy remained weak and unpredictable. Uncertainty in the Middle East, the slowdown in the European economy, and the SARS epidemic that troubled Asian markets collectively offset hopeful signals, such as domestic corporate profitability gains and a rally in stock prices. In the second half, the signs of economic recovery became more prominent, although some uncertainty remained, epitomized by the stronger Japanese yen and slow consumer spending. Wacom Group responded to such changes with agility and flexibility. We took steps to enhance the awareness of current products, expanded new application areas, and developed a new technology and new products as the foundations of our future component business. We also successfully resolved with settlement a pending patent case in the U.S. Moreover, we improved our focus on select businesses by divesting Wacom IT Co., Ltd. and absorbing Wacom NET Co., Ltd. through a small-scale merger during the year.

As a consequence, our consolidated financial results are represented by a net sales of 16,515 million yen (up 9.8%), an operating income of 1,702 million yen (up 64.5%), and a net income of 589 million yen (up 17.2%). All percentage comparisons were made on a year-on-year basis.

#### Business outlook and midterm business strategy

In starting the 22nd fiscal year (year to March 31, 2005), Wacom abolished existing internal company systems and reorganized itself to accelerate the growth in its main business: the Electronic Systems and Devices (ESD) division. We also committed ourselves to improving the

level of global integration for operational efficiency and effectiveness. We will add new operations in Seoul, South Korea, and Shanghai, China, as the foundations for future business development. Also, we will expand the technology reach of our pen sensor component business into the growing segment of tablet PCs, as well as into new domains such as mobile phones and information appliances.

Our customers' satisfaction, as epitomized by our "harmonious development between man and technology" corporate philosophy, remains our first priority. And, as mentioned earlier in this statement, we're committed to making Wacom technology—developed by the company that pioneered the original pen sensor tools—the de facto standard in the digital paper era.

To support our mid-and long-term visions, we must continually improve our operational efficiency and cash flow. Wacom strives to achieve WP212—the mid-term business plan, with goals of reaching 20% compound annual revenue growth rate and 12% operating profit margin.

### **Dividend policy and message to our shareholders**

Wacom was listed on the JASDAQ market on April 24, 2003. To mark this occasion, and to express our sincere appreciation to all our shareholders, we decided to offer, as of March 31, 2004, a commemorative dividend in addition to the ordinary dividend.

A final comment to our shareholders: We're committed to enhancing our global leadership through the next decade and throughout the 21st century by continuing to invest in the development of new technology and by establishing our business infrastructure on a global basis. Our executives and employees will work as a team to continuously improve



Wacom's corporate value and enhance Wacom's status as a global leader with a vital role in enhancing the creativity of the human spirit.

Thank you again for the unchanging support. For Wacom to be successful, your support is essential.

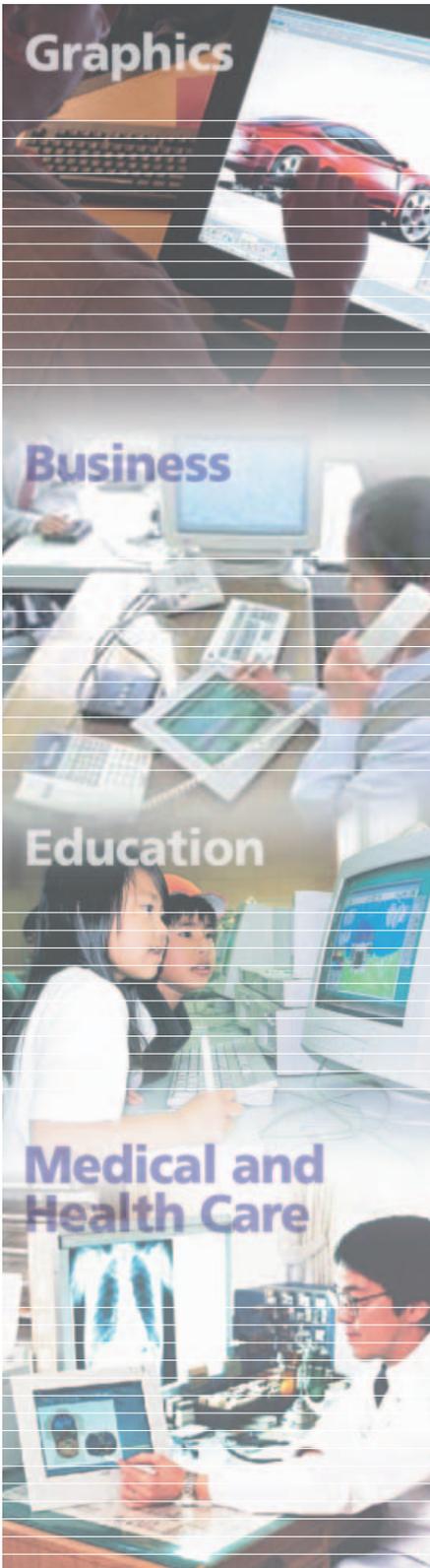
Sincerely yours,

June 2004

A handwritten signature in black ink, appearing to read 'Masahiko Yamada'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Masahiko Yamada  
President & CEO

# BUSINESS OVERVIEW



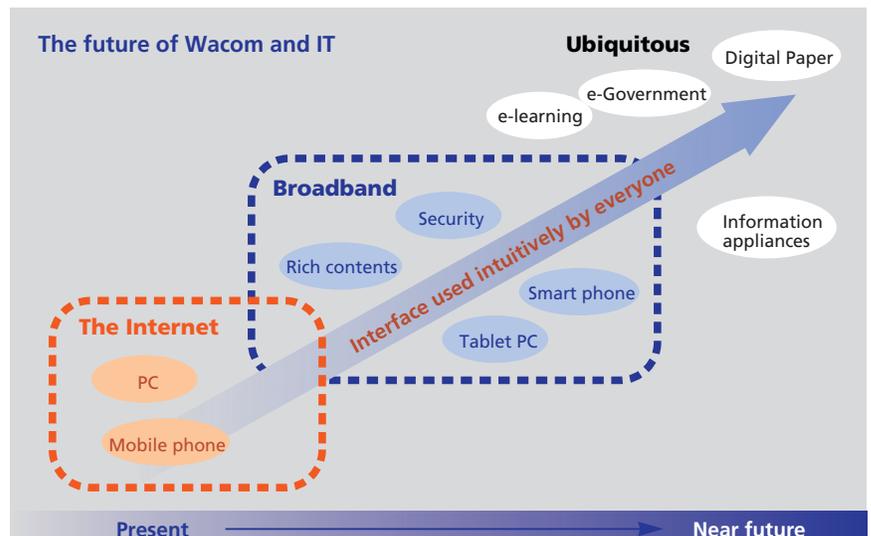
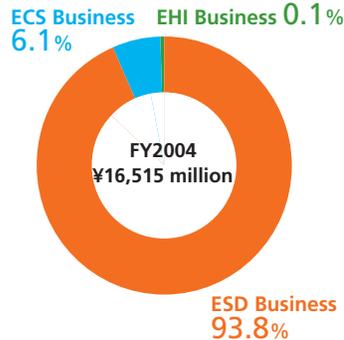
The business of Wacom consists of three segments. Electronic Systems and Devices (ESD), our core business, is dedicated to the development, manufacture, and sale of pen tablets and related software. Engineering Collaborative Solutions (ECS) is dedicated to the development and sale of computer-aided design (CAD) systems and the sale of product data management (PDM) systems. And, Electronic Human Interfaces (EHI) is dedicated to offering complete systems solutions that combine our products with the software of other manufacturers.

Of the abovementioned three businesses, the ESD segment accounts for more than 90% of our total sales and boasts overwhelming market shares at home and abroad. Our pen tablets are highly rated by computer graphics creators across the world for their user-friendliness and rendering versatility, and they are considered indispensable by graphic designers, digital motion picture professionals, and other experts in a variety of creative fields.

Since the establishment of the Company, we have been pursuing human-friendly interfaces and conducting R&D to make computers easier to use. We intend to expand the sphere of our tablet-related

technologies to other areas of people's daily lives, from tablet PCs, PDAs, mobile phones, and information appliances to all forms of ubiquitous computing. Our aim is to make Wacom technology the de facto standard of the digital paper era.

### Sales breakdown by business



# OUR THREE STRENGTHS

## Unrivaled, State-of-the-art Technology

Our greatest strength lies in the advanced technologies we used when developing the original pen tablets, which were the first tools capable of battery-free and cordless computer input.

The electromagnetic induction system—one of our core technologies—creates an electromagnetic field on the surface of the pen tablet. As the pen moves across the tablet, it generates an electric current with its built-in coils, and then it sends a series of induction signals to the tablet. As this process repeats itself, the tablet reads the pen's movements and translates it to the software. The electronic pen is capable of detecting minute changes in pressure and tilt, which alters the thickness of lines and color shades. The system also offers another major advantage with its eraser function.

Wacom currently possesses a total of 469 registered and pending basic and peripheral patents worldwide, mainly in connection with its ESD products.

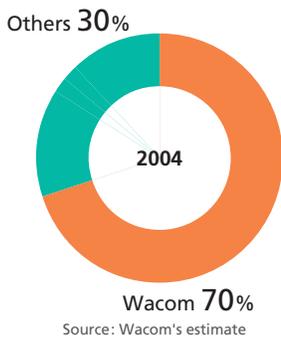
### High technological skills

As of March 31, 2004

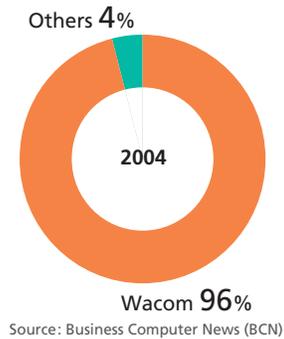
| Intellectual property rights | Patents   | Utility models | Registered trademarks | Registration of designs |
|------------------------------|-----------|----------------|-----------------------|-------------------------|
| Registered                   | 303 (177) | 2              | 212 (129)             | 34 (14)                 |
| Applied                      | 166 (63)  | -              | 11 (8)                | 9 (3)                   |
| Total                        | 469 (240) | 2              | 223 (137)             | 43 (17)                 |

Figures in ( ) are overseas numbers

### Global market share



### Domestic market share



## Product Brand Representing No.1 Global Market Share

Wacom boasts the largest share of the global market for pen tablets. Our pen tablet products are the de facto standard among computer designers of all stripes and have proved indispensable to people in the global motion picture, animation, design, and computer game industries. At present, we possess a market share of 96.4%\* in Japan and approximately 70%\*\* abroad.

We refer to our collective pen-inputting sensor technology and integrated LCD panel technology—both are used within our pen tablet products—as Wacom Penabled Technology, and we supply it on an OEM basis to various electronic system sectors. Most computer manufacturers have adopted our sensor technology for use in their tablet PCs. Furthermore, we also have the No.1 market share in Japan in the field of electronic CAD (computer-aided design).

\* Based on 2004 survey by BCN, Inc.

\*\* Based on Wacom estimate

## Global Business Presence

Market demand for our graphics tablet products is expanding not only in Japan, but also in the U.S., Europe, and elsewhere in Asia. Since our firm's inception, we have developed our business in the global markets while establishing an optimal R&D and sales framework in various countries around the world. We have built a platform for marketing our products worldwide by establishing sales subsidiaries in Germany in 1988, in the U.S. in 1991, in China in 2000, and in South Korea in 2004 (all of which have since become consolidated subsidiaries). As a result, the percentage composition of our sales by region is as follows: 54.9% for Asia (including Japan), 25.9% for North America, and 19.2% for Europe.

We have also sought to optimize our R&D activities through regional specialization: hardware (including pen tablets) in Japan and software (including drivers) in the U.S. We enhanced our global business presence further by establishing Wacom Components Europe Ltd. (presently a consolidated subsidiary) in 2001 in Cambridge, U.K., as our new marketing/R&D base for pen sensor components. A number of R&D facilities for European mobile phone manufacturers are concentrated in Cambridge.



## Electronic Systems and Devices (ESD) Business



The ESD business segment is dedicated primarily to the development, manufacture, and sale of graphics tablets and related software. A graphics tablet, which essentially consists of an electronic pen and the tablet itself, is a computer-input system, and it is typically used in the graphics, photo image processing, printing, and film production fields. At the same time, we've integrated our LCD and pen technologies to create intuitive interfaces that allow users to enter information into computers by touching electronic pens to LCD displays. Experts in the medical information systems and industrial design fields are actively using the technology. Furthermore, many leading computer manufacturers are adopting our pen sensor components for their tablet PCs.

With professionals in many industries now using Wacom products, the Company has gained an approximate share of 70% of the global tablet market (according to Wacom estimates). Demand for our products is also expanding in overseas markets, including the U.S., European, and Asian markets. We will strive to strengthen our competitive edge and to develop our overseas business operations further by continuing to take proactive measures, such as expanding market demand for next-generation mobile phones and PDA-related products.

### Wacom Intuos2

This cutting-edge graphics tablet system is highly rated by computer graphics professionals worldwide.



### Wacom FAVO/Graphire3

Designed for general PC users, this tablet offers performance that mirrors the higher-end units used by computer graphics professionals.



### Wacom Cintiq

This integrated LCD tablet allows users to manipulate images using an electronic pen.



### Pen sensor component

In addition to supplying finished products, Wacom lends its Wacom Penabled Technology—used in its pen-based tablets—to a wide array of system equipment.



## TOPICS

### BCN AWARD 2004: Wacom captures fifth consecutive top prize in the tablet category

The BCN AWARD is presented to vendors that rank first in annual sales volume of PC-related products. The award, which adheres to a ranking system organized by BCN, Inc., is Japan's only award based on the objective sales volume index. Wacom not only won the top prize in the electronic tablet category for 2004, but we have also won it every year since 2000.

We wish to convey our sincerest gratitude to our customers for their continued support of our pen tablet products.

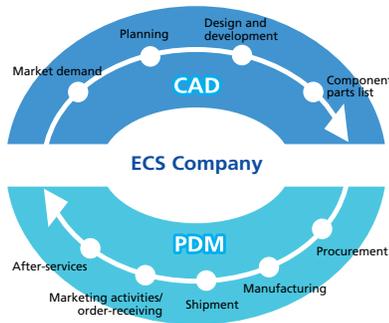
### Wacom supplies pen sensor components to HP: All tablet PC manufacturers now recommend Wacom

Our cordless, no-battery electronic pen and input sensor (Wacom Penabled Technology) has been adopted as the pen input component for the HP Compaq Tablet PC TC1100, a high-end tablet PC produced by Hewlett-Packard.

The Penabled Electronic Pen is powered by electromagnetic waves from the tablet and therefore requires no cord or battery. It senses the pen pressure and accurately inputs the results on the LCD screen.

This decision by Hewlett-Packard means that, according to our data, all 16 tablet PC manufacturers now rely on Wacom technology.

## Engineering Collaborative Solutions (ECS) Business



The main focus of the ECS business is to develop and market software packages tailored to manufacturers' design departments and to provide associated system formulations.

We develop CAD systems for electrical engineering firms (which specialize in the design of electrical apparatus/instrumentation and control equipment) as well as mechanical engineering firms. Moreover, we market product data management (PDM) systems that offer a consolidated means of managing product information.

Though economic conditions remain challenging, especially as many manufacturers continue to move their production operations overseas, our strategy is to maintain the existing scale of the ECS business and to enhance technical support for our current customers in an effort to increase satisfaction. While we are dedicated to achieving high levels of customer approval and to manage this area productively and efficiently, we're also committed to marketing our PDM products more aggressively, as we expect demand for this segment to increase in the future.

### ECAD/dio

ECAD/dio streamlines overall operations by helping users create electrical design diagrams while also synchronizing design data with peripheral devices.



### SMARTEAM

SMARTEAM caters to the data management needs of corporate organizations at a reasonable price.

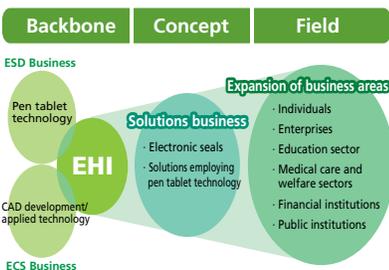


### ProØDenki

ProØDenki is a CAD system for electrical engineering firms, and it is based on the international-standard AutoCAD platform. As a pioneer in the field of electronic CAD, Wacom used AutoCAD/AutoCAD LT as its base technology and then magnified it.



## Electronic Human Interfaces (EHI) Business



The EHI business, which sells mostly to corporate customers, is primarily engaged in R&D and sales of equipment and solutions based on the Company's core technologies. It aims to develop critical equipment and devices, such as electronic seals (identity stamps) and pens that will be essential in the coming era of digital paper technologies. This business also plans to establish alliances with computer manufacturers and associated companies with whom we did not have close associations in the past.

Our electronic seals have won high praise in Japan for combining the ancient tradition of personal and official seals ("chops") with modern IT technology. Some local governments that are implementing "e-government" initiatives, along with a number of corporations, have already started using electronic seals. We will expand this market by actively promoting the technology to the education sector as well as the medical and welfare sector, financial institutions, etc.



### Electronic Seal inplet (technical cooperation)

This system allows businesspeople to affix an official seal on electronic documents. By using an electronic ID in the seal, users can stamp computer-generated documents just as they would paper documents.

\*Electronic Seal inplet is a product of Shachihata, Inc. Wacom supplies the electronic pen technology for the inplet.

# FINANCIAL SECTION

Wacom Co., Ltd. and Consolidated Subsidiaries

## FIVE-YEAR SUMMARY

|   | Thousands of yen    |             |             |             |             | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|---------------------|-------------|-------------|-------------|-------------|--|
|   | Year ended March 31 |             |             |             |             | Year ended<br>March 31                   |
|   | 2000                | 2001        | 2002        | 2003        | 2004        | 2004                                     |
| <b>For the year:</b>                                |                     |             |             |             |             |  |
| Net sales   | ¥12,214,309         | ¥13,157,803 | ¥12,325,451 | ¥15,036,968 | ¥16,514,894 | \$156,332                                |
| Gross profit  | 6,218,319           | 6,671,845   | 6,220,321   | 7,441,678   | 8,585,086   | 81,267                                   |
| Operating income                                    | 928,333             | 909,374     | 402,180     | 1,034,784   | 1,702,168   | 16,113                                   |
| Income before income taxes                          | 672,419             | 612,670     | 430,899     | 936,403     | 1,130,868   | 10,705                                   |
| Net income  | 310,670             | 259,469     | 113,760     | 502,763     | 589,098     | 5,576                                    |
| <b>At year end:</b>                                 |                     |             |             |             |             |  |
| Cash and cash equivalents at end of year            | 3,197,028           | 2,637,007   | 2,583,354   | 3,070,700   | 3,681,204   | 34,847                                   |
| Total shareholders' equity                          | 4,090,154           | 4,358,589   | 4,593,542   | 4,901,184   | 5,697,957   | 53,938                                   |
| Total assets  | 11,511,873          | 11,755,038  | 11,245,636  | 12,299,482  | 12,990,943  | 122,974                                  |
| <b>Net income per share (Yen and U.S. dollars):</b> |                     |             |             |             |             |  |
| Basic   | 24,050.12           | 15,003.41   | 6,577.97    | 28,088.55   | 6,154.03    | 58.25                                    |
| Diluted   | -                   | -           | -           | -           | 5,837.32    | 55.26                                    |
| Total shareholders' equity ratio (%)                | 35.5                | 37.0        | 40.9        | 39.8        | 43.9        |  |
| Return on equity (%)                                | 8.9                 | 6.1         | 2.5         | 10.6        | 11.1        |  |
| Number of employees                                 | 399                 | 409         | 426         | 445         | 420         |  |

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥105.64=U.S.\$1, the approximate exchange rate prevailing on March 31, 2004.

The figures for fiscal years 2000-2002 and indexes not stated in the financial statements of this annual report are taken from the marketable securities report.

The Company listed its shares on the JASDAQ market of Japan Securities Dealers Association on April 24, 2003, and as the mean stock prices before the listing could not be determined, the net income per share for the term after adjustment for latent shares is stated from the current accounting period.

On November 20, 2003, each share of common stock was split into five shares. The net income per share and the net income per share after adjustment for latent shares for the current accounting period were calculated on the assumption that this stock split had been executed at the beginning of the period.

## CONTENTS

- 8 FIVE-YEAR SUMMARY
- 9 FINANCIAL REVIEW
- 12 CONSOLIDATED BALANCE SHEETS
- 14 CONSOLIDATED STATEMENTS OF INCOME
- 15 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
- 16 CONSOLIDATED STATEMENTS OF CASH FLOWS
- 17 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- 23 REPORT OF INDEPENDENT AUDITORS

## Market Environment and Business Results

Although there were some signs of economic recovery in Japan during the first half of the fiscal year under review—including rising stock prices—the general economic climate remained sluggish under the cloud of uncertainties surrounding the Middle East situation, the disorder in the Asian markets arising from the spread of the SARS epidemic, and the slowdown in the U.S. economy. In the second half of the fiscal year, the yen grew gradually stronger and reached the neighborhood of ¥105 against the dollar by the fiscal year end, mirroring the expanding U.S. trade deficits and the moderate business upturn in Japan that resulted from steady growth in exports and capital expenditures.

Under such business conditions, we encouraged greater market recognition of our original product groups (including promoting new uses, etc.), strengthened our marketing structure, and developed new products, all while flexibly dealing with the changes in the market environment. As a result, for the fiscal year under review, we achieved net sales of ¥16,515 million, or U.S. \$156 million (up 9.8% year-on-year); operating income of ¥1,702 million, or U.S. \$16 million (up 64.5%

year-on-year); and net income of ¥589 million, or U.S. \$6 million (up 17.2% year-on-year).

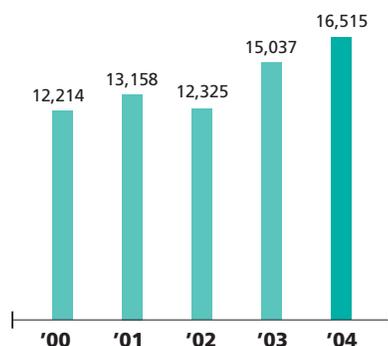
## Business Results by Segment

### (1) ESD Business

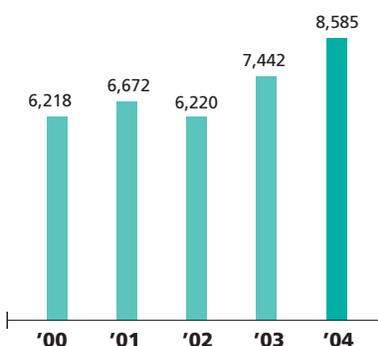
The ESD business faced a difficult market environment during the first half of the fiscal year, but it was able to generate stable full-year results as business in the professional sector improved and IT investments in the U.S. recovered during the second half. The market rollout of Wacom FAVO, our new consumer product, contributed substantially to our business results by appealing to—and creating demand from—new groups of customers who had little previous interest in pen tablets. The Cintiq 18SX/C-1800SX integrated LCD tablets sold well in the professional graphics sector, including the U.S. automotive and motion picture production industries. Demand for integrated LCD tablets also grew steadily in the medical sector due to companies adopting them for large-scale chart systems.

Furthermore, pen sensor components helped stabilize our business performance, as we acquired new tablet PC customers and our existing customers commenced volume production of new models. As a result, sales

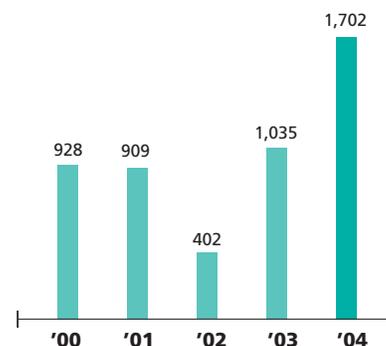
Net sales (Millions of Yen)



Gross profit (Millions of Yen)



Operating income (Millions of Yen)



grew to ¥15,483 million, or U.S. \$147 million (up 14.6% year-on-year), and operating income to ¥2,761 million, or U.S. \$26 million (up 24.9% year-on-year).

## (2) ECS Business

In the ECS business, we satisfied our customers and increased demand for replacement CAD products by releasing ECAD/dio Ver. 4.0, our flagship product in the electronic CAD field, in September 2003. In the PDM field, we stepped up technical assistance for our dealers while achieving a sales growth of more than 10%.

At the same time, we built an efficient operating divisional structure and system, resulting in a sharply improved operating income.

As a result, sales stood at ¥1,014 million, or U.S. \$9.6 million (down 28.3% year-on-year), but operating income turned around to ¥118 million, or U.S. \$1.1 million (from operating loss of ¥66 million for the previous fiscal year).

## (3) EHI Business

In the EHI business, we succeeded through marketing activities targeted primarily to Japan's electronic "inkan" (name seal) consortium, enhancing the market visibility and recognition of our electronic inkan system\*. We built a platform for our electronic seal business—including joint development with partners promoting software solutions—and created business models for introducing the electronic seal system to several local governments and private enterprises that are hoping to create paperless operations.

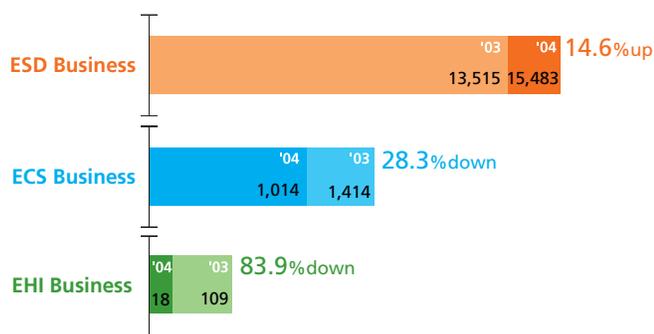
However, sales declined to ¥18 million, or U.S. \$0.2 million (down 83.9% year-on-year), and operating loss stood at ¥114 million, or U.S. \$1.1 million (from operating loss of ¥137 million for the previous fiscal year).

\* This is the adaptation of electronic signature technology to the centuries-old name seal practice common in China and Japan. The name seal practice is used in place of signatures.

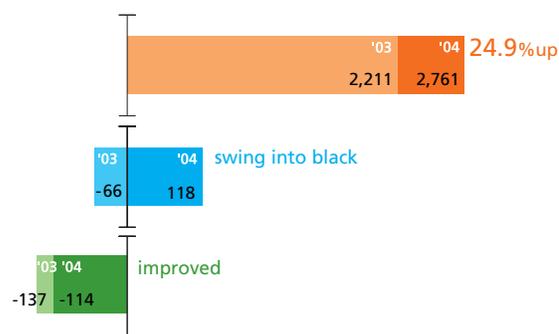
## Financial conditions

Consolidated cash and cash equivalents increased by ¥611 million (as compared to an increase of ¥487 million for the previous year) to ¥3,681 million, or U.S.

Sales by segment (Millions of Yen)



Operating income by segment (Millions of Yen)



\$35 million (up 19.9% year-on-year), at the end of the fiscal year under review, while income before income taxes grew relatively smoothly to ¥1,131 million, or U.S. \$11 million (up 20.8% year-on-year).

### Cash flows from operating activities

Net cash provided by operating activities amounted to ¥1,069 million, or U.S. \$10 million (down 39.8% year-on-year), primarily due to income taxes paid of ¥777 million, or U.S. \$7 million (up 93.5% year-on-year), in spite of the favorable income before income taxes of ¥1,131 million, or U.S. \$11 million.

### Cash flows from investing activities

Net cash used in investing activities amounted to ¥125 million, or U.S. \$1 million (down 32.4% year-on-year), mainly as the combined result of payments of ¥6 million, or U.S. \$0.06 million, for additional investment in Wacom NET Co., Ltd. in the context of making it our wholly-owned subsidiary; payments of ¥97 million, or U.S. \$0.9 million, for purchases of investment securities to establish a South Korean subsidiary; and proceeds of ¥115 million, or U.S. \$1 million, from the refund of insurance funds.

### Cash flows from financing activities

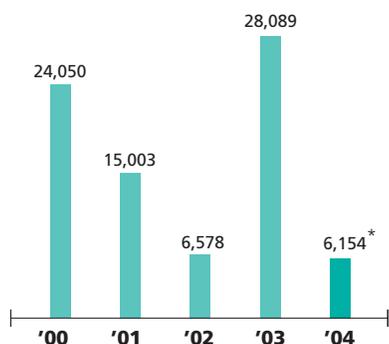
Net cash used in financing activities amounted to ¥130 million, or U.S. \$1 million (down 87.5% year-on-year), mainly as the combined result of the expenditure of ¥812 million, or U.S. \$8 million (down 45.7% year-on-year), for payment of long-term borrowings and proceeds of ¥535 million, or U.S. \$5 million, from issuance of stock.

As a result, consolidated total assets and shareholders' equity as of the end of the fiscal year under review were ¥12,991 million, or U.S. \$123 million, and ¥5,698 million, or U.S. \$54 million, respectively, with the equity ratio at 43.9% and return on equity (ROE) at 11.1%.

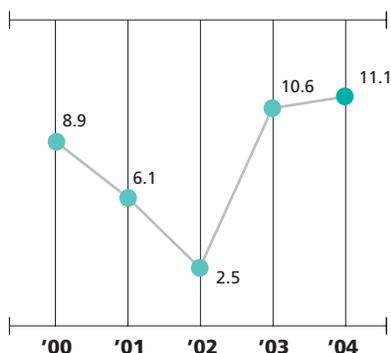
### Source and Application of Funds

Of the net funds of ¥472 million procured by means of the public stock offering on April 24, 2003 (number of stocks issued: 1,300 shares; issue price: ¥390,000), ¥58 million was applied to capital expenditures for building a new business system, and the remaining ¥414 million to working capital.

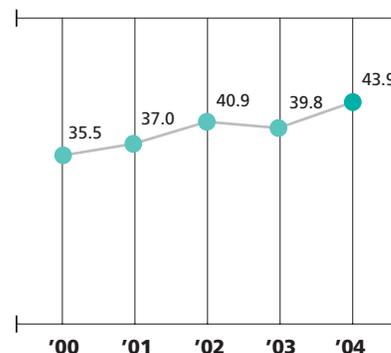
Net income per share (Basic) (Yen)



Return on equity (ROE) (%)



Total shareholders' equity ratio (%)



\*On November 20, 2003, each share of common stock was split into five shares. Accordingly, the '04 amount was calculated on the basis that such a stock split was carried out at the beginning of the period.

# CONSOLIDATED BALANCE SHEETS

Wacom Co., Ltd. and Consolidated Subsidiaries

|   | Thousands of yen   |                    | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|--------------------|--------------------|--|
|   | March 31           |                    | March 31                                 |
|   | 2003               | 2004               | 2004                                     |
| <b>Assets</b>   |                    |                    |  |
| <b>Current assets:</b>                                    |                    |                    |  |
| Cash and cash equivalents (Notes 2 and 5).....            | ¥3,070,700         | ¥3,681,204         | \$34,847                                 |
| Notes and accounts receivable, trade .....                | 2,389,850          | 2,509,989          | 23,760                                   |
| Inventories (Notes 2 and 4).....                          | 1,513,741          | 1,404,951          | 13,299                                   |
| Deferred tax assets (Notes 2 and 10).....                 | 305,799            | 342,991            | 3,247                                    |
| Other current assets (Note 5).....                        | 501,085            | 396,362            | 3,752                                    |
| Less: Allowance for doubtful accounts .....               | (42,486)           | (11,494)           | (109)                                    |
| <b>Total current assets</b> .....                         | <b>7,738,689</b>   | <b>8,324,003</b>   | <b>78,796</b>                            |
| <b>Fixed assets:</b>                                      |                    |                    |  |
| Property, plant and equipment (Notes 2 and 5) —           |                    |                    |  |
| Land.....   | 1,577,500          | 1,515,997          | 14,351                                   |
| Buildings and facilities .....                            | 3,455,933          | 3,342,061          | 31,636                                   |
| Machinery, equipment and vehicles .....                   | 103,993            | 104,619            | 990                                      |
| Tools and furniture .....                                 | 1,430,708          | 1,249,159          | 11,825                                   |
|   | 6,568,134          | 6,211,836          | 58,802                                   |
| Less: Accumulated depreciation .....                      | (2,620,654)        | (2,542,321)        | (24,066)                                 |
| <b>Property, plant and equipment, net</b> .....           | <b>3,947,480</b>   | <b>3,669,515</b>   | <b>34,736</b>                            |
| Investment securities and other assets —                  |                    |                    |  |
| Investment securities (Notes 2 and 3) .....               | 82,570             | 181,058            | 1,714                                    |
| Software.....   | 172,035            | 448,405            | 4,245                                    |
| Leasehold deposits (Note 5).....                          | 74,514             | 88,660             | 839                                      |
| Deferred tax assets (Notes 2 and 10).....                 | 106,233            | 165,618            | 1,568                                    |
| Other assets .....  | 185,788            | 117,370            | 1,111                                    |
| Less: Allowance for doubtful accounts .....               | (7,827)            | (3,686)            | (35)                                     |
| <b>Total investment securities and other assets</b> ..... | <b>613,313</b>     | <b>997,425</b>     | <b>9,442</b>                             |
| <b>Total fixed assets</b> .....                           | <b>4,560,793</b>   | <b>4,666,940</b>   | <b>44,178</b>                            |
| <b>Total assets (Note 14)</b> .....                       | <b>¥12,299,482</b> | <b>¥12,990,943</b> | <b>\$122,974</b>                         |

The accompanying notes are an integral part of the financial statements.

| Liabilities and Shareholders' Equity                             | Thousands of yen   |                    | Thousands of U.S. dollars (Note 1) |
|--|--------------------|--------------------|------------------------------------|
|  | March 31           |                    | March 31                           |
|  | 2003               | 2004               | 2004                               |
| <b>Current liabilities:</b>                                      |                    |                    |                                    |
| Short-term debt (Note 5) .....                                   | ¥1,383,842         | ¥1,024,200         | \$9,695                            |
| Notes and accounts payable, trade .....                          | 2,426,522          | 2,437,469          | 23,073                             |
| Accrued income taxes (Notes 2 and 10) .....                      | 339,034            | 215,717            | 2,042                              |
| Accrued bonuses to employees .....                               | 286,782            | 262,183            | 2,482                              |
| Other current liabilities .....                                  | 733,275            | 1,285,094          | 12,165                             |
| <b>Total current liabilities</b> .....                           | <b>5,169,455</b>   | <b>5,224,663</b>   | <b>49,457</b>                      |
| <b>Long-term liabilities:</b>                                    |                    |                    |                                    |
| Long-term debt (Note 5) .....                                    | 1,607,780          | 1,287,000          | 12,183                             |
| Accrued retirement benefits (Notes 2 and 6) .....                | 438,115            | 380,340            | 3,600                              |
| Other long-term liabilities .....                                | 134,223            | 400,983            | 3,796                              |
| <b>Total long-term liabilities</b> .....                         | <b>2,180,118</b>   | <b>2,068,323</b>   | <b>19,579</b>                      |
| <b>Minority interest in consolidated subsidiaries</b> .....      | <b>48,725</b>      | <b>-</b>           | <b>-</b>                           |
| <b>Contingent liabilities (Note 13)</b>                          |                    |                    |                                    |
| <b>Shareholders' equity (Note 7):</b>                            |                    |                    |                                    |
| Common stock,  |                    |                    |                                    |
| Authorized: 345,000 shares in 2004 and<br>69,000 shares in 2003  |                    |                    |                                    |
| Issued: 94,020 shares in 2004 and<br>17,294 shares in 2003 ..... | 1,302,650          | 1,533,050          | 14,512                             |
| Additional paid-in capital .....                                 | 1,069,550          | 1,374,290          | 13,009                             |
| Retained earnings .....  | 2,406,006          | 2,887,171          | 27,330                             |
| Net unrealized gains on other securities (Notes 2 and 3) .....   | 9,817              | 6,236              | 59                                 |
| Foreign currency translation adjustments (Note 2) .....          | 113,161            | (102,790)          | (972)                              |
| <b>Total shareholders' equity</b> .....                          | <b>4,901,184</b>   | <b>5,697,957</b>   | <b>53,938</b>                      |
| <b>Total liabilities and shareholders' equity</b> .....          | <b>¥12,299,482</b> | <b>¥12,990,943</b> | <b>\$122,974</b>                   |

# CONSOLIDATED STATEMENTS OF INCOME

Wacom Co., Ltd. and Consolidated Subsidiaries

|  | Thousands of yen    |             | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|---------------------|-------------|--|
|  | Year ended March 31 |             | Year ended<br>March 31                   |
|  | 2003                | 2004        | 2004                                     |
| <b>Net sales (Note 14)</b> .....   | ¥15,036,968         | ¥16,514,894 | \$ 156,332                               |
| <b>Cost of sales (Note 14)</b> .....   | 7,595,290           | 7,929,808   | 75,065                                   |
| Gross profit .....   | 7,441,678           | 8,585,086   | 81,267                                   |
| <b>Selling, general and administrative expenses</b><br>(Notes 8, 9 and 14) ..... | 6,406,894           | 6,882,918   | 65,154                                   |
| Operating income .....   | 1,034,784           | 1,702,168   | 16,113                                   |
| <b>Other income:</b>   |                     |             |  |
| Interest and dividend income .....   | 23,427              | 15,428      | 146                                      |
| Foreign exchange gain, net .....   | 34,505              | -           | -  |
| Gain on sale of investment securities .....                                      | 11,501              | 4           | 0  |
| Gain on refund of insurance fund .....   | 2,131               | 2,084       | 20                                       |
| Gain on sale of fixed assets .....   | -                   | 38          | 0  |
| Gain on reversal of allowance for doubtful accounts .....                        | 957                 | 12,028      | 114                                      |
| Other income .....   | 25,021              | 44,684      | 423                                      |
|  | 97,542              | 74,266      | 703                                      |
| <b>Other expenses:</b>   |                     |             |  |
| Interest expenses .....  | 74,057              | 50,961      | 482                                      |
| Foreign exchange loss, net .....   | -                   | 25,057      | 237                                      |
| Loss on sale of fixed assets .....   | 36                  | 238         | 2  |
| Loss on disposal of fixed assets .....   | 3,663               | 20,935      | 198                                      |
| Loss on sale of subsidiaries' stock .....  | -                   | 9,564       | 91                                       |
| Additional retirement benefit for directors .....                                | 65,165              | 47,880      | 453                                      |
| Loss on write-down of investment securities .....                                | 7,039               | -           | -  |
| Loss on write-down of membership .....   | 5,272               | -           | -  |
| Amortization of transition obligation (Notes 2 and 6) .....                      | 27,644              | 27,644      | 262                                      |
| Litigation settlement .....  | 0                   | 447,575     | 4,237                                    |
| Other expenses .....   | 13,047              | 15,712      | 149                                      |
|  | 195,923             | 645,566     | 6,111                                    |
| <b>Income before income taxes</b> .....  | 936,403             | 1,130,868   | 10,705                                   |
| <b>Income taxes (Notes 2 and 10):</b>  |                     |             |  |
| Currently payable .....  | 589,426             | 648,279     | 6,137                                    |
| Deferred benefits .....  | (157,228)           | (108,228)   | (1,024)                                  |
|  | 432,198             | 540,051     | 5,113                                    |
| <b>Minority interest in income of consolidated subsidiaries</b> .....            | 1,442               | 1,719       | 16                                       |
| <b>Net income</b> .....  | ¥502,763            | ¥589,098    | \$5,576                                  |
| <b>Per share of common stock (Note 12):</b>                                      |                     |             |  |
| Net income   |                     |             |  |
| Basic .....  | ¥28,088.55          | ¥6,154.03   | \$58.25                                  |
| Diluted .....  | -                   | 5,837.32    | 55.26                                    |
| Cash dividends applicable to the year .....                                      | ¥5,000.00           | ¥2,000.00   | \$18.93                                  |

The accompanying notes are an integral part of the financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Wacom Co., Ltd. and Consolidated Subsidiaries

|   | Thousands of yen    |            | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|---------------------|------------|--|
|   | Year ended March 31 |            | Year ended<br>March 31                   |
|   | 2003                | 2004       | 2004                                     |
| <b>Common stock:</b>  |                     |            |  |
| Beginning of period .....   | ¥1,302,650          | ¥1,302,650 | \$12,331                                 |
| New stock issued in public offering .....   | -                   | 198,900    | 1,883                                    |
| Exercise of warrants .....  | -                   | 31,500     | 298                                      |
| End of period .....   | ¥1,302,650          | ¥1,533,050 | \$14,512                                 |
| <b>Additional paid-in capital:</b>  |                     |            |  |
| Beginning of period .....   | ¥1,069,550          | ¥1,069,550 | \$10,124                                 |
| New stock issued in public offering .....   | -                   | 272,610    | 2,581                                    |
| Exercise of warrants .....  | -                   | 32,130     | 304                                      |
| End of period .....   | ¥1,069,550          | ¥1,374,290 | \$13,009                                 |
| <b>Retained earnings:</b>   |                     |            |  |
| Beginning of period .....   | ¥1,989,713          | ¥2,406,006 | \$22,776                                 |
| Add —   |                     |            |  |
| Net income .....  | 502,763             | 589,098    | 5,576                                    |
| Deduct —  |                     |            |  |
| Cash dividends paid .....   | 86,470              | 86,470     | 819                                      |
| Bonuses to directors .....  | -                   | 17,000     | 161                                      |
| Decrease resulting from exclusion of consolidated<br>subsidiary from the scope of consolidation ..... | -                   | 4,463      | 42                                       |
| End of period .....   | ¥2,406,006          | ¥2,887,171 | \$27,330                                 |
| <b>Net unrealized gains on other securities (Notes 2 and 3):</b>                                      |                     |            |  |
| Beginning of period .....   | ¥64,684             | ¥9,817     | \$93                                     |
| Add/(Deduct) .....  | (54,867)            | (3,581)    | (34)                                     |
| End of period .....   | ¥9,817              | ¥6,236     | \$59                                     |
| <b>Foreign currency translation adjustments (Note 2):</b>   |                     |            |  |
| Beginning of period .....   | ¥166,945            | ¥113,161   | \$1,071                                  |
| Add/(Deduct) .....  | (53,784)            | (215,951)  | (2,043)                                  |
| End of period .....   | ¥113,161            | (¥102,790) | (\$972)                                  |

The accompanying notes are an integral part of the financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Wacom Co., Ltd. and Consolidated Subsidiaries

|   | Thousands of yen    |                   | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|---------------------|-------------------|--|
|   | Year ended March 31 |                   | Year ended<br>March 31                   |
|   | 2003                | 2004              | 2004                                     |
| <b>Cash flows from operating activities:</b>  |                     |                   |  |
| Income before income taxes.....   | ¥936,403            | ¥1,130,868        | \$10,705                                 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities—               |                     |                   |  |
| Depreciation and amortization.....  | 278,680             | 246,182           | 2,330                                    |
| Gain on sale of investment securities.....  | (11,501)            | (4)               | (0)                                      |
| Gain on sale of fixed assets.....   | -                   | (38)              | (0)                                      |
| Loss on sale of subsidiaries' stock.....  | -                   | 9,564             | 91                                       |
| Loss on sale and disposal of fixed assets.....  | 3,699               | 21,173            | 200                                      |
| Loss on write-down of investment securities.....  | 7,039               | -                 | -  |
| Litigation settlement.....  | -                   | 447,575           | 4,237                                    |
| Other, net.....   | 73,578              | 67,869            | 642                                      |
| Changes in assets and liabilities —   |                     |                   |  |
| Increase in notes and accounts receivable.....  | (78,532)            | (183,191)         | (1,734)                                  |
| Decrease (increase) in inventories.....   | (331,172)           | 64,076            | 607                                      |
| Increase in notes and accounts payable.....   | 955,422             | 56,876            | 538                                      |
| Increase (decrease) in accrued retirement benefits.....   | 171,915             | (42,208)          | (400)                                    |
| Other, net.....   | 117,653             | 60,462            | 573                                      |
| Sub total.....  | 2,123,184           | 1,879,204         | 17,789                                   |
| Interest and dividends received.....  | 125,617             | 15,262            | 144                                      |
| Interest paid.....  | (73,615)            | (49,034)          | (464)                                    |
| Income taxes paid.....  | (401,427)           | (776,878)         | (7,354)                                  |
| Net cash provided by operating activities.....  | 1,773,759           | 1,068,554         | 10,115                                   |
| <b>Cash flows from investing activities:</b>  |                     |                   |  |
| Payments for purchases of fixed assets.....   | (169,182)           | (98,740)          | (935)                                    |
| Proceeds from sale of fixed assets.....   | 5                   | 530               | 5  |
| Payments for purchases of investment securities.....  | (20,000)            | (97,473)          | (923)                                    |
| Proceeds from sale of investment securities.....  | 14,766              | 52                | 0  |
| Payment for additional investment in consolidated subsidiaries.....   | (1,000)             | (6,300)           | (60)                                     |
| Decrease of net cash resulting from exclusion of a consolidated subsidiary from the scope of consolidation..... | -                   | (13,145)          | (124)                                    |
| Increase in time deposits.....  | (216,210)           | (145,364)         | (1,376)                                  |
| Decrease in time deposits.....  | 244,225             | 173,538           | 1,643                                    |
| Increase in insurance funds.....  | (38,544)            | (38,250)          | (362)                                    |
| Proceeds from refund of insurance funds.....  | 11,744              | 114,890           | 1,088                                    |
| Other, net.....   | (10,168)            | (14,390)          | (136)                                    |
| Net cash used in investing activities.....  | (184,364)           | (124,652)         | (1,180)                                  |
| <b>Cash flows from financing activities:</b>  |                     |                   |  |
| Increase (decrease) in short-term debt, net.....  | (534,014)           | 140,000           | 1,325                                    |
| Proceeds from long-term debt.....   | 1,150,000           | 200,000           | 1,893                                    |
| Payments of long-term debt.....   | (1,494,970)         | (812,030)         | (7,687)                                  |
| Payments of other long-term liabilities.....  | (73,461)            | (93,502)          | (885)                                    |
| Dividends paid.....   | (86,470)            | (86,470)          | (819)                                    |
| Proceeds from issuance of stock.....  | (38,544)            | 534,510           | 5,060                                    |
| Other, net.....   | -                   | (12,176)          | (114)                                    |
| Net cash used in financing activities.....  | (1,038,915)         | (129,668)         | (1,227)                                  |
| <b>Effect of exchange rate changes on cash and cash equivalents.....</b>  | <b>(63,134)</b>     | <b>(203,730)</b>  | <b>(1,929)</b>                           |
| <b>Net increase in cash and cash equivalents.....</b>   | <b>487,346</b>      | <b>610,504</b>    | <b>5,779</b>                             |
| <b>Cash and cash equivalents at beginning of year.....</b>  | <b>2,583,354</b>    | <b>3,070,700</b>  | <b>29,068</b>                            |
| <b>Cash and cash equivalents at end of year (Note 2).....</b>   | <b>¥3,070,700</b>   | <b>¥3,681,204</b> | <b>\$34,847</b>                          |

The accompanying notes are an integral part of the financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wacom Co., Ltd. and Consolidated Subsidiaries

## 1. Basis of presenting consolidated financial statements:

The accompanying consolidated financial statements have been prepared from the consolidated financial statements of Wacom Co., Ltd. (the "Company") filed with the Director of the Kanto Local Finance Bureau in accordance with the Securities and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. In addition, the consolidated statements of shareholders' equity, which are not required as part of the basic financial statements in Japan, are presented herein for additional information.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form more familiar to readers outside Japan. Some information, provided in the notes to the consolidated financial statements, is not required under accounting principles generally accepted in Japan, but is also presented for the convenience of the readers.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been calculated at the rate of ¥105.64 = U.S.\$1, the approximate rate of exchange on March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could have been or could be converted into U.S. dollars at that or any other rate.

## 2. Summary of significant accounting policies:

### (1) Consolidation

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries.

Investments in all affiliated companies, where shareholdings are more than 20% and where the Company has significant influence over their operations, finance and management, are accounted for by the equity method.

The assets and liabilities of consolidated subsidiaries are incorporated into the financial statements at fair value, and the difference between the net assets at fair value and the investment amounts is accounted for as goodwill, which is amortized equally over 5 years.

All significant intercompany balances and transactions, and unrealized profit, included in assets, have been eliminated on consolidation.

Overseas-consolidated subsidiaries have adopted accounting principles generally accepted in their respective countries and no adjustments have been made to their financial statements on consolidation, as allowed under accounting principles and practices generally accepted in Japan.

### (2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less that are readily convertible to known amounts of cash and thus are near maturity so that they present insignificant risk of changes in value.

### (3) Securities

Securities held by the Company and its consolidated subsidiaries are classified into four categories:

Trading securities are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise.

Held-to-maturity debt securities are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.

Investments of the Company in equity securities issued by affiliates are accounted for by the equity method.

Other securities for which market price or quotations are available are stated at fair value. Net unrealized gains and losses on these securities are reported as a separate component in shareholders' equity at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost.

### (4) Allowance for doubtful accounts

This allowance for doubtful accounts is provided for estimated future losses based on past experience, and the allowance is based on an evaluation of the collectability of individual receivables.

### (5) Inventories

Inventories are stated at cost, which is determined by the average method for the Company.

Inventories are stated at the lower of cost or market value, which is determined by the FIFO method for foreign subsidiaries.

### (6) Property, plant and equipment and depreciation

Property, plant and equipment are stated at costs. Depreciation, except for buildings, is computed by the declining-balance method at rates based on the estimated useful lives of the assets. Depreciation of buildings at overseas subsidiaries and those acquired by the Company on or after April 1, 1998 is computed primarily by the straight-line method.

Major useful lives are as follows:

|                                   |               |
|-----------------------------------|---------------|
| Buildings and facilities          | 3 to 65 years |
| Machinery, equipment and vehicles | 5 to 13 years |
| Tools and furniture               | 2 to 20 years |

Ordinary maintenance and repair costs are charged to income as incurred.

Major replacements and improvements are capitalized.

### (7) Software

Software for internal use is amortized by the straight-line method over an estimated useful life (5 years). Software to be sold is amortized based on the estimated volume of sales with the minimum amortization amount calculated based on the useful life of 3 years.

### (8) Accrued retirement benefits

Lump-sum severance indemnity regulations of the Company, which cover substantially all employees, provide for benefit payments determined by reference to the employee's current basic rate of pay, length of service, position in the Company and termination circumstances.

The accrued retirement benefits represent the actuarially calculated present value of projected benefit obligation in excess of the fair value of the plan assets except for, as permitted under the standard, the unrecognized transition obligation and the unrecognized actuarial differences. The unrecognized transition obligation is being amortized on a straight-line basis over 5 years, and the unrecognized actuarial differences are being amortized on a straight-line basis over 5 years from the next year in which they arise.

With respect to directors and statutory corporate auditors, provision is made for lump-sum severance indemnities based on internal regulations.

### (9) Income taxes

Deferred income taxes are recognized, using the asset and liability method.

This method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

### (10) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases; Leases do not transfer ownership of the assets at the end of the lease term, are accounted for as operating leases in accordance with accounting principles and practices generally accepted in Japan.

### (11) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the financial statements in the year they are approved at the general meeting of shareholders.

### (12) Foreign currency translation

Foreign currency transactions are translated using foreign exchange rates prevailing at the transaction dates.

All monetary assets and liabilities denominated in foreign currencies, whether they are long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in the consolidated statement of income.

All assets and liabilities of foreign subsidiaries are translated at current rates at the respective balance sheet date and all the income and expense accounts are translated at average rates for respective periods. Foreign currency translation adjustments are presented as a component of "Shareholders' equity" in the consolidated financial statements.

### (13) Recently issued new accounting standards

On August 9, 2002, the Business Accounting Council in Japan has issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount which is measured at the higher of net selling price or value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending after March 31, 2004.

This standard has not been applied in the consolidated financial statements, and the Company is currently in the process of assessing the potential impact that this standard will have on the Company's financial position.

### (14) Reclassifications

Certain reclassifications of the financial statements and related footnote amounts in the year ended March 31, 2003 have been made to conform to the presentation in the year ended March 31, 2004.

### 3. Investment securities:

The following is certain information relating to the aggregate acquisition cost and market value of securities in fiscal 2003.

(i) "Other securities" whose market price or quotations are available.

|  | Thousands of yen<br>March 31, 2003 |                                       |                           |
|--|------------------------------------|---------------------------------------|---------------------------|
|  | Acquisition cost                   | Market value (= Book carrying amount) | Unrealized gains (losses) |
| Other securities whose market price or quotations exceed their acquisition cost        |                                    |                                       |                           |
| (a) Share stocks   | ¥16,628                            | ¥32,907                               | ¥16,279                   |
| (b) Debt securities  |                                    |                                       |                           |
| Government bonds, Municipal bonds, etc.  | -                                  | -                                     | -                         |
| Corporate bonds  | -                                  | -                                     | -                         |
| Others   | -                                  | -                                     | -                         |
| (c) Others   | -                                  | -                                     | -                         |
|  | <u>16,628</u>                      | <u>32,907</u>                         | <u>16,279</u>             |
| Other securities whose market price or quotations do not exceed their acquisition cost |                                    |                                       |                           |
| (a) Share stocks   | 13,702                             | 6,663                                 | (7,039)                   |
| (b) Debt securities  |                                    |                                       |                           |
| Government bonds, Municipal bonds, etc.  | -                                  | -                                     | -                         |
| Corporate bonds  | -                                  | -                                     | -                         |
| Others   | -                                  | -                                     | -                         |
| (c) Others   | -                                  | -                                     | -                         |
|  | <u>13,702</u>                      | <u>6,663</u>                          | <u>(7,039)</u>            |
| <b>Total</b>   | <u>¥30,330</u>                     | <u>¥39,570</u>                        | <u>¥9,240</u>             |

(ii) "Other securities" sold in the current fiscal year.

|   | Thousands of yen<br>March 31, 2003 |
|---|------------------------------------|
| Proceeds from sales of "Other securities" | ¥14,766                            |
| Gain on sales of "Other securities"       | 11,501                             |
| Loss on sales of "Other securities"       | -                                  |

(iii) Securities whose market price or quotations are not available.

|   | Thousands of yen<br>March 31, 2003<br>Book carrying amount |
|---|--|
| Held-to-maturity debt securities  | ¥-   |
| Share stocks invested in affiliates                                       | 0  |
| Other securities  |  |
| Share stocks not listed in the market (excluding over-the-counter stocks) | 43,000   |
|   | <u>¥43,000</u>   |

The following is certain information relating to the aggregate acquisition cost and market value of securities in fiscal 2004.

(i) "Other securities" whose market price or quotations are available.

|  | Thousands of yen<br>March 31, 2004 |                                       |                           |
|--|------------------------------------|---------------------------------------|---------------------------|
|  | Acquisition cost                   | Market value (= Book carrying amount) | Unrealized gains (losses) |
| Other securities whose market price or quotations exceed their acquisition cost        |                                    |                                       |                           |
| (a) Share stocks   | ¥18,044                            | ¥29,057                               | ¥11,013                   |
| (b) Debt securities  |                                    |                                       |                           |
| Government bonds, Municipal bonds, etc.  | -                                  | -                                     | -                         |
| Corporate bonds  | -                                  | -                                     | -                         |
| Others   | -                                  | -                                     | -                         |
| (c) Others   | -                                  | -                                     | -                         |
|  | <u>18,044</u>                      | <u>29,057</u>                         | <u>11,013</u>             |
| Other securities whose market price or quotations do not exceed their acquisition cost |                                    |                                       |                           |
| (a) Share stocks   | 5,200                              | 4,528                                 | (672)                     |
| (b) Debt securities  |                                    |                                       |                           |
| Government bonds, Municipal bonds, etc.  | -                                  | -                                     | -                         |
| Corporate bonds  | -                                  | -                                     | -                         |
| Others   | -                                  | -                                     | -                         |
| (c) Others   | -                                  | -                                     | -                         |
|  | <u>5,200</u>                       | <u>4,528</u>                          | <u>(672)</u>              |
| <b>Total</b>   | <u>¥23,244</u>                     | <u>¥33,585</u>                        | <u>¥10,341</u>            |

|  | Thousands of U.S. dollars<br>March 31, 2004 |                                       |                           |
|--|---|---------------------------------------|---------------------------|
|  | Acquisition cost                            | Market value (= Book carrying amount) | Unrealized gains (losses) |
| Other securities whose market price or quotations exceed their acquisition cost        |   |                                       |                           |
| (a) Share stocks   | \$171                                       | \$275                                 | \$104                     |
| (b) Debt securities  |   |                                       |                           |
| Government bonds, Municipal bonds, etc.  | -   | -                                     | -                         |
| Corporate bonds  | -   | -                                     | -                         |
| Others   | -   | -                                     | -                         |
| (c) Others   | -   | -                                     | -                         |
|  | <u>171</u>                                  | <u>275</u>                            | <u>104</u>                |
| Other securities whose market price or quotations do not exceed their acquisition cost |   |                                       |                           |
| (a) Share stocks   | 49  | 43                                    | (6)                       |
| (b) Debt securities  |   |                                       |                           |
| Government bonds, Municipal bonds, etc.  | -   | -                                     | -                         |
| Corporate bonds  | -   | -                                     | -                         |
| Others   | -   | -                                     | -                         |
| (c) Others   | -   | -                                     | -                         |
|  | <u>49</u>                                   | <u>43</u>                             | <u>(6)</u>                |
| <b>Total</b>   | <u>\$220</u>                                | <u>\$318</u>                          | <u>\$98</u>               |

(ii) "Other securities" sold in the current fiscal year.

|   | Thousands of yen<br>March 31, 2004 | Thousands of U.S. dollars |
|---|------------------------------------|---------------------------|
| Proceeds from sales of "Other securities" | ¥52                                | \$0                       |
| Gain on sales of "Other securities"       | 4                                  | 0                         |
| Loss on sales of "Other securities"       | -                                  | -                         |

(iii) Securities whose market price or quotations are not available.

|   | Thousands of yen<br>March 31, 2004<br>Book carrying amount | Thousands of U.S. dollars |
|---|--|---------------------------|
| Held-to-maturity debt securities  | ¥-   | \$-                       |
| Share stocks invested in affiliates                                       | -  | -                         |
| Other securities  |  |                           |
| Share stocks not listed in the market (excluding over-the-counter stocks) | 147,473  | 1,396                     |
|   | <u>¥147,473</u>  | <u>\$1,396</u>            |

#### 4. Inventories:

Inventories comprise the following:

|                 | Thousands of yen  |                   | Thousands of U.S. dollars |
|-----------------|-------------------|-------------------|---------------------------|
|                 | March 31          |                   | March 31                  |
|                 | 2003              | 2004              | 2004                      |
| Finished goods  | ¥957,871          | ¥790,284          | \$7,481                   |
| Work-in-process | 152,720           | 160,949           | 1,523                     |
| Raw materials   | 403,150           | 453,718           | 4,295                     |
|                 | <u>¥1,513,741</u> | <u>¥1,404,951</u> | <u>\$13,299</u>           |

#### 5. Short and long-term debt:

Short-term debt at March 31, 2003 and 2004 includes short-term bank loans of ¥594,386 thousand and ¥700,000 thousand (\$6,626 thousand) with an annual average interest rate of 1.377%. The current portion of long-term bank loans includes ¥589,456 thousand and ¥324,200 thousand (\$3,069 thousand) with an annual average interest rate of 2.344%. The current portion of the zero-coupon standard bond is ¥200,000 thousand and nil, respectively.

Long-term debt at March 31, 2003 and 2004, comprises the following:

|  | Thousands of yen  |                   | Thousands of U.S. dollars |
|--|-------------------|-------------------|---------------------------|
|  | March 31          |                   | March 31                  |
|  | 2003              | 2004              | 2004                      |
| Unsecured zero-coupon standard bond due 2004                                       | ¥200,000          | ¥-                | \$-                       |
| Unsecured standard bond due 2006 with interest rate of 1.100% per annum            | 500,000           | 500,000           | 4,733                     |
| Unsecured floating rate bond due 2007 (0.190% at March 31, 2004)                   | -                 | 200,000           | 1,893                     |
| Secured bank loans due 2004 to 2010 with average interest rate of 2.344% per annum | 1,601,578         | 883,200           | 8,361                     |
| Unsecured bank loans due 2005 with average interest rate of 2.344% per annum       | 95,658            | 28,000            | 265                       |
| Less: Portion due within one year  | <u>(789,456)</u>  | <u>(324,200)</u>  | <u>(3,069)</u>            |
|  | <u>¥1,607,780</u> | <u>¥1,287,000</u> | <u>\$12,183</u>           |

The aggregate annual maturities of long-term debt during the next five years are as follows:

| Year ending March 31, | Thousands of yen  | Thousands of U.S. dollars |
|-----------------------|-------------------|---------------------------|
| 2005                  | ¥324,200          | \$3,069                   |
| 2006                  | 239,400           | 2,266                     |
| 2007                  | 857,600           | 8,118                     |
| 2008                  | 110,000           | 1,041                     |
| 2009                  | 40,000            | 379                       |
|                       | <u>¥1,571,200</u> | <u>\$14,873</u>           |

The following assets are pledged as security for short-term borrowings and long-term debt at March 31, 2003 and 2004.

|                    | Thousands of yen  |                   | Thousands of U.S. dollars |
|--------------------|-------------------|-------------------|---------------------------|
|                    | March 31          |                   | March 31                  |
|                    | 2003              | 2004              | 2004                      |
| Time deposits      | ¥149,964          | ¥144,280          | \$1,366                   |
| Buildings          | 1,801,944         | 1,549,125         | 14,664                    |
| Land               | 1,449,825         | 1,348,168         | 12,762                    |
| Leasehold deposits | 34,503            | -                 | -                         |
|                    | <u>¥3,436,236</u> | <u>¥3,041,573</u> | <u>\$28,792</u>           |

In addition, the following patents are pledged as security for borrowing of ¥52,000 thousand and ¥28,000 thousand from the Development Bank of Japan at March 31, 2003 and 2004, respectively.

| Patent No. | Title of Invention           |
|------------|------------------------------|
| 2131145    | POSITION DETECTING APPARATUS |
| 4,878,553  | POSITION DETECTING APPARATUS |
| 5,028,745  | POSITION DETECTING APPARATUS |
| 4,999,461  | COORDINATES INPUT APPARATUS  |

#### 6. Accrued retirement benefits:

The Company has an unfunded retirement allowance plan ("Plan") covering substantially all of its employees who meet eligibility requirements under the Plan. In addition, the Company is a member of the industrial park multiemployer pension plan, covering substantially all of its employees, which provides for benefits under the governmental welfare pension benefit plan which would be otherwise provided by the Japanese government.

As the Company joins this multiemployer pension plan out of its retirement allowance plan, this multiemployer pension plan of which pension assets calculated by the ratio of the number of members were ¥479,181 thousand and ¥472,708 thousand (\$4,475 thousand) for 2003 and 2004 and contributions to this multiemployer pension plan were ¥47,602 thousand and ¥44,893 thousand (\$425 thousand) for 2003 and 2004, is excluded from the calculation of projected benefit obligation, pension assets and net periodic pension expense.

Some foreign subsidiaries have defined contribution pension plans.

Accrued retirement benefits for employees as of March 31, 2003 and 2004 can be analyzed as follows:

|   | Thousands of yen  |                   | Thousands of U.S. dollars |
|---|-------------------|-------------------|---------------------------|
|   | 2003              | 2004              | 2004                      |
| (1) Projected benefit obligation              | (¥253,730)        | (¥278,185)        | (\$2,633)                 |
| (2) Unrecognized transition obligation        | 55,289            | 27,644            | 262                       |
| (3) Unrecognized actuarial loss (gain)        | (880)             | 15,598            | 147                       |
| (4) Accrued retirement benefits for employees |                   |                   |                           |
| (1)+(2)+(3)                                   | <u>(¥199,321)</u> | <u>(¥234,943)</u> | <u>(\$2,224)</u>          |

The components of the net periodic pension expense for the years ended March 31, 2003 and 2004 are as follows:

|   | Thousands of yen |                | Thousands of U.S. dollars |
|---|------------------|----------------|---------------------------|
|   | 2003             | 2004           | 2004                      |
| (1) Service cost                          | ¥30,067          | ¥27,756        | \$262                     |
| (2) Interest cost                         | 5,408            | 5,914          | 56                        |
| (3) Recognized actuarial loss             | (487)            | (642)          | (6)                       |
| (4) Amortization of transition obligation | 27,644           | 27,644         | 262                       |
| (5) Net periodic pension expense          | <u>¥62,632</u>   | <u>¥60,672</u> | <u>\$574</u>              |

The assumptions used as of March 31, 2003 and 2004 were as follows:

|  | 2003                       | 2004                       |
|--|----------------------------|----------------------------|
| (1) Discount rate  | 2.5%                       | 2.0%                       |
| (2) Method of attributing the projected benefits to periods of service | Straight-line basis        | Straight-line basis        |
| (3) Amortization of unrecognized transition obligation                 | Straight-line over 5 years | Straight-line over 5 years |
| (4) Amortization of unrecognized actuarial differences                 | Straight-line over 5 years | Straight-line over 5 years |

Accrued retirement benefit as of March 31, 2003 and 2004 included accrued severance indemnities for directors and statutory corporate auditors, amounting to ¥238,794 thousand and ¥145,397 thousand (\$1,376 thousand), respectively.

#### 7. Shareholders' equity:

The Japanese Commercial Code provides that:

- Upon a resolution of the Board of Directors, appropriations of interim cash dividends and the related transfer to the legal earned reserve as described in (3) below, can be made from unappropriated retained earnings brought forward;
- All other appropriations of retained earnings, including year end dividends and bonuses to directors and statutory corporate auditors, require approval by the shareholders at the General Meeting of Shareholders; and
- An amount equal to at least 10% of cash dividends and other cash distributions paid by the Company from retained earnings must be appropriated from retained earnings as a legal earned reserve; no further appropriation is required when the combined amount of capital reserve and the legal earned reserve pursuant to the Japanese Commercial Code equals 25% of stated capital.
- Legal earned reserve and unappropriated retained earnings are presented in the retained earnings accounts and legal capital reserve and other capital reserves are presented in "Additional paid-in capital" accounts.

In accordance with customary practice in Japan, appropriations of retained earnings are recorded in the accounting period in which shareholders' approval is obtained. The fiscal 2004 year-end appropriation of retained earnings of the Company, which was approved at the General Meeting of Shareholders held in June 2004, is presented below:

|   | Thousands of yen | Thousands of U.S. dollars |
|---|------------------|---------------------------|
| Appropriation for:                            |                  |                           |
| Cash dividends, ¥2,000.00 (\$18.93) per share | ¥188,040         | \$1,780                   |
| Bonuses to directors                          | 15,500           | 147                       |
|   | <u>¥203,540</u>  | <u>\$1,927</u>            |

## 8. Research and development expenditures:

Research and development expenditures, which are charged to income when incurred, and are included in selling, general and administrative expenses, amounted to ¥570,186 thousand and ¥675,775 thousand (\$6,397 thousand) for the years ended March 31, 2003 and 2004, respectively.

## 9. Selling, general and administrative expenses:

The major components of "Selling, general and administrative expenses" are as follows:

|  | Thousands of yen         |                   | Thousands of U.S. dollars |
|--|--------------------------|-------------------|---------------------------|
|  | Year ended March 31 2003 | 2004              | Year ended March 31 2004  |
| Advertising expenses   | ¥856,631                 | ¥989,634          | \$9,368                   |
| Provision for allowance for doubtful accounts                                      | 18,681                   | 3,375             | 32                        |
| Salaries   | 1,446,322                | 1,579,708         | 14,954                    |
| Pension expenses   | 25,031                   | 40,877            | 387                       |
| Provisions for severance indemnities of directors and statutory corporate auditors | 92,372                   | 72,203            | 683                       |
| Provisions for bonuses to employees  | 262,637                  | 267,967           | 2,536                     |
| Others   | 3,705,220                | 3,929,154         | 37,194                    |
| <b>Total</b>   | <b>¥6,406,894</b>        | <b>¥6,882,918</b> | <b>\$65,154</b>           |

## 10. Income taxes:

Income taxes applicable to the Company include (1) corporation tax, (2) enterprise tax and (3) inhabitants tax which, in aggregate, represent a statutory tax rate of approximately 42%, effective from April 1, 1999.

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. Under the amended legislation, the enterprise tax will be the sum of three tax components; a) an income based component, b) a value added component and c) a capital based component. Prior to the amendment there was only an "income based component".

Concurrently, the basic tax rate for the "income based component" would be reduced from 9.6% to 7.2%. As a result of this amendment, the tax rate to be applied to deferred tax assets and liabilities as at March 31, 2003 for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, that are expected to reverse in the year beginning April 1, 2004 or later, decreased from 42.0% to 39.7%. This resulted in a reduction (increase) in deferred tax assets at March 31, 2003 and 2004 by (¥26,128 thousand) and ¥10,754 thousand, compared with the deferred tax asset that would have been recognized if a tax rate of 42.0% had been fully applied to all temporary differences. Net income for the years ended March 31, 2003 and 2004 also reduced (increased) by (¥24,379 thousand) and ¥10,754 thousand, respectively as a result of these changes in statutory local enterprise tax regulations.

The significant components of deferred tax assets and liabilities for the years ended March 31, 2003 and 2004 are as follows:

|  | Thousands of yen |                 | Thousands of U.S. dollars |
|--|------------------|-----------------|---------------------------|
|  | 2003             | 2004            | 2004                      |
| <b>Deferred tax assets:</b>  |                  |                 |                           |
| Foreign tax credit   | ¥141,543         | ¥230,439        | \$2,181                   |
| Accrued expenses   | -                | 141,875         | 1,343                     |
| Accrued retirement benefits  | 64,280           | 85,638          | 811                       |
| Accrued bonuses  | 82,778           | 82,674          | 783                       |
| Inventory-intercompany profit  | 100,064          | 69,110          | 654                       |
| Accrued severance indemnities for directors and statutory corporate auditors | 97,864           | 57,722          | 546                       |
| Tax loss carryforwards   | 11,704           | 53,889          | 510                       |
| Write-down of investment securities  | 3,610            | 51,181          | 484                       |
| Enterprise tax   | 18,812           | 22,986          | 218                       |
| Software development costs   | 29,478           | 22,155          | 210                       |
| Write-down of membership   | 19,423           | 19,423          | 184                       |
| Lump-sum depreciation assets   | 11,728           | 13,902          | 132                       |
| Allowance for doubtful accounts  | 4,519            | 1,430           | 13                        |
| Equity in earnings of an affiliate   | 47,571           | -               | -                         |
| Others   | 30,358           | 38,939          | 369                       |
| Gross deferred tax assets  | 663,732          | 891,363         | 8,438                     |
| Less - Valuation allowance   | (154,750)        | (291,330)       | (2,758)                   |
| <b>Total deferred tax assets</b>   | <b>508,982</b>   | <b>600,033</b>  | <b>5,680</b>              |
| <b>Deferred tax liabilities:</b>   |                  |                 |                           |
| Undistributed earnings of overseas subsidiaries                              | (87,078)         | (87,319)        | (826)                     |
| Unrealized gains on other securities   | (6,463)          | (4,105)         | (39)                      |
| Others   | (3,409)          | (-)             | (-)                       |
| <b>Total deferred tax liabilities</b>  | <b>(96,950)</b>  | <b>(91,424)</b> | <b>(865)</b>              |
| <b>Net deferred tax assets</b>   | <b>¥412,032</b>  | <b>¥508,609</b> | <b>\$4,815</b>            |

The reconciliation between the statutory tax rate and the income tax rate in the consolidated statements of income for the years ended March 31, 2003 and 2004 are as follows:

|  | March 31, 2003 | March 31, 2004 |
|--|----------------|----------------|
| Statutory effective tax rate             | 42.0%          | 42.0%          |
| (Reconciliation)                         |                |                |
| Non deductible expenses for tax purposes | 4.7            | 1.5            |
| Equalization tax                         | 1.2            | 0.8            |
| International tax rate differences       | (1.9)          | (3.6)          |
| Foreign tax credit                       | (0.9)          | 10.1           |
| Valuation allowance                      | 4.2            | 1.9            |
| Effect on changes of effective tax rate  | (2.6)          | 1.0            |
| Tax credit of corporation tax            | -              | (8.3)          |
| Others                                   | (0.5)          | 2.4            |
| <b>Effective income tax rate</b>         | <b>46.2%</b>   | <b>47.8%</b>   |

## 11. Leases:

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases; Leases do not transfer ownership of the assets at the end of the lease term, are accounted for as operating leases in accordance with accounting principles and practices generally accepted in Japan. Certain information on such lease contracts of the Company and its consolidated subsidiaries, as a lessee, is shown below:

- (1) Finance leases, other than those which do not transfer ownership of properties to lessees, are as follows:  
a) Acquisition costs of leased assets under finance leases are as follows:

|                                   | Thousands of yen |                | Thousands of U.S. dollars |
|-----------------------------------|------------------|----------------|---------------------------|
|                                   | March 31 2003    | 2004           | March 31 2004             |
| Machinery, equipment and vehicles | ¥3,714           | ¥3,714         | \$35                      |
| Tools and furniture               | 46,163           | 23,529         | 223                       |
| Software                          | 46,240           | 46,240         | 438                       |
| Accumulated depreciation          | (40,127)         | (32,388)       | (307)                     |
| <b>Total</b>                      | <b>¥55,990</b>   | <b>¥41,095</b> | <b>\$389</b>              |

- b) Future lease payments under finance leases are as follows:

|                              | Thousands of yen |                | Thousands of U.S. dollars |
|------------------------------|------------------|----------------|---------------------------|
|                              | March 31 2003    | 2004           | March 31 2004             |
| Due within one year          | ¥16,267          | ¥12,986        | \$123                     |
| Due after more than one year | 43,941           | 30,386         | 288                       |
| <b>Total</b>                 | <b>¥60,208</b>   | <b>¥43,372</b> | <b>\$411</b>              |

- c) Lease payments and amounts representing depreciation and interest are as follows:

|                                  | Thousands of yen |         | Thousands of U.S. dollars |
|----------------------------------|------------------|---------|---------------------------|
|                                  | March 31 2003    | 2004    | March 31 2004             |
| Lease payments                   | ¥34,649          | ¥17,480 | \$165                     |
| Amount representing depreciation | ¥30,526          | ¥13,862 | \$131                     |
| Amount representing interest     | ¥2,375           | ¥1,426  | \$13                      |

- (2) Minimum lease payments under non-cancelable operating leases are as follows:

|                                     | Thousands of yen |                | Thousands of U.S. dollars |
|-------------------------------------|------------------|----------------|---------------------------|
|                                     | March 31 2003    | 2004           | March 31 2004             |
| Due within one year                 | ¥8,984           | ¥11,445        | \$108                     |
| Due after more than one year        | 12,117           | 24,205         | 229                       |
| <b>Total minimum lease payments</b> | <b>¥21,101</b>   | <b>¥35,650</b> | <b>\$337</b>              |

## 12. Earnings per share information:

The computation of net income per share is based on the weighted-average number of common shares outstanding and net income attributable to the common shareholders during each fiscal year which are shown below.

|   | Thousands of yen |          | Thousands of U.S. dollars |
|---|------------------|----------|---------------------------|
|   | March 31         |          | March 31                  |
|   | 2003             | 2004     | 2004                      |
| <b>Basic net income per share:</b>  |                  |          |                           |
| Net income  | ¥502,763         | ¥589,098 | \$5,576                   |
| Amounts not attributable to the common shareholders   | (17,000)         | (15,500) | (147)                     |
| Net income attributable to the common shareholders  | 485,763          | 573,598  | 5,429                     |
| Weighted-average number of common shares outstanding during each fiscal year (unit: shares) | 17,294           | 93,207   | 93,207                    |
| <b>Diluted net income per share:</b>  |                  |          |                           |
| Adjustments to net income   | ¥ -              | ¥ -      | \$ -                      |
| Increase of number of common shares outstanding during each fiscal year (unit: shares)      | -                | 5,057    | 5,057                     |

Diluted net income per share is not disclosed for the year ended March 31, 2003; As the common stock of the Company was listed in April, 2004 in the over-the-counter stock market, the Company was not able to obtain the average market price of common stocks during the fiscal year ended March 31, 2003.

Effective on November 20, 2003, the Company made a five-for-one stock split. Assuming the stock split had been made on April 1, 2002, pro forma earnings per share for the year ended March 31, 2003 amount to 5,617.71 yen.

The following are the number of common shares to be granted.

|  | The date of ordinary shareholders' meeting | Number of common share granted (shares) | Exercise price per share (exact yen) | Exercise periods                          |
|--|--|---|--------------------------------------|---|
| Stock option to purchase newly issued shares | November 8, 2002                           | 4,750                                   | 71,000                               | From November 9, 2004 to October 31, 2011 |
|  | June 26, 2003                              | 1,860                                   | 639,100                              | From June 27, 2005 to June 26, 2008       |
|  |  | <u>6,610</u>                            |                                      |   |

### Note:

On June 24, 2004, at the shareholders' meeting it was decided to grant the stock option to certain directors and employees that is limited to 300 common shares.

## 13. Contingent liabilities:

Based upon information currently available, the Company and its consolidated subsidiaries have no significant pending lawsuits.

## 14. Segment information:

### (1) Segments by industry

|  | Thousands of yen |              |              |             |                        | Consolidated |
|--|------------------|--------------|--------------|-------------|------------------------|--------------|
|  | March 31, 2003   |              |              |             |                        |              |
|  | ESD business     | ECS business | EHI business | Total       | Elimination /Corporate |              |
| <b>I. Net sales:</b>                                     |                  |              |              |             |                        |              |
| (1) Outside customers                                    | ¥13,514,729      | ¥1,413,572   | ¥108,667     | ¥15,036,968 | ¥ -                    | ¥15,036,968  |
| (2) Inter-segment  | 28,385           | 5,100        | 152          | 33,637      | (33,637)               | -            |
| Total  | 13,543,114       | 1,418,672    | 108,819      | 15,070,605  | (33,637)               | 15,036,968   |
| Operating expenses                                       | 11,332,082       | 1,484,359    | 245,532      | 13,061,973  | 940,211                | 14,002,184   |
| Operating income   | ¥2,211,032       | (¥65,687)    | (¥136,713)   | ¥2,008,632  | (¥973,848)             | ¥1,034,784   |
| <b>II. Assets, depreciation and capital expenditure:</b> |                  |              |              |             |                        |              |
| Assets   | ¥9,288,300       | ¥1,161,996   | ¥59,244      | ¥10,509,540 | ¥1,789,942             | ¥12,299,482  |
| Depreciation   | 190,073          | 68,375       | 2,225        | 260,673     | 17,546                 | 278,219      |
| Capital expenditure                                      | 169,823          | 21,960       | 5,691        | 197,474     | 133,809                | 331,283      |

|  | Thousands of yen          |              |              |             |                        | Consolidated |
|--|---------------------------|--------------|--------------|-------------|------------------------|--------------|
|  | March 31, 2004            |              |              |             |                        |              |
|  | ESD business              | ECS business | EHI business | Total       | Elimination /Corporate |              |
| <b>I. Net sales:</b>                                     |                           |              |              |             |                        |              |
| (1) Outside customers                                    | ¥15,483,391               | ¥1,013,996   | ¥17,507      | ¥16,514,894 | ¥ -                    | ¥16,514,894  |
| (2) Inter-segment  | 453                       | 15,019       | 108          | 15,580      | (15,580)               | -            |
| Total  | 15,483,844                | 1,029,015    | 17,615       | 16,530,474  | (15,580)               | 16,514,894   |
| Operating expenses                                       | 12,722,828                | 911,206      | 131,217      | 13,765,251  | 1,047,475              | 14,812,726   |
| Operating income   | ¥2,761,016                | ¥117,809     | (¥113,602)   | ¥2,765,223  | (¥1,063,055)           | ¥1,702,168   |
| <b>II. Assets, depreciation and capital expenditure:</b> |                           |              |              |             |                        |              |
| Assets   | ¥9,379,942                | ¥461,246     | ¥50,350      | ¥9,891,538  | ¥3,099,405             | ¥12,990,943  |
| Depreciation   | 182,658                   | 30,347       | 3,780        | 216,785     | 29,326                 | 246,111      |
| Capital expenditure                                      | 143,914                   | 11,264       | 2,656        | 157,834     | 373,683                | 531,517      |
|  | Thousands of U.S. dollars |              |              |             |                        | Consolidated |
|  | March 31, 2004            |              |              |             |                        |              |
|  | ESD business              | ECS business | EHI business | Total       | Elimination /Corporate |              |
| <b>I. Net sales:</b>                                     |                           |              |              |             |                        |              |
| (1) Outside customers                                    | \$146,568                 | \$9,598      | \$166        | \$156,332   | \$ -                   | \$156,332    |
| (2) Inter-segment  | 4                         | 142          | 1            | 147         | (147)                  | -            |
| Total  | 146,572                   | 9,740        | 167          | 156,479     | (147)                  | 156,332      |
| Operating expenses                                       | 120,435                   | 8,626        | 1,242        | 130,303     | 9,916                  | 140,219      |
| Operating income   | \$26,137                  | \$1,114      | (\$1,075)    | \$26,176    | (\$10,063)             | \$16,113     |
| <b>II. Assets, depreciation and capital expenditure:</b> |                           |              |              |             |                        |              |
| Assets   | \$88,791                  | \$4,366      | \$477        | \$93,634    | \$29,340               | \$122,974    |
| Depreciation   | 1,729                     | 287          | 36           | 2,052       | 278                    | 2,330        |
| Capital expenditure                                      | 1,362                     | 107          | 25           | 1,494       | 3,537                  | 5,031        |

### Notes:

- Segment information by business activity is determined by considering the product line, the product market, and the management control of the business.
- Main products of each business segment:
  - ESD business: Professional graphics tablet, Consumer graphics tablet, LCD tablet, Pen sensor component
  - ECS business: ECAD/dio, ProDenki, SMARTTEAM
  - EHI business: Electronic Seal inplet
- Corporate expenses mainly include administrative expenses of the Company.
- Corporate assets mainly include cash, investment securities and assets belonged to general and administrative departments of the Company.

### (2) Geographic Areas

|                       | Thousands of yen |            |            |          |             | Consolidated |
|-----------------------|------------------|------------|------------|----------|-------------|--------------|
|                       | March 31, 2003   |            |            |          |             |              |
|                       | Japan            | U.S.A.     | Europe     | China    | Total       |              |
| <b>I. Net sales:</b>  |                  |            |            |          |             |              |
| (1) Outside customers | ¥7,843,281       | ¥4,076,040 | ¥2,910,932 | ¥206,715 | ¥15,036,968 | ¥ -          |
| (2) Inter-segment     | 4,079,728        | 37,857     | -          | 20,008   | 4,137,593   | (4,137,593)  |
| Total                 | 11,923,009       | 4,113,897  | 2,910,932  | 226,723  | 19,174,561  | (4,137,593)  |
| Operating expenses    | 10,649,937       | 3,492,576  | 2,788,276  | 219,049  | 17,149,838  | (3,147,654)  |
| Operating income      | ¥1,273,072       | ¥621,321   | ¥122,656   | ¥7,674   | ¥2,024,723  | (¥989,939)   |
| <b>II. Assets</b>     |                  |            |            |          |             |              |
|                       | ¥8,630,756       | ¥2,336,155 | ¥1,525,413 | ¥93,194  | ¥12,585,518 | ¥286,036     |

| Thousands of yen      |                   |                   |                   |                 |                    |                           |                    |
|-----------------------|-------------------|-------------------|-------------------|-----------------|--------------------|---------------------------|--------------------|
| March 31, 2004        |                   |                   |                   |                 |                    |                           |                    |
|                       | Japan             | U.S.A.            | Europe            | China           | Total              | Elimination<br>/Corporate | Consolidated       |
| <b>I. Net sales:</b>  |                   |                   |                   |                 |                    |                           |                    |
| (1) Outside customers | ¥8,796,527        | ¥4,271,528        | ¥3,174,604        | ¥272,235        | ¥16,514,894        | ¥-                        | ¥16,514,894        |
| (2) Inter-segment     | 3,594,887         | 92,580            | 85,433            | -               | 3,772,900          | (3,772,900)               | -                  |
| <b>Total</b>          | <b>12,391,414</b> | <b>4,364,108</b>  | <b>3,260,037</b>  | <b>272,235</b>  | <b>20,287,794</b>  | <b>(3,772,900)</b>        | <b>16,514,894</b>  |
| Operating expenses    | 10,866,729        | 3,576,426         | 2,926,958         | 260,127         | 17,630,240         | (2,817,514)               | 14,812,726         |
| Operating income      | ¥1,524,685        | ¥787,682          | ¥333,079          | ¥12,108         | ¥2,657,554         | (¥955,386)                | ¥1,702,168         |
| <b>II. Assets</b>     | <b>¥7,847,461</b> | <b>¥2,332,792</b> | <b>¥1,406,278</b> | <b>¥130,093</b> | <b>¥11,716,624</b> | <b>¥1,274,319</b>         | <b>¥12,990,943</b> |

| Thousands of U.S. dollars |                 |                 |                 |                |                  |                           |                  |
|---------------------------|-----------------|-----------------|-----------------|----------------|------------------|---------------------------|------------------|
| March 31, 2004            |                 |                 |                 |                |                  |                           |                  |
|                           | Japan           | U.S.A.          | Europe          | China          | Total            | Elimination<br>/Corporate | Consolidated     |
| <b>I. Net sales:</b>      |                 |                 |                 |                |                  |                           |                  |
| (1) Outside customers     | \$83,269        | \$40,435        | \$30,051        | \$2,577        | \$156,332        | \$-                       | \$156,332        |
| (2) Inter-segment         | 34,030          | 876             | 809             | -              | 35,715           | (35,715)                  | -                |
| <b>Total</b>              | <b>117,299</b>  | <b>41,311</b>   | <b>30,860</b>   | <b>2,577</b>   | <b>192,047</b>   | <b>(35,715)</b>           | <b>156,332</b>   |
| Operating expenses        | 102,866         | 33,855          | 27,707          | 2,462          | 166,890          | 26,671                    | 140,219          |
| Operating income          | \$14,433        | \$7,456         | \$3,153         | \$115          | \$25,157         | (\$9,044)                 | \$16,113         |
| <b>II. Assets</b>         | <b>\$74,285</b> | <b>\$22,083</b> | <b>\$13,312</b> | <b>\$1,231</b> | <b>\$110,911</b> | <b>\$12,063</b>           | <b>\$122,974</b> |

**Notes:**

- a) Corporate expenses mainly include administrative expenses of the Company.
- b) Corporate assets mainly include cash, investment securities and assets belonged to general and administrative departments of the Company.
- c) "Europe" includes Germany and United Kingdom.

**(3) Overseas sales**

| Thousands of yen   |               |            |            |            |
|--|---------------|------------|------------|------------|
| March 31, 2003   |               |            |            |            |
|  | North America | Europe     | Others     | Total      |
| <b>I. Overseas sales</b>                                       | ¥4,051,877    | ¥2,754,618 | ¥1,642,283 | ¥8,448,778 |
| <b>II. Consolidated sales</b>                                  | -             | -          | -          | 15,036,968 |
| <b>III. Percentage of overseas sales to consolidated sales</b> | 27.0%         | 18.3%      | 10.9%      | 56.2%      |

| Thousands of yen   |               |            |            |            |
|--|---------------|------------|------------|------------|
| March 31, 2004   |               |            |            |            |
|  | North America | Europe     | Others     | Total      |
| <b>I. Overseas sales</b>                                       | ¥4,320,261    | ¥3,077,048 | ¥2,484,592 | ¥9,881,901 |
| <b>II. Consolidated sales</b>                                  | -             | -          | -          | 16,514,894 |
| <b>III. Percentage of overseas sales to consolidated sales</b> | 26.2%         | 18.6%      | 15.0%      | 59.8%      |

| Thousands of U.S. dollars                                      |               |          |          |          |
|--|---------------|----------|----------|----------|
| March 31, 2004   |               |          |          |          |
|  | North America | Europe   | Others   | Total    |
| <b>I. Overseas sales</b>                                       | \$40,896      | \$29,128 | \$23,519 | \$93,543 |
| <b>II. Consolidated sales</b>                                  | -             | -        | -        | 156,332  |
| <b>III. Percentage of overseas sales to consolidated sales</b> | 26.2%         | 18.6%    | 15.0%    | 59.8%    |

**Notes:**

- a) Countries or regions is determined by geographical nearness.
- b) Principal countries or regions belonging to each segment.
  - i) North America: U.S.A., Canada
  - ii) Europe: United Kingdom, Germany, France, Netherlands
  - iii) Others: South Korea, Taiwan, Australia, China
- c) Overseas sales comprise the sales outside Japan of the Company and its consolidated subsidiaries.

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Kasumigaseki Bldg. 32nd Floor  
3-2-5, Kasumigaseki, Chiyoda-ku,  
Tokyo 100-6088, Japan

Report of Independent Auditors

June 24, 2004

To the Board of Directors  
of WACOM Co., Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of WACOM Co., Ltd. and its consolidated subsidiaries at March 31, 2003 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan. 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 of these statements in accordance with auditing standards generally accepted in Japan which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



ChuoAoyama PricewaterhouseCoopers  
(Certified Public Accountants)

## CORPORATE DATA (As of March 31, 2004)

|                          |   |                                 |   |
|--------------------------|---|---------------------------------|---|
| <b>Established</b>       | July 12, 1983   | <b>Head office/<br/>Factory</b> | 2-510-1 Toyonodai Otonemachi,<br>Kita Saitama-Gun, Saitama 349-1148, Japan<br>TEL: 0480-78-1211 (Main) FAX: 0480-78-1220  |
| <b>Capital</b>           | 1,533,050,000 yen   | <b>Branch/<br/>Offices</b>      | <b>Tokyo Branch</b><br>Harmony Tower 18th Floor, 1-32-2 Hon-cho, Nakano-ku,<br>Tokyo 164-0012, Japan<br><b>Sapporo Office</b><br>Nippo Kita Nijyo Bldg. 4th Floor, 1-2-10 Kita Nijyo Higashi,<br>Chuo-ku, Sapporo-shi, Hokkaido 060-0032, Japan<br><b>Shinetsu Office</b><br>4-1-12 Tokiwagi, Ueda-shi, Nagano 386-0027, Japan<br><b>Nagoya Office</b><br>Origin Nishiki Bldg. 8th Floor, 1-6-17 Nishiki, Naka-ku,<br>Nagoya-shi, Aichi 460-0003, Japan<br><b>Osaka Office</b><br>Shorei Bldg. 807, 3-4-14 Toyosaki, Kita-ku, Osaka-shi,<br>Osaka 531-0072, Japan<br><b>Fukuoka Office</b><br>Sumitomo Hakata Ekimae Daini Bldg. 5th Floor, 2-6-23<br>Hakataeki- Higashi, Hakata-ku, Fukuoka-shi, Fukuoka 812-<br>0013, Japan |
| <b>Employees</b>         | Consolidated: 420<br>Non-consolidated: 284  | <b>Overseas<br/>affiliates</b>  | <b>Wacom Technology Corporation (U.S.A.)</b><br>1311 SE Cardinal Court, Vancouver, WA 98683, U.S.A.<br><b>Wacom Europe GmbH (Germany)</b><br>Europark Fichtenhain A9 D-47807, Krefeld, Germany<br><b>Wacom China Corporation (China)</b><br>Room 611 CNT MANHATTAN BUILDING<br>No.6 Chaoyangmen Bei Road, Beijing, China 100027<br><b>Wacom Components Europe Ltd. (UK)</b><br>St John's Innovation Centre Cowley Road Cambridge CB4<br>OWS England<br><b>Wacom Digital Solutions Co., Ltd. (South Korea)*</b><br>Gangnam Telepia B/D 9th Floor, 662-18<br>Yeoksam-dong, Gangnam-gu, Seoul, 135-080, Korea<br>*Established on April 1, 2004   |
| <b>Business segments</b> | <p>1. Electronic Systems and Devices (ESD) Business<br/>Development, manufacture, and sale of computer input devices</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Professional graphics tablets</li> <li><input type="checkbox"/> Consumer graphics tablets</li> <li><input type="checkbox"/> Integrated LCD pen tablets</li> <li><input type="checkbox"/> Pen sensor components</li> </ul> <p>2. Engineering Collaborative Solutions (ECS) Business<br/>Development, manufacture, and sale of industrial systems</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Electronic design CAD software</li> <li><input type="checkbox"/> PDM</li> </ul> <p>3. Electronic Human Interfaces (EHI) Business<br/>Development, manufacture, and sale of pen solutions</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Electronic seals</li> </ul> |                                 |   |
| <b>Banks</b>             | Mizuho Bank, Ltd.<br>UFJ Bank Ltd.<br>The Bank of Tokyo-Mitsubishi, Ltd.<br>Saitama Resona Bank, Ltd.<br>The Sumitomo Trust & Banking Co., Ltd.<br>Development Bank of Japan, etc.  |                                 |   |

## BOARD OF DIRECTORS, CORPORATE AUDITORS, AND EXECUTIVE OFFICERS (As of June 24, 2004)

|                                    |   |                                |   |
|------------------------------------|---|--------------------------------|---|
| <b>President</b>                   | Masahiko Yamada                                     | <b>Chief Executive Officer</b> | Masahiko Yamada   |
| <b>Directors</b>                   | Takeshi Oki<br>Sadao Yamamoto<br>Yasuyuki Fujishima | <b>Executive Officers</b>      | <b>Sadao Yamamoto</b><br>(Research & Development)<br><b>Yuji Wakabayashi</b><br>(Engineering Collaborative Solutions Division)<br><b>Kyoji Kawashimo</b><br>(Electronic Human Interfaces Division)<br><b>Takeshi Oki</b><br>(Division General Manager,<br>General Affairs Division)<br><b>Shigeki Komiyama</b><br>(Division General Manager,<br>Global Marketing and Sales Division)<br><b>Wataru Hasegawa</b><br>(Chief Financial Officer) |
| <b>Full-time Corporate Auditor</b> | Haruo Mizuno  |                                |   |
| <b>Corporate Auditors</b>          | Takeshi Ebitani<br>Takashi Kamura                   |                                |   |



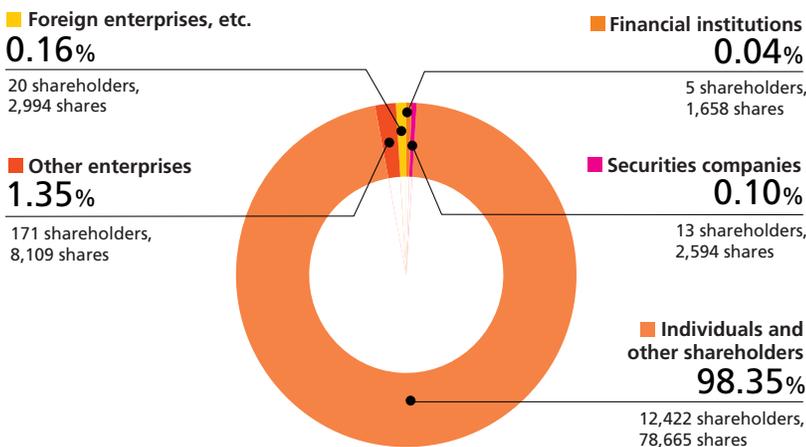
**Share Data**

|   |                       |
|---|-----------------------|
| Total number of shares to be issued ..... | <b>345,000 shares</b> |
| Total number of issued shares .....       | <b>94,020 shares</b>  |
| Number of shareholders .....              | <b>12,631</b>         |

**Major Shareholders**

| Name of shareholder                               | Number of shares owned | Percentage of voting rights (%) |
|---|------------------------|---------------------------------|
| Yoji Eto  | 11,107                 | 11.81                           |
| SHINSHOEI Co., Ltd.                               | 3,025                  | 3.22                            |
| Yoshimi Ogawa                                     | 2,000                  | 2.13                            |
| Unitech Holdings International Co., Ltd.          | 2,000                  | 2.13                            |
| Masahiko Yamada                                   | 1,855                  | 1.97                            |
| Matsui Securities Co., Ltd. (Operation Account)   | 1,551                  | 1.65                            |
| Shuji Kanaoka                                     | 1,503                  | 1.60                            |
| OHJIC Co., Ltd.                                   | 1,500                  | 1.60                            |
| Cititrust and Banking Corporation (GA Account 07) | 1,375                  | 1.46                            |
| Koichi Noda                                       | 1,157                  | 1.23                            |

**Shareholder Distribution**



**Announcement for stock split**

The Board of Directors made a resolution on August 8, 2003, that each share of common stock be split into five shares in order to reduce the size of the minimum trading unit and to increase the number of shares traded in the stock markets. The stock split was applicable to shareholders of record as of September 30, 2003, and became effective on November 20, 2003.



**Wacom Co., Ltd.**

2-510-1 Toyonodai Otonemachi, Kita Saitama-Gun, Saitama 349-1148, Japan (Head office)  
TEL: 0480-78-1211(Main) FAX: 0480-78-1220

<http://www.wacom.co.jp/english/index.html>