

ANNUAL REPORT 2006

2006



Creating harmony between people and technology

WACOM

Profile

Adhering to our corporate philosophy of "Creating harmony between people and technology," Wacom Co., Ltd. strives to offer technologically sophisticated products that people can use intuitively and effortlessly regardless of their background. In the 1980s, we pioneered the development of a pen tablet that made cordless, battery-free computer input possible for the first time. The pen tablet's user-friendly interface and versatility were cherished by computer graphics creators around the world, and it has since become an indispensable tool in the field. Interactive pen displays that allow users to work directly on an LCD display, are now popular among a wide range of businesses, including medical firms, transportation/shipping companies, and a host of other enterprises for which entering information via keyboards 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 into new application areas and we plan to continue globally revolutionizing the workplace and the home with our proprietary user-interface technology.

Financial Highlights Wacom Co., Ltd. and Its Subsidiaries Years ended March 31

	Thousands of yen		Thousands of U.S. dollars*
	2005	2006	2006
For the year:			
Net sales	¥17,650,932	¥23,992,206	\$204,241
Gross profit	8,926,708	11,970,762	101,905
Operating income	1,841,358	3,424,365	29,151
Net income	944,392	2,145,821	18,267
At year end:			
Total assets	14,109,303	21,032,863	179,048
Total shareholders' equity	6,698,503	13,287,904	113,117
Per share (yen and U.S. dollars)**:			
Net income			
Basic	¥ 9,826.49	¥ 5,420.51	\$ 46.14
Diluted	9,386.80	5,283.96	44.98
Cash dividends applicable to the year	2,000.00	1,000.00	8.51

*Note 1: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117.47=U.S.\$1, the approximate exchange rate prevailing on March 31, 2006.

**Note 2: Common shares were split on a four-for-one basis on November 18, 2005.



CONTENTS

Profile/Financial Highlights	1
Business Overview	2
Business Model/History	3
To Our Shareholders	5
Global Initiatives	7
Information by Segment	9
Board of Directors/Corporate Governance	13
Financial Section	14
Corporate Data	33
Investor Information	34

Business Overview

Use of consumer pen tablets for photo editing and creating illustrations and comics significantly boosts sales

We launched new models of the Graphire/FAVO series, our consumer graphics tablet, in all markets worldwide in September 2005, two years after the release of the previous models. The new models offered a fresh design and an improved pen that features a rubber grip and an ergonomic side-switch. In addition, new shortcut keys and a scroll/zoom wheel allow users to fully concentrate on getting the job done. Pen tablet sales surged in the United States and Europe, as digital photo editing has become more popular in these markets. In Japan, we observed that more senior citizens are becoming interested in retouching digital photos and that young women in their teens and twenties are creating personal illustrations and comics. As a result of these favorable trends, sales of consumer pen tablets for the term under review rose substantially by 40% compared with the previous fiscal year.

THIS IS A PEN. THIS IS FAVO!
FAVO
"FAVO" MAKES YOU FEEL FREE, FINE AND FANTASTIC.



Responding to the rapidly growing Asian business by reinforcing our overseas sales and service network

Recently our business in the Asian market has been rapidly expanding, leading to our establishment of Wacom Digital Solutions Co., Ltd., a Korean subsidiary, during the previous fiscal year. During the term under review, we continued efforts to reinforce sales and marketing activities in the Asian and Oceania market by establishing Wacom Australia Pty. Ltd., our Australian subsidiary. In addition, we are now reorganizing our Singaporean representative office into a Singaporean subsidiary as a key regional base of operations. This subsidiary will cover the South and Southeast Asian markets including Singapore, Malaysia, Thailand, and India, in which we have already launched full-fledged marketing and service activities. The driving forces for this rapid growth by our Asian business include governmental IT investment policies and advances in various IT and telecommunication technologies which have led to higher performance, lower priced PCs, improved drawing software, and wider use of broadband. All these factors made it possible for users to store images drawn on a tablet using an electronic pen as electronic data, which makes it easy to correct, copy, and send images. Animations and comics created in Japan, the United States, and Europe are sent to Asia for processing via broadband Internet access. In addition, the number of people in Asia engaging in design and image-processing jobs using electronic pens is increasing. In response to these trends, we are actively building and reinforcing our sales and service network for the very promising Asian market.



Wacom listed on the First Section of the Tokyo Stock Exchange

The Company was listed on the First Section of the Tokyo Stock Exchange on December 27, 2005. We intend to take advantage of this event by striving to strengthen public trust and gain stronger recognition in society by employing people with high-level abilities, expanding our institutional investor base on a global scale through IR activities, and promoting business alliances.



Wacom's technology applied as input mechanism for electronic paper

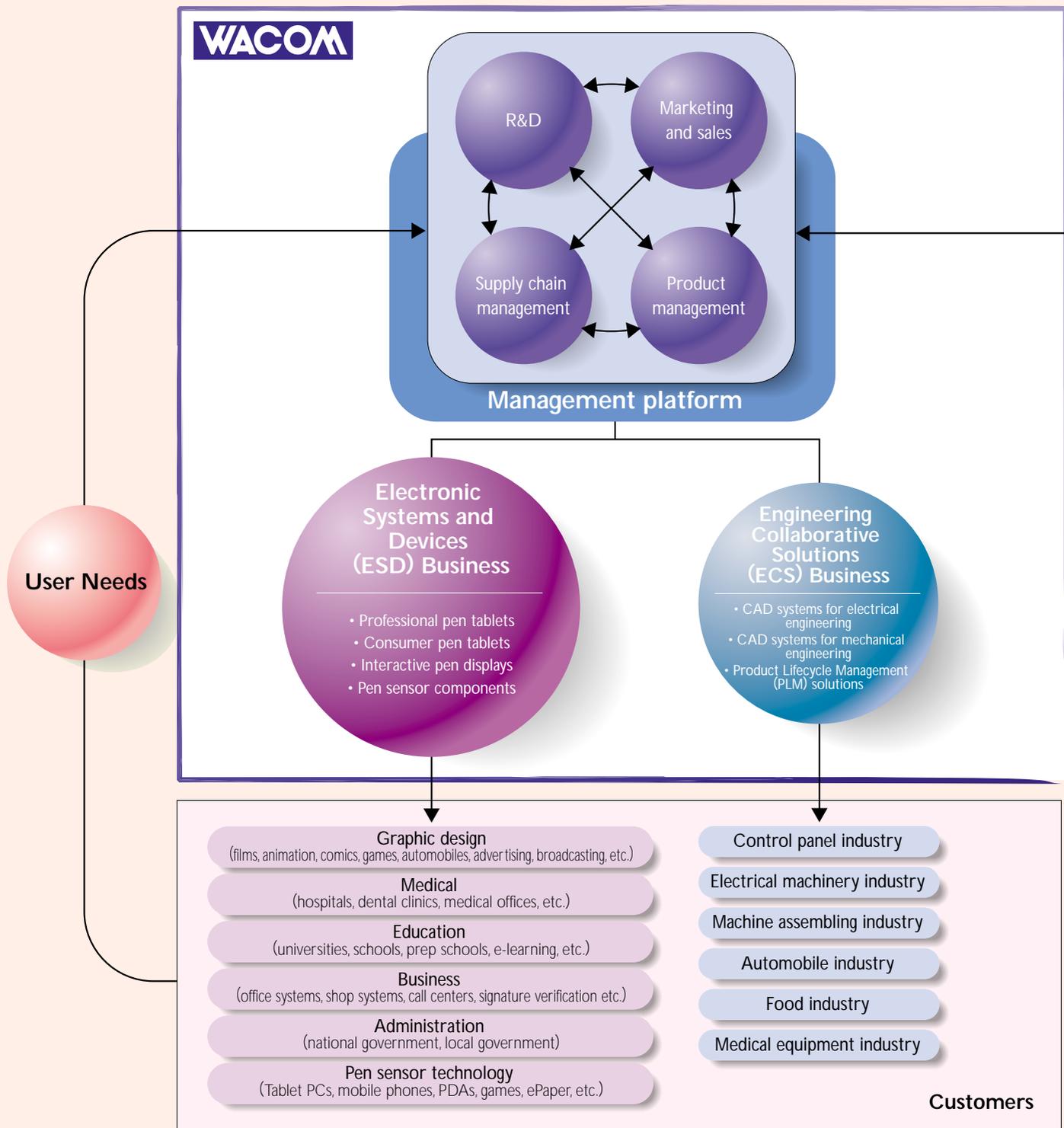
Our pen-input mechanism has been incorporated into a portable device for reading newspapers developed by the Netherlands-based iRex Technologies BV. This is the world's first portable electronic paper reading/writing device. While conventional electronic paper functions have previously been limited to viewing, this newly developed handheld device allow users to freely write and correct messages as well. This represents a small but significant step toward establishing our technology and applications as the de facto global standard in the Digital Paper era.



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 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.

Business Model



Partnerships

- Operating Systems (OS) vendor
- Application vendor
- Display vendor
- Stationery goods vendor



HISTORY

- July 1983 • Wacom Co., Ltd. is established in Ageo City, Saitama, Japan, with common stock of 48 million yen
- Operation of Electronic Systems and Devices (ESD) and Engineering Collaborative Solutions (ECS) businesses begins
- 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
- Aug. 1991 • Wacom Technology Corporation (presently a consolidated subsidiary) is established in Vancouver, Washington, U.S.A., as a sales base in the Americas
- Mar. 1998 • Marketing of SmartPDM, a Product Data Management (PDM) system, begins
- Sep. 1998 • Marketing of Intuos, a line of professional pen tablets, begins
- June 1999 • Marketing of ECAD/dio, a CAD system for electrical engineering, begins
- Nov. 1999 • Marketing of Graphire/FAVO, a line of consumer pen tablets, begins
- Mar. 2000 • Wacom China Corporation (presently a consolidated subsidiary) is established in Beijing, as a sales base in China
- Sep. 2001 • Marketing of Cintiq, a line of interactive pen displays, begins
- Oct. 2001 • Wacom Components Europe (presently a consolidated subsidiary) is established in Cambridge, U.K., as a marketing and R&D base for the pen sensor component business
- Apr. 2003 • The Company's stock is listed on the JASDAQ market
- Apr. 2004 • Wacom Digital Solutions Co., Ltd. (presently a consolidated subsidiary) is established in Seoul, as a sales base in South Korea
- Sep. 2004 • Marketing of Intuos3 professional pen tablets begins
- Feb. 2005 • Cintiq 21UX launched, setting a new standard for digital pen-based imaging
- Mar. 2005 • BizTablet, a new business-use pen tablet, is launched
- Apr. 2005 • Super Slim Pen is developed as a one-gram, cartridge-style, ultra-compact, cordless and battery-free digital pen
- Entry of electronic design CAD software into South Korean market, ECAD/dio South Korean version is released
- Wacom Australia Pty Ltd. (presently a consolidated subsidiary) is established in North Ryde, NSW, Australia as a sales base for the Oceania market
- Sep. 2005 • Marketing of Graphire4/FAVO CTE-440 and CTE-640 begins
- Dec. 2005 • The Company's stock is listed on the First section of the Tokyo Stock Exchange
- Mar. 2006 • Marketing of ECAD/dio Ver. 6.5 begins
- Apr. 2006 • Penabled DualPad™ is developed as a new pen and touch input device for mobile information products
- May 2006 • Wacom Singapore Pte Ltd. (presently a consolidated subsidiary) is established in Singapore as a sales base for the South and Southeast Asian markets

To Our Shareholders

PROFILE

Masahiko Yamada (Born March 31, 1958)

March 1986 : Graduated from Tohoku University, Faculty of Engineering
March 1986 : Joined Wacom Co., Ltd. in Overseas Sales Dept.
April 1991 : General Manager, Overseas Sales Division
April 1992 : President, Wacom Technology Corporation (U.S.A.)
April 1996 : Division Manager, Electronic Systems and Devices (ESD) Division
June 1996 : Director
April 1999 : Executive Director
April 2000 : Company President of ESD Company
June 2003 : Executive Director, Senior Executive Officer, Company President of ESD Company
April 2004 : Executive Vice President, Chief Operating Officer
June 2004 : President, Chief Executive Officer



Masahiko Yamada
President & CEO

Wacom is committed to enhancing its global leadership in human-friendly interfaces

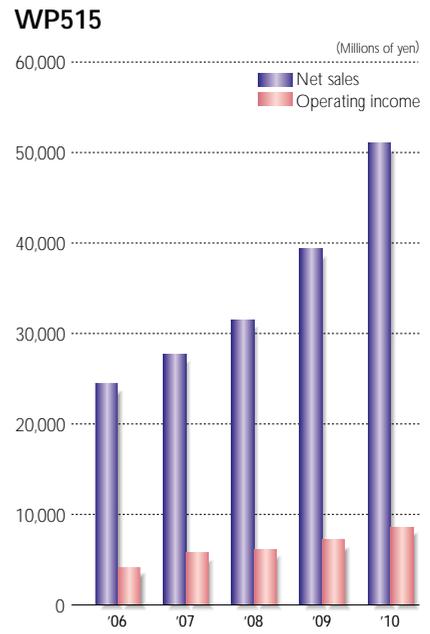
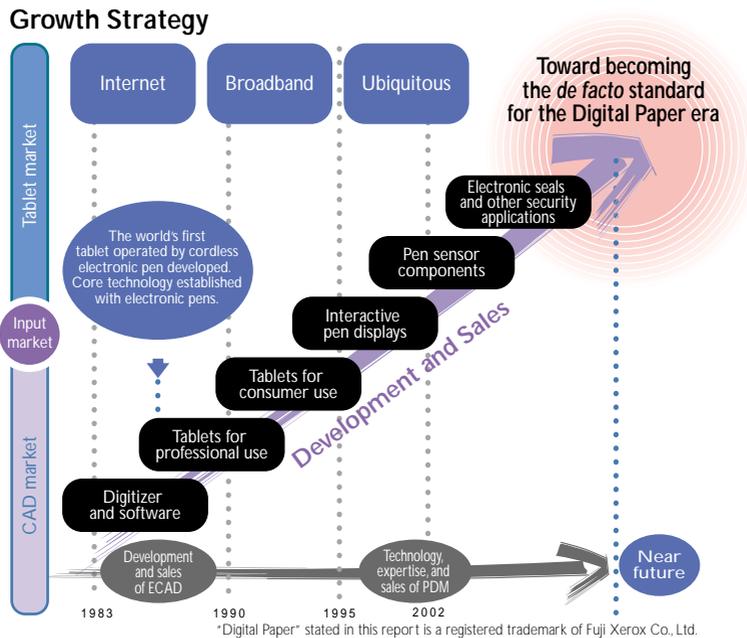
Dear Wacom shareholders,

On behalf of Wacom, I am pleased to extend our sincere appreciation for your unchanging support as we present this Wacom Annual Report for the 23rd fiscal year from April 1, 2005 through March 31, 2006.

Under our corporate vision of "Creating harmony between people and technology," we aspire to contribute to society by providing natural and intuitive user interface solutions. To achieve this corporate vision, we have focused on the research, development, and application of proprietary sensor technologies and the expansion of overseas business.

Today, Wacom's pen tablets are highly acclaimed as an industry standard by graphics professionals across the world in the film, industrial design, and publishing industries. In addition, our pen tablets are widely used by general consumers around the globe.

Interactive pen displays have been widely adopted in health care and IT-based education markets. Beyond the Tablet PC business, the scope of applications for our pen technology is expanding into mobile devices such as cellular phones and home electronics. As computer technology continues to advance and becomes integral to our personal and professional lives, natural user interface solutions will play an increasingly crucial role. We are committed to continuing to offer natural, intuitive, and human-friendly interface solutions for the coming Digital Paper era.



Business developments and performance in the 23rd fiscal year

Our business environment remained relatively stable throughout the 23rd fiscal year thanks to a robust international economy. Our operating results for the fiscal year improved substantially compared to the previous year due to steady growth of professional products launched during the previous year, high growth in consumer products released during the period under review, and strong growth in the component business. In the Americas, Europe, and Asia the expanding digital camera market and our successful development of new sales channels contributed to regional growth. Other factors fueling our growth included the listing of the Company on the First Section of the Tokyo Stock Exchange, our focus on developing new technologies, reinforcement of supply chain management (SCM) for production and logistics, and enhancement of our operational bases in Asia.

Business outlook and business strategy for the 24th fiscal year

For the 24th fiscal year (the fiscal year ending March 31, 2007), Wacom expects a relatively stable business environment despite several potential risk factors such as high oil prices and any related impact on global economic growth. However, we also expect the rate of revenue growth to be lower compared with the previous fiscal year, which benefited from the introduction of new products as well as strong consumer demand. Although the anticipated release of Windows Vista™ will contribute to the increased demand for pen tablets on a long term basis, its contribution for the 24th fiscal year will be constrained by moderate PC sales as consumers hold off

purchasing. In the component business, we will continue to focus on supporting new platforms such as cellular phones and electronic paper in addition to Tablet PCs. Under these market environment, Wacom will, as the foundation for attaining WP515 (our mid-term business plan), continue to focus on investing in the development of new technologies, reinforcing our SCM system and IT infrastructure, and expansion of operational bases in Asia. Also, Wacom Group will implement group-wide programs to improve corporate governance on a global basis*.

As a result of these efforts, we project net sales of ¥28,000 million (up 16.7%) and net income of ¥2,450 million (up 14.2%) for the fiscal year ending March 31, 2007.

* Our mid-term business plan WP515 sets goals for net sales of ¥50 billion and operating profit margin higher than 15% for the fiscal year ending March 31, 2010.

Dividend policy and message to our shareholders

To express our appreciation for unchanging support, we have decided to offer our shareholders an ordinary dividend of ¥1,000 per share as of March 31, 2006. We plan to maintain a payout ratio of at least 20% and increase this percentage over the long term.

We will continue to strive to improve corporate value by developing new technologies, retaining talented people, improving productivity and efficiency, and reinforcing our business infrastructure. In addition, we are committed to meeting shareholder expectations and fulfilling our social responsibility as a corporate citizen by improving corporate governance and compliance. We deeply appreciate your support, which is essential for Wacom's success.

Global Initiatives

Targeting maximum productivity through global expansion

Since its founding in 1983, Wacom has sought to expand into the global market, where we believe it is essential to maintain a competitive edge in order to remain a market leader for the long term. To that end, we chose the Hanover Messe in Germany in 1984 as the first opportunity for exhibiting our products in trade shows. In 1988, five years after the Company's founding, we established sales subsidiaries in the Americas (subsequently reorganized in 1991) and Europe. At that time, there was no concept of a pen tablet for inputting handwritten images and characters. Devices for entering points and lines for applications such as electronic circuit design were called digitizers. We set out to apply our patented technology for sensing pen pressure to the field of graphics, and we have continued to lead the pen tablet industry. With the rapid growth of the computer graphics business in the 1990s, Wacom's pen tablets became widely used across the world as the standard tool for the creation of films, animations, games, and industrial design. As the number of people using the Internet and digital cameras expanded in the early years of the 21st century, pen tablets started to be used by general PC users and became a popular tool for people around the world. Today 67.9% of Wacom's products are sold outside of Japan.

Global business strategy

Wacom pursues its global business strategy by taking advantage of regional characteristics and fully applying our strengths as a group. Consequently, we continually provide products and services that meet customer needs by combining the best available technologies, products, quality, costs, and distribution channels across the world. Since we first began our overseas operations based on an integrated global strategy, we have striven to localize the organization and have staffed our overseas subsidiaries in a way that develops close regional ties.

We apply this same approach to our marketing and product planning activities. In the United States, home to Hollywood and the world's most advanced computer graphics market, we concentrate on professional products such as Intuos. Consumer products such as Graphire/FAVO are the focus of our efforts in Europe, the most competitive consumer market, and in Japan, where

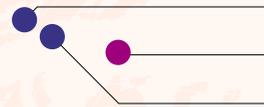
consumers demand products with a high level of sophistication. Asia, like Europe and Japan, shows strong corporate sector demand with a particular emphasis on low-price products.

In product development, Japan is the focal point of hardware design due to the presence of many R&D centers and the wealth in accumulated product expertise, and proximity to our major manufacturing bases in China and Taiwan. The development of driver software for linking hardware and computers is concentrated in the United States, where major global operating system (OS) manufacturers such as Apple Computer, Inc. and Microsoft Corporation are headquartered, allowing us to effectively respond to emerging OS standards. To support the marketing and development of pen-input products and technologies for next-generation multi-function devices, we have established a subsidiary in Cambridge, UK, where the R&D centers of major global mobile phone manufacturers are located. In terms of manufacturing, except for production that requires key technologies, we have transferred our manufacturing bases to Asian countries to reduce costs.

As part of our approach to manufacturing operations, we ensure high product quality by providing technical guidance and support to electronics manufacturing services (EMS) production lines in China and Taiwan. We have also moved our supply chain management (SCM) base to China to support the transference of our manufacturing, in line with the globalization of the Group.

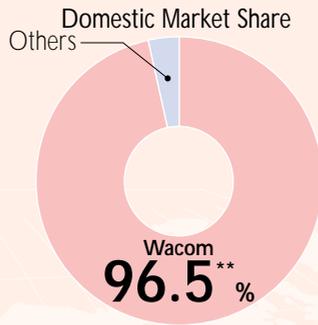
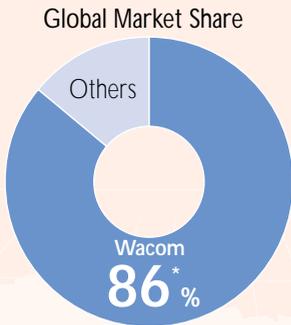
Share the vision and strategy

We have endeavored to maximize operational efficiency by strategically allocating functions such as marketing, product planning, development, manufacturing, and SCM to optimal locations across the world. Regular international conferences provide opportunities for the management of the Company and its subsidiaries to share our corporate vision and business strategies and to bring together global and local perspectives while safeguarding our position as the world leader in the industry.





Head Office (WCL)



Wacom Components Europe Ltd.

Wacom Russia

Wacom Europe GmbH

Wacom Tech. Corp.

Wacom Co., Ltd.

Wacom Digital Solutions Co., Ltd.

Wacom China Corp.

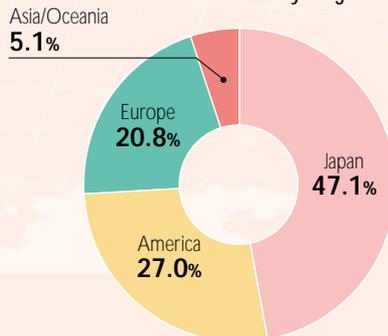
Shanghai Office

Taipei Office

Wacom Singapore Pte Ltd.

Wacom Australia Pty. Ltd.

Sales Breakdown by Region



- Head Office
- Overseas Affiliated Company
- Overseas Sales Base

*Source: Wacom's estimate

**Source: Business Computer News (BCN) 2006

Wacom Technology Corporation (WTC)

WTC was established in 1991 in Vancouver, Washington, in the United States. The company is not only responsible for sales and customer support in North and Latin America but also plays a central role in global marketing and product planning for professional pen tablets, and the development of driver software.



Wacom Europe GmbH (WEG)

WEG was established in 1988 in Neuss, Germany and was subsequently moved to Krefeld. The company is responsible for sales and customer support in the European, Middle Eastern, and African markets and also plays a key role in global marketing and product planning for consumer pen tablets. WEG provides market support in six languages.



Wacom China Corporation (WCC)

WCC was established in 2000 in Beijing. The company established and implemented a unique sales strategy for low-price tablets in the Chinese market. WCC's Shanghai Office is responsible for sales in the southern region of China as well as the component business nationwide.



Wacom Components Europe Ltd. (WCE)

WCE was established in 2001 in Cambridge, UK, where most of the leading global mobile phone manufacturers have located their R&D operations. The company conducts marketing and R&D activities for applying our pen-sensing technology to next-generation multi-function handheld devices.



Wacom Digital Solutions Co., Ltd. (WDS)

WDS was established in 2004 in Seoul, South Korea, in order to enhance sales in the South Korean market. South Korea is the most advanced country in the world in Internet usage and the market is expected to grow further.



Wacom Australia Pty. Ltd. (WAU)

WAU was established in April 2005 in North Ryde, NSW, Australia as a sales base for the Oceania market.



Wacom Singapore Pte Ltd. (WSP)

Wacom Singapore Pte Ltd. was established in May 2006 in Singapore as a sales base for South and Southeast Asia.



ESD

Electronic Systems and Devices (ESD) Business



Dan Casey
texture artist

Dan Casey is one of the world's leading texture artists and he has a real gift for creating photo-realistic characters and environments. He has been involved in many cutting-edge projects in his career including major motion pictures such as *Final Fantasy* and numerous international award-winning commercials. He says, "My Wacom Cintiq is a vital part of my workflow. It lets me get into a creative groove and stay there. I can work right on the pixels to get exactly the look I want."

The ESD business segment is primarily dedicated to the development, manufacture, and sales of pen tablets, pen sensor components, and related software. Pen tablets are computer data entry devices consisting of an electronic pen and a tablet. Pen sensor components include products such as electronic pens, sensor boards, and pen sensor controller ICs. Pen tablets are used in a variety of fields including illustration, photo editing printing, film production, medical care, education, and presentation. As of March 31, 2006, we hold over 490 registered and pending patents worldwide. We are the leading company in the tablet market, commanding 86% of the global market (Wacom estimate) and 96.5% of the domestic market (Business Computer News 2006). We provide pen sensor components to nearly every Tablet PC manufacturer in the world.

By product line, pen tablets are segmented into the following three categories: professional pen tablets, consumer pen tablets, and interactive pen displays. Including pen sensor components, we maintain four product lines.

We sell products in four major regions: Japan, North and Latin America, Europe/Middle East/Africa, and Asia/Oceania. With our head office in Japan, subsidiaries in the United States, Germany, United Kingdom, China, Korea, Australia, and Singapore (established in May 2006) and sales offices in cities such as Taipei and Moscow, we are developing new markets across the world while expanding our sales channels. As a result of these efforts, the share of our overseas sales has continued to grow, reaching 67.9% (on a consolidated basis) for the fiscal year under review. We are also developing a supply chain management (SCM) system on a global basis (refer to pages 7–8 on our globalization efforts). Our commitment to R&D and the enhancement of our mass production capabilities are strategic responses to Internet advances and the approaching era of ubiquitous computing.

Professional Pen Tablets

Our Intuos series of professional pen tablets has received a number of respected international design awards and has been highly acclaimed by pen creators around the world. Professional pen tablets representing Wacom's unique technologies and expertise are unrivaled in performance and quality across the world.



Interactive Pen Displays

An interactive pen display allows the user to work with the pen directly on screen. We have two product lines: the Cintiq series for photographers, designers, and artists and the DTX series for general users. Cintiq 21UX delivers the high performance and expanded functionality of Intuos3 on a large 21.3-inch display. Interactive pen displays for general users are widely used for a wide variety of functions including medical record keeping, presentations, remote learning, and order processing.



Consumer Pen Tablets

A new generation of the Graphire/FAVO series designed for general PC users was released in September 2005. This series, boasting user-friendliness and superior functions typically incorporated into high-end models, is suitable for such diverse applications as editing digital photos and creating fun artwork for comics or illustrated postcards. The Graphire/FAVO series is enjoyed by customers of both genders and all ages. Biz Tablet is a small tablet specifically developed for presentations, meetings, and other business purposes.



Pen Sensor Components

Wacom's technologies are incorporated as pen sensor components in our own finished products and those of other companies. We provide our patented sensor technology under the Penabled brand. Our pen sensor components are incorporated into almost every Tablet PC used across the world with a steadily expanding field of applications, from Digital Paper terminals to handhelds, system devices, gaming equipment, and toys.



Wacom Solutions

Wacom's pen tablets have been well-received by professionals in graphics as well as other fields such as health care, education, and business. Pen input using advanced IT and telecommunication technologies is changing our lives by replacing the constraints of pen and paper with the enhanced functionality of electronic pens and displays, thereby providing new solutions that remove the restraints of time and space.

Medical Care

Interactive pen displays have become popular in a variety of medical areas including electronic medical charts, pathological reports, endoscope diagnostic systems, nursing support, diagnostic imaging, and bedside terminals. By using electronic medical charts instead of conventional paper-based medical charts, medical information can be shared within a hospital. These charts also significantly reduce the storage space required for medical data and facilitate easy access to necessary information. They also allow the entry of handwritten data and sketches into an electronic report during surgical operations.



Education

Presenting digital educational materials on a screen using a PC and a projector has become a common practice at educational institutions such as elementary, junior and senior high schools, colleges and universities, and professional schools as well as in training centers and private e-learning programs. Through the use of interactive pen displays, instructors can directly enter teaching materials on an LCD display and have them instantly displayed on a large screen. In addition, the use of TV phones and Web-based whiteboards facilitates remote instruction and online correction of student work.



Business

The use of interactive pen displays is increasingly common among businesspeople at order centers, call centers, cosmetic and beauty salons, the reception areas of corporate and governmental offices, and in industrial design environments. People can use an electronic pen to capture graphical information during face-to-face conversations with customers and enter data in designated corporate formats using a handwriting interface supported by functions not available with a keyboard. Consequently, our electronic pen technology contributes to creating harmony between people and technology in business activities.



Meetings and Presentations

Interactive pen displays are widely applied in systems for supporting meetings and presentations. Meeting participants can hold discussions while viewing electronic data together on the LCD screens of interactive pen displays, jot down notes, and store any information on displays as required. The use of interactive pen displays can not only accelerate decision-making and communication, it can also prevent the need for large volumes of photo copying. Moreover, the ability to use an electronic pen to highlight information on an interactive display makes presentations easier to understand and more persuasive.

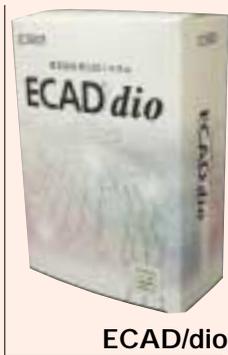


ECS

Engineering Collaborative Solutions (ECS) Business



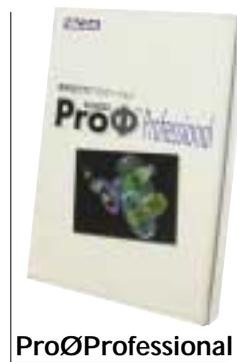
The main focus of our ECS business is to develop and market CAD-based software packages and to construct related systems for manufacturing industries. We develop CAD systems for electrical engineering firms which specialize in the design of electrical appliances and control equipment, as well as mechanical engineering firms. This segment is also responsible for sales and the provision of customer support and maintenance services for product data management (PDM) systems that offer an integrated means of managing product information.



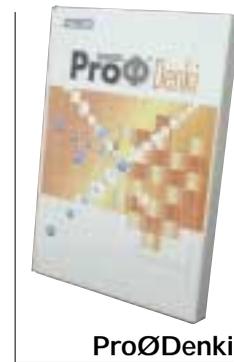
ECAD/dio



SMARTEAM



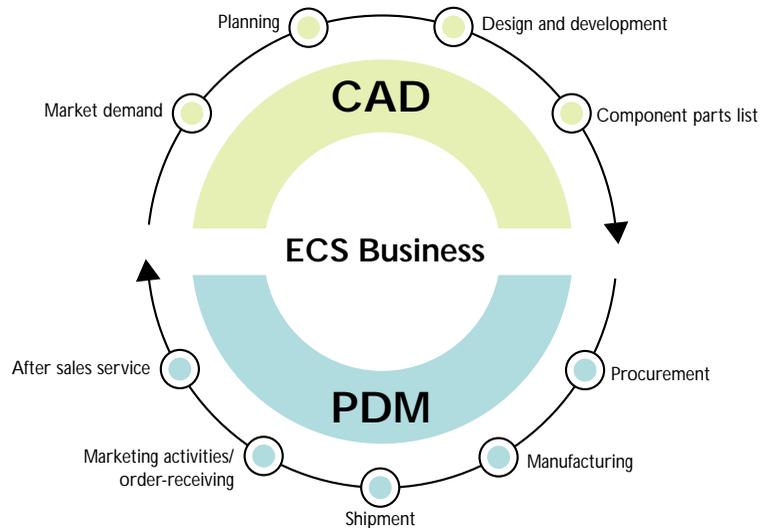
ProØProfessional



ProØDenki

ECAD/dio, a CAD system for electronic design with the top market share in this field in Japan, streamlines overall operations by helping users create electrical design diagrams while synchronizing design data with peripheral devices. Our development prowess and decades of accumulated expertise have advanced our overseas operations and enabled the release of a Korean language version.

Total Manufacturing Support



Board of Directors



(From left) Yasuyuki Fujishima, Wataru Hasegawa, Sadao Yamamoto, Masahiko Yamada, Takeshi Oki, Shigeki Komiyaama

Corporate Auditors

Haruo Mizuno (Full-time)
Takeshi Ebitani
Takashi Kamura

Executive Officers

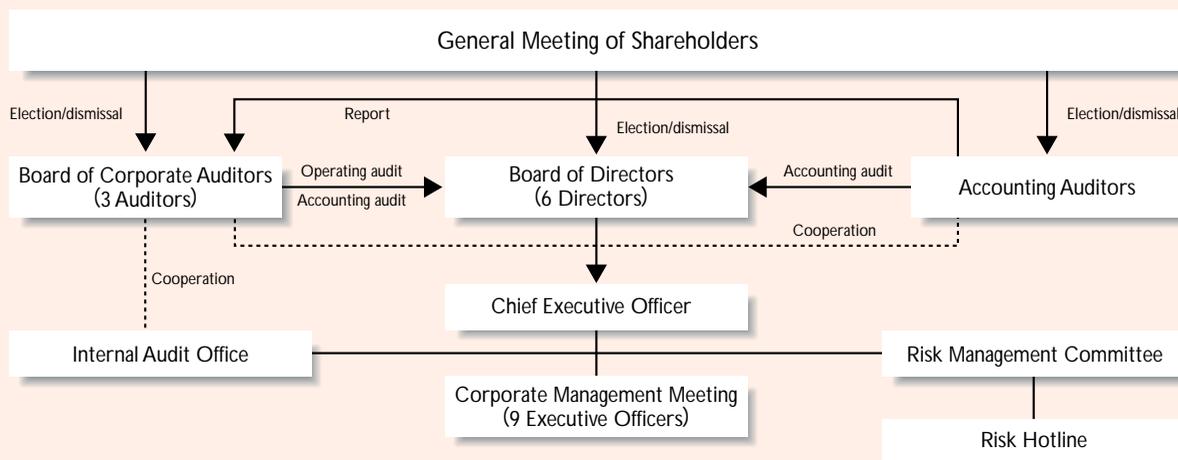
Masahiko Yamada
CEO
Shigeki Komiyaama
Global Marketing and Sales Division
Wataru Hasegawa
Chief Financial Officer
Sadao Yamamoto
R&D Division
Takeshi Oki
General Affairs Division
Yuji Wakabayashi
Engineering Collaborative Solutions Division
Hidetoshi Kamoto
Component Business Division
Masahiro Oba
Supply Chain Management Division
Koji Shimoda
Product Management Division (As of July 1, 2006)

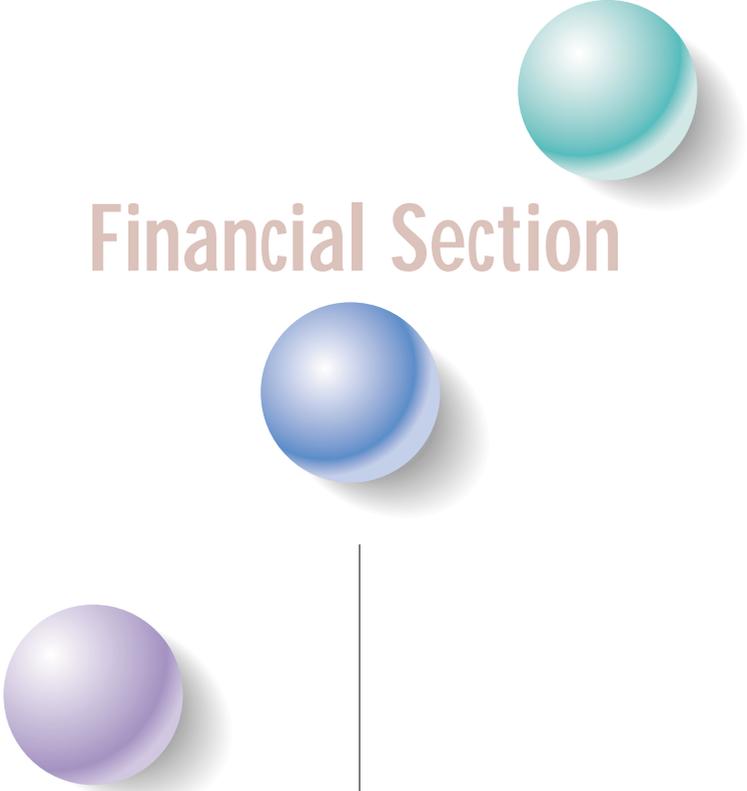
Corporate Governance

The Board of Directors and Board of Corporate Auditors are the principal entities responsible for corporate governance at Wacom. The Company currently has six directors, including one outside director. Each of the three current corporate auditors is an outside auditor and one is a full-time corporate auditor. In addition, the Company introduced a corporate executive officer system to ensure the efficient execution of operations with clearly defined responsibilities. The Corporate Management Meeting, consisting of the executive officers and chief general managers, is held two times a month to supervise the implementation of the business plan, control the budget, and review appropriate actions.

With regard to the internal audit for the Company, the Internal Audit Office, supervised by the Chief Executive Officer, is responsible for auditing the compliance of each Company organization with laws, regulations, social values, and the Company's rules. In addition, the Risk Management Committee implements internal control of compliance, information security, and risk management. Furthermore, the Company established a risk hotline system operated by an outside organization to prevent the occurrence of latent risks and minimize damage associated with risks.

Execution of Operations, Audit, and Internal Control Systems as of July 1, 2006





Financial Section



CONTENTS

- 15 Five-Year Summary
- 16 Overview of Business Performance
- 19 Consolidated Balance Sheets
- 21 Consolidated Statements of Income
- 22 Consolidated Statements of Shareholders' Equity
- 23 Consolidated Statements of Cash Flows
- 24 Notes to Consolidated Financial Statements
- 32 Report of Independent Auditors

Five-Year Summary

Wacom Co., Ltd. and Its Subsidiaries

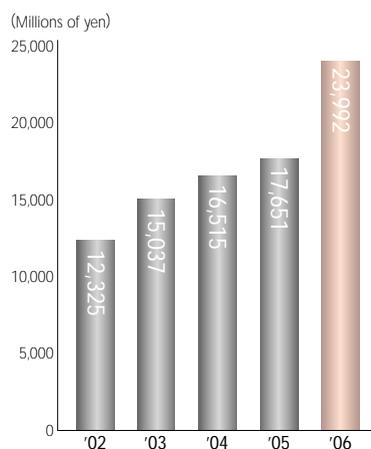
Five-Year Summary

	Thousands of yen					Thousands of U.S. dollars*
	Year ended March 31					Year ended March 31
	2002	2003	2004	2005	2006	2006
For the year:						
Net sales:	¥12,325,451	¥15,036,968	¥16,514,894	¥17,650,932	¥23,992,206	\$204,241
Gross profit	6,220,321	7,441,678	8,585,086	8,926,708	11,970,762	101,905
Operating income	402,180	1,034,784	1,702,168	1,841,358	3,424,365	29,151
Income before income taxes	430,899	936,403	1,130,868	1,717,237	3,400,678	28,949
Net income	113,760	502,763	589,098	944,392	2,145,821	18,267
At year end:						
Cash and cash equivalents at end of year	2,583,354	3,070,700	3,681,204	4,233,187	10,342,643	88,045
Total shareholders' equity	4,593,542	4,901,184	5,697,957	6,698,503	13,287,904	113,117
Total assets	11,245,636	12,299,482	12,990,943	14,109,303	21,032,863	179,048
Net income per share (yen and U.S. dollars):**						
Basic	6,577.97	28,088.55	6,154.03	9,826.49	5,420.51	46.14
Diluted	–	–	5,837.32	9,386.80	5,283.96	44.98
Total shareholders' equity ratio (%)	40.9	39.8	43.9	47.5	63.2	
Return on equity (%)	2.5	10.6	11.1	15.2	21.5	
Number of employees	426	445	420	436	465	

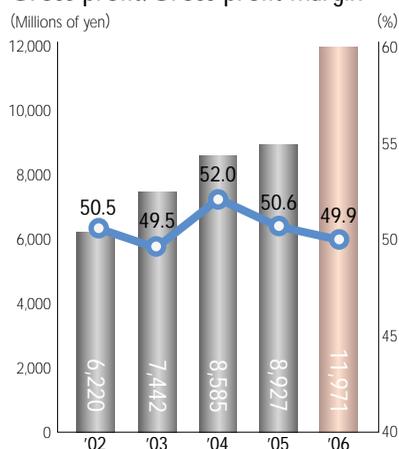
*Note 1: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117.47=U.S.\$1, the approximate exchange rate prevailing on March 31, 2006.

**Note 2: Common shares were split on a five-for-one basis on November 20, 2003 and on a four-for-one basis on November 18, 2005.

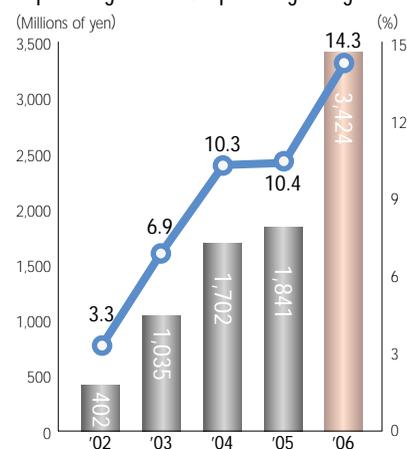
Net sales



Gross profit/Gross profit margin



Operating income/Operating margin



Overview of Business Performance

Wacom Co., Ltd. and Its Subsidiaries

Market Environment and Business Results

In the fiscal year under review, the Group operated under a generally favorable business environment despite concerns such as high international oil prices. In Japan, the economic recovery led to strong personal spending, resulting in substantial growth in the sales of home electronics, particularly flat-screen TVs, while the PC-related market stayed relatively flat with a slightly higher sales volume than in the previous year. The U.S. economy continued to expand with sustained high growth in IT-related investment, thanks to a steady gain in personal consumption, despite concerns over an economic slowdown caused by surging oil prices and large-scale destruction from hurricanes as well as other factors. In Europe, amid moderate economic growth, there were signs of steady recovery with broadening markets in Eastern Europe. In the meantime, the Chinese market continued to grow reflecting its robust economy. Asian markets other than Japan and China also performed well.

Under these circumstances, the Group focused on higher market recognition of professional pen tablets, the release of new models and market expansion for consumer pen tablets, growth in demand for professional interactive pen displays, an increase in sales of pen sensor components for Tablet PCs, reinforcing technological development, expanding operational bases in the Asian and Pacific regions, and establishing a global supply chain management (SCM) system.

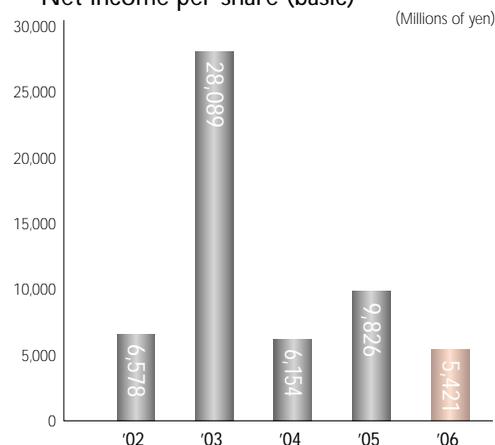
As a result of these efforts, the results of operations for the fiscal year under review achieved net sales of ¥23,992 million, or U.S.\$204 million (up 35.9% year-on-year); operating income of ¥3,424 million, or U.S.\$29 million (up 86.0% year-on-year); and net income of ¥2,146 million, or U.S.\$18 million (up 127.2% year-on-year).

Business Results by Segment

Electronic Systems and Devices (ESD) Business

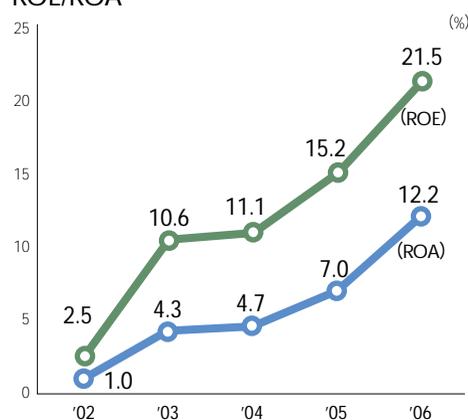
The ESD business achieved steady growth across all product lines and in all regions across the world during the term under review, although performance varied somewhat by region. Sales in the U.S. and European markets in particular reported significant increases, benefiting from expansion of the market for digital cameras along with the impact of launching new models. In terms of product lines, Intuos3, our flagship product for professionals released in the previous fiscal year, was highly acclaimed in the global market and achieved a steady increase in sales. In addition, we launched new models in the Graphire/FAVO series, a leading consumer product.

Net income per share (basic)



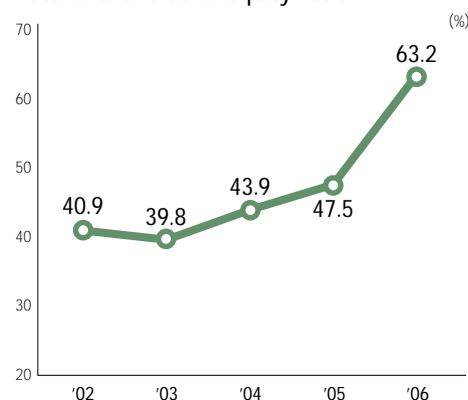
Note: Common shares were split on a five-for-one basis on November 20, 2003 and on a four-for-one basis on November 18, 2005.

ROE/ROA



Note: ROA equals net income/average total assets.

Total shareholders' equity ratio



Overview of Business Performance

Wacom Co., Ltd. and Its Subsidiaries

simultaneously in all markets, at home and abroad, in September 2005, two years after the launch of the previous model, and achieved a significant increase in sales volume for the series. In interactive pen displays, we successfully increased the sales volume of new models, including the 17-inch DTU-710 and the 21-inch Cintiq 21UX, as a result of expanding the existing market for graphic use and acquiring new users. These products were used not only by existing graphics professionals but also became popular among people in the healthcare industry as well as general business users.

The sales of component products rose due to the growth in the pen sensor business for both new and existing customers in line with the growing Tablet PC market and the addition of Tablet PC protection panels to our product line-up.

As a result, sales grew to ¥23,049 million, or U.S.\$196 million (up 37.5% year-on-year), and operating income to ¥4,575 million, or U.S.\$39 million (up 60.2% year-on-year).

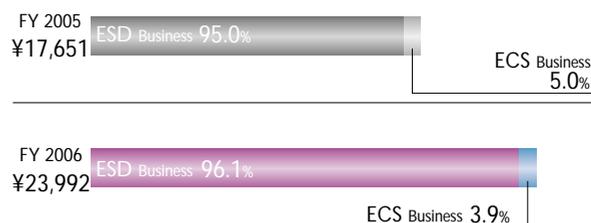
Engineering Collaborative Solutions (ECS) Business

In the ECS business, in September 2005, we launched Ver. 6.0 of ECAD/dio, our leading product for electrical CAD, which incorporates a new handwriting entry function, and in March 2006, we released Ver. 6.5 featuring Application Programming Interfaces (API) which facilitate user customization. These releases of new versions successfully stimulated replacement demand from our existing users while acquiring new users, resulting in a year-on-year rise in sales.

In the product data management (PDM) business, we shifted the focus of our sales efforts from the package sales of SMARTEAM, our mainstay product, to the service business and started operation as an IBM Japan Business Partner, a business in which we reported a slight decline in sales. However, sales for the entire ECS business exceeded the level of the previous year. As a result, sales rose to ¥943 million, or U.S.\$8 million (up 6.5% year-on-year), and operating income to ¥152 million, or U.S.\$1 million (up 38.9% year-on-year).

Sales breakdown by business

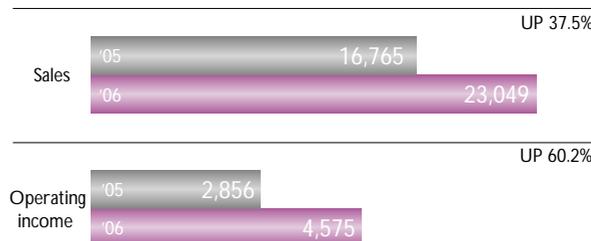
(Millions of yen)



ESD Business includes EHI Business in FY 2005

ESD Business

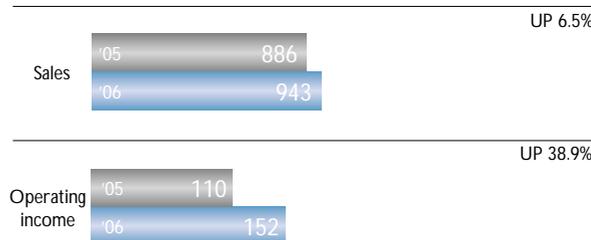
(Millions of yen)



ESD Business includes EHI Business in FY 2005

ECS Business

(Millions of yen)



Financial Position

Financial conditions

At the end of the fiscal year under review, consolidated cash and cash equivalents increased by ¥6,109 million, or U.S.\$52 million, an increase of ¥455 million, or U.S.\$4 million for the previous year, to ¥10,343 million, or U.S.\$88 million, up 144.3% year-on-year; while income before taxes grew to ¥3,401 million, or U.S.\$29 million, up 98.0%, with proceeds from an issuance of new shares reaching ¥4,356 million, or U.S.\$37 million, compared to ¥134 million, or U.S.\$1 million for the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥2,270 million, or U.S.\$19 million, up 95.4%, due primarily to strong income before income taxes of ¥3,401 million, or U.S.\$29 million, despite payments of ¥1,075 million, or U.S.\$9 million for income taxes and other expenses.

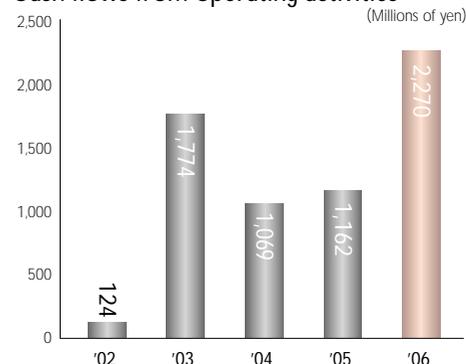
Cash flows from investing activities

Net cash used in investing activities amounted to ¥93 million, or U.S.\$0.8 million compared to ¥24 million, or U.S.\$0.2 million for the previous fiscal year, due mainly to payment of ¥232 million, or U.S.\$2 million for purchases of fixed assets and proceeds of ¥67 million, or U.S.\$0.6 million from sales of investment securities and proceeds of ¥70 million, or U.S.\$0.6 million from refunds due to cancellation of insurance contracts.

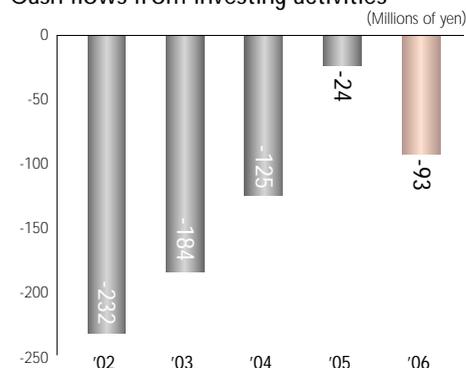
Cash flows from financing activities

Net cash provided by financing activities amounted to ¥3,720 million, or U.S.\$32 million in the term under review, while net cash used by such activities amounted to ¥723 million, or U.S.\$7 million in the previous fiscal year. This was primarily due to proceeds of ¥4,356 million, or U.S.\$37 million from an issuance of new shares and the expenditure of ¥192 million, or U.S.\$2 million for payment of cash dividends and the expenditure of ¥399 million, or U.S.\$3 million for payment of long-term debt.

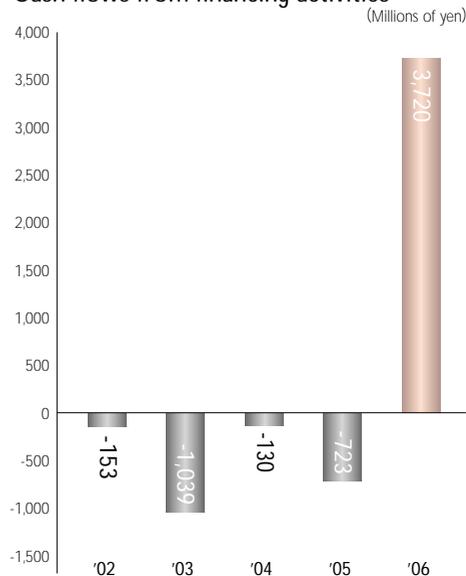
Cash flows from operating activities



Cash flows from investing activities



Cash flows from financing activities



Consolidated Balance Sheets

Wacom Co., Ltd. and Its Subsidiaries

Assets	Thousands of yen		Thousands of U.S. dollars (Note 1)
	March 31		March 31
	2005	2006	2006
Current assets:			
Cash and cash equivalents (Note 2)	¥4,233,187	¥10,342,643	\$88,045
Notes and accounts receivable, trade	2,930,391	3,085,377	26,265
Inventories (Notes 2 and 4)	1,672,650	2,555,966	21,758
Deferred tax assets (Notes 2 and 10)	233,779	340,202	2,896
Other current assets	657,144	633,573	5,393
Less: Allowance for doubtful accounts (Note 2)	(17,357)	(34,939)	(297)
Total current assets	9,709,794	16,922,822	144,060
Fixed assets:			
Property, plant and equipment (Notes 2 and 5) —			
Land	1,462,236	1,472,943	12,539
Buildings and facilities	3,182,694	3,212,108	27,344
Machinery, equipment and vehicles	131,765	154,057	1,311
Tools and furniture	1,383,712	1,360,974	11,586
	6,160,407	6,200,082	52,780
Less: Accumulated depreciation	(2,664,267)	(2,730,371)	(23,243)
Property, plant and equipment, net	3,496,140	3,469,711	29,537
Investment securities and other assets —			
Investment securities (Notes 2 and 3)	110,431	55,804	475
Software (Note 2)	423,120	363,419	3,094
Leasehold deposits	103,951	100,427	855
Deferred tax assets (Notes 2 and 10)	138,681	64,967	553
Other assets	130,763	59,226	504
Less: Allowance for doubtful accounts (Note 2)	(3,577)	(3,513)	(30)
Total investment securities and other assets	903,369	640,330	5,451
Total fixed assets	4,399,509	4,110,041	34,988
Total assets (Note 15)	¥14,109,303	¥21,032,863	\$179,048

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
	2005	2006	2006
Current liabilities:			
Short-term debt (Note 5)	¥739,400	¥1,417,600	\$12,067
Notes and accounts payable, trade	3,329,820	3,389,839	28,857
Accrued income taxes (Notes 2 and 10)	360,602	567,273	4,829
Accrued bonuses to employees	230,549	443,702	3,778
Other current liabilities	933,398	1,130,873	9,627
Total current liabilities	<u>5,593,769</u>	<u>6,949,287</u>	<u>59,158</u>
Long-term liabilities:			
Long-term debt (Note 5)	1,047,600	70,000	595
Accrued retirement benefits (Notes 2 and 6)	421,258	512,171	4,360
Other long-term liabilities	348,173	213,501	1,818
Total long-term liabilities	<u>1,817,031</u>	<u>795,672</u>	<u>6,773</u>
Commitment and contingent liabilities (Notes 11 and 14)			
Shareholders' equity (Note 7):			
Common stock,			
Authorized: 1,380,000 shares			
Issued: 412,600 shares in 2006 and			
95,955 shares in 2005	1,600,478	3,803,231	32,376
Additional paid-in capital	1,441,855	3,644,654	31,026
Retained earnings	3,628,023	5,567,934	47,399
Net unrealized gains on other securities (Notes 2 and 3)	18,956	—	—
Foreign currency translation adjustments (Note 2)	9,191	272,085	2,316
Total shareholders' equity	<u>6,698,503</u>	<u>13,287,904</u>	<u>113,117</u>
Total liabilities and shareholders' equity	<u>¥14,109,303</u>	<u>¥21,032,863</u>	<u>\$179,048</u>

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

Consolidated Statements of Income

Wacom Co., Ltd. and Its Subsidiaries

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	Year ended March 31		Year ended March 31
	2005	2006	2006
Net sales (Note 15)	¥17,650,932	¥23,992,206	\$204,241
Cost of sales (Note 15)	8,724,224	12,021,444	102,336
Gross profit	8,926,708	11,970,762	101,905
Selling, general and administrative expenses (Notes 8, 9 and 15)	7,085,350	8,546,397	72,754
Operating income	1,841,358	3,424,365	29,151
Other income:			
Interest and dividend income	23,040	48,617	414
Foreign exchange gain, net	26,236	-	-
Gain on sale of investment securities	-	43,526	371
Gain on sale of fixed assets	2,144	880	7
Gain on reversal of allowance for doubtful accounts	-	301	3
Other income	17,187	22,092	188
	68,607	115,416	983
Other expenses:			
Interest expenses	35,746	36,768	313
Foreign exchange loss, net	-	12,866	110
Stock issuance expenses	1,157	49,170	418
Loss on sale of fixed assets	75,568	371	3
Loss on disposal of fixed assets	3,835	12,289	105
Additional retirement benefit for directors	19,626	-	-
Loss on write-down of investment	1,200	-	-
Loss on sale of membership	1,753	-	-
Loss on write-down of membership	-	10,301	88
Amortization of transition obligation (Notes 2 and 6)	27,644	-	-
Loss on refund of insurance fund	7,076	8,481	72
Other expenses	19,123	8,857	76
	192,728	139,103	1,185
Income before income taxes	1,717,237	3,400,678	28,949
Income taxes (Notes 2 and 10):			
Current	642,539	1,282,293	10,915
Deferred	130,306	(27,436)	(233)
	772,845	1,254,857	10,682
Net income	¥944,392	¥2,145,821	\$18,267
Per share of common stock (Note 13):			
Net income		Yen	U.S. dollars (Note 1)
Basic	¥9,826.49	¥5,420.51	\$46.14
Diluted	9,386.80	5,283.96	44.98
Cash dividends applicable to the year	¥2,000.00	¥1,000.00	\$8.51

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

Consolidated Statements of Shareholders' Equity

Wacom Co., Ltd. and Its Subsidiaries

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	Year ended March 31		Year ended March 31
	2005	2006	2006
Common stock:			
Beginning of period	¥1,533,050	¥1,600,478	\$13,625
Public stock offering	—	1,830,800	15,585
Allocation of new shares to a third party	—	274,620	2,338
Exercise of warrants	67,428	97,333	828
End of period	¥1,600,478	¥3,803,231	\$32,376
Additional paid-in capital:			
Beginning of period	¥1,374,290	¥1,441,855	\$12,274
Public stock offering	—	1,830,800	15,585
Allocation of new shares to a third party	—	274,620	2,338
Exercise of warrants	67,565	97,379	829
End of period	¥1,441,855	¥3,644,654	\$31,026
Retained earnings:			
Beginning of period	¥2,887,171	¥3,628,023	\$30,885
Add —			
Net income	944,392	2,145,821	18,267
Deduct —			
Cash dividends paid	188,040	191,910	1,634
Bonuses to directors and statutory corporate auditors	15,500	14,000	119
End of period	¥3,628,023	¥5,567,934	\$47,399
Net unrealized gains on other securities (Notes 2 and 3):			
Beginning of period	¥6,236	¥18,956	\$161
Add/(Deduct)	12,720	(18,956)	(161)
End of period	¥18,956	¥ —	\$ —
Foreign currency translation adjustments (Note 2):			
Beginning of period	(¥102,790)	¥9,191	\$78
Add	111,981	262,894	2,238
End of period	¥9,191	¥272,085	\$2,316

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

Consolidated Statements of Cash Flows

Wacom Co., Ltd. and Its Subsidiaries

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	Year ended March 31		Year ended March 31
	2005	2006	2006
Cash flows from operating activities:			
Income before income taxes	¥1,717,237	¥3,400,678	\$28,949
Adjustments to reconcile income before income taxes to net cash provided by operating activities —			
Depreciation and amortization	373,532	365,156	3,108
Gain on sale of investment securities	—	(43,526)	(371)
Gain on sale of fixed assets	(2,144)	(880)	(7)
Loss on sale and disposal of fixed assets	79,403	12,660	108
Loss on write-down of investment	1,200	—	—
Loss on sale of membership	1,753	—	—
Loss on write-down of membership	—	10,301	88
Other, net	31,522	7,604	65
Changes in assets and liabilities —			
(Increase) decrease in notes and accounts receivable	(715,747)	13,138	112
Increase in inventories	(233,160)	(813,204)	(6,922)
Increase (decrease) in notes and accounts payable	850,248	(4,393)	(38)
(Decrease) increase in reserve for bonuses charged to expenses	(33,540)	205,526	1,750
Increase in accrued retirement benefits	40,585	90,304	769
Other, net	22,968	86,623	737
Sub total	2,133,857	3,329,987	28,348
Litigation settlement paid	(433,039)	—	—
Interest and dividends received	23,256	48,617	413
Interest paid	(36,534)	(33,225)	(283)
Income taxes paid	(525,446)	(1,075,204)	(9,153)
Net cash provided by operating activities	1,162,094	2,270,175	19,325
Cash flows from investing activities:			
Payments for purchases of fixed assets	(198,370)	(232,142)	(1,976)
Proceeds from sale of fixed assets	74,626	6,287	54
Payments for purchases of investment securities	(5,751)	—	—
Proceeds from sale of investment securities	—	66,882	569
Decrease in time deposits	141,134	—	—
Increase in insurance funds	(32,315)	(5,873)	(50)
Proceeds from refund of insurance funds	36,149	70,117	597
Other, net	(39,516)	2,153	19
Net cash used in investing activities	(24,043)	(92,576)	(787)
Cash flows from financing activities:			
(Decrease) increase in short-term debt, net	(200,000)	100,000	851
Payments of long-term debt	(324,200)	(399,400)	(3,400)
Payments of other long-term liabilities	(145,010)	(144,535)	(1,230)
Dividends paid	(188,040)	(191,910)	(1,634)
Proceeds from issuance of stock	134,044	4,356,335	37,085
Net cash (used in) provided by financing activities	(723,206)	3,720,490	31,672
Effect of exchange rate changes on cash and cash equivalents	39,665	211,367	1,799
Net increase in cash and cash equivalents	454,510	6,109,456	52,009
Cash and cash equivalents at beginning of year	3,681,204	4,233,187	36,036
Increase resulting from inclusion of a consolidated subsidiary in the scope of consolidation	97,473	—	—
Cash and cash equivalents at end of year (Note 2)	¥4,233,187	¥10,342,643	\$88,045

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

Notes to Consolidated Financial Statements

Wacom Co., Ltd. and Its 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 presented for the convenience of the readers.

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 JP¥117.47 = U.S.\$1.00, the approximate rate of exchange on March 31, 2006. 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.

The assets and liabilities of its 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 and present an insignificant risk of changes in value.

(3) Financial investment

(a) Derivatives:

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

(b) Securities:

Securities held by the Company and its 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 price or 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 held by the Company are stated at cost, which is mainly determined by the average method.

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

(6) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. 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 expenses are charged to income as incurred. Major replacement and improvement expenses 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 a 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 except for, as permitted under the standard, the unrecognized transition obligation and the unrecognized actuarial differences. The unrecognized transition obligation is amortized on a straight-line basis over 5 years, and the unrecognized actuarial differences are amortized on a straight-line basis over 5 years from the year after that 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 that 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) Impairment of fixed assets

On August 9, 2002, the Business Accounting Council of Japan issued a new accounting standard entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guideline No. 6 - "Application Guidance on Accounting Standards for Impairment of Fixed Assets." These standards are effective from the fiscal year beginning April 1, 2005.

The Company adopted these standards in the fiscal year ended March 31, 2006. As a result, this adoption had no effect on fixed assets and profit.

(14) Reclassifications

Certain reclassifications of the financial statements and related footnote amounts in the year ended March 31, 2005 have been made to conform to the presentation in the year ended March 31, 2006.

3. Investment securities:

The following is certain information relating to the aggregate acquisition cost and market value of securities in fiscal year 2005.

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

	Thousands of yen		
	March 31, 2005		
	Acquisition cost	Market value (= Book carrying amount)	Unrealized gains (losses)
Other securities whose market price or quotations exceed their acquisition cost			
Share stocks	¥23,244	¥54,679	¥31,435
Debt securities			
Government bonds, Municipal bonds, etc.	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	-	-	-
	23,244	54,679	31,435
Other securities whose market price or quotations do not exceed their acquisition cost			
Share stocks	-	-	-
Debt securities			
Government bonds, Municipal bonds, etc.	-	-	-
Corporate bonds	108	108	-
Others	-	-	-
Others	-	-	-
	108	108	-
Total	¥23,352	¥54,787	¥31,435

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

There are no "Other securities" sold in the current fiscal year.

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

	Thousands of yen	
	March 31, 2005	
	Book carrying amount	
Held-to-maturity debt securities	¥ -	
Share stocks invested in affiliates	-	
Other securities		
Share stocks not listed in the market	55,643	
	¥55,643	

The following is certain information relating to the aggregate acquisition cost and market value of securities in fiscal year 2006.

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

There are not any items which should be disclosed in this section.

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

	Thousands of	
	Thousands of yen	U.S. dollars
	March 31, 2006	
Proceeds from sales of "Other securities"	¥66,882	\$569
Gain on sales of "Other securities"	43,526	371
Loss on sales of "Other securities"	-	-

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

	Thousands of	
	Thousands of yen	U.S. dollars
	March 31, 2006	
	Book carrying amount	
Held-to-maturity debt securities	¥ -	\$ -
Share stocks invested in affiliates	-	-
Other securities		
Share stocks not listed on the market	55,804	475
	¥55,804	\$475

4. Inventories

Inventories comprise the following:

	Thousands of yen		Thousands of
	March 31		U.S. dollars
	2005	2006	March 31
Finished goods	¥1,062,563	¥1,993,551	\$16,971
Work-in-process	144,776	140,706	1,198
Raw materials	465,311	421,709	3,589
	¥1,672,650	¥2,555,966	\$21,758

5. Short and long-term debt:

Short-term debt at March 31, 2005 and 2006 includes short-term bank loans of ¥500,000 thousand and ¥600,000 thousand (\$5,107 thousand) with annual average interest rates of 1.060% and 0.699%, current portion of long-term bank loans of ¥239,400 thousand and ¥117,600 thousand (\$1,001 thousand) with annual average interest rates of 2.427% and 1.834%, and current portion of unsecured standard bonds of nil and ¥700,000 thousand (\$5,958 thousand) with annual average interest rates of nil and 0.842%, respectively.

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

	Thousands of yen		Thousands of
	March 31		U.S. dollars
	2005	2006	March 31
Unsecured standard bond due 2006 with interest rate of 1.100% per annum	¥500,000	¥500,000	\$ 4,256
Unsecured floating rate bond due 2007 (0.200% at March 31, 2006)	200,000	200,000	1,702
Secured bank loans due 2006 to 2008 with average interest rates of 1.834 % per annum	583,000	187,600	1,597
Unsecured bank loans due May 25, 2005 with interest rate of 2.150% per annum	4,000	-	-
Less: Portion due within one year	(239,400)	(817,600)	(6,960)
	¥1,047,600	¥70,000	\$595

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

Year ending	Thousands of	Thousands of
March 31	yen	U.S. dollars
2007	¥817,600	\$6,960
2008	70,000	595
2009	-	-
2010	-	-
2011	-	-
	¥887,600	\$7,555

The following assets are pledged as security for short-term borrowings and long-term debt at March 31, 2005 and 2006.

	Thousands of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2006	2006
Buildings and facilities	1,477,564	1,153,184	9,817
Land	1,348,168	1,125,168	9,578
	<u>¥2,825,732</u>	<u>¥2,278,352</u>	<u>\$19,395</u>

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

*Note: These patents above were pledged only for the year ended March 31, 2005.

6. Accrued retirement benefits:

The Company has an unfunded retirement allowance plan (the "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 multi-employer pension plan, which covers substantially all of its employees and provides for benefits under the governmental welfare pension benefit plan, which would be otherwise provided by the Japanese government.

As the Company joins this multi-employer pension plan out of its retirement allowance plan, this multi-employer pension plan is excluded from the calculation of projected benefit obligation, pension assets and net periodic pension expense. Its pension assets calculated by the ratio of the number of members are ¥722,675 thousand and ¥808,798 thousand (\$6,885 thousand) for 2005 and 2006, respectively, and contributions to this multi-employer pension plan are ¥54,292 thousand and ¥69,837 thousand (\$594 thousand) for 2005 and 2006, respectively.

Some foreign subsidiaries have defined contribution pension plans.

The accrued retirement benefits for employees as of March 31, 2005 and 2006 can be analyzed as follows:

	Thousands of yen		Thousands of U.S. dollars
	2005	2006	2006
(1) Projected benefit obligation	(¥286,213)	(¥311,876)	(\$2,655)
(2) Unrecognized actuarial loss (gain)	20,679	18,830	160
(3) Accrued retirement benefits for employees (1) + (2)	<u>(¥265,534)</u>	<u>(¥293,046)</u>	<u>(\$2,495)</u>

The components of the net periodic pension expense for the years ended March 31, 2005 and 2006 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2005	2006	2006
(1) Service cost	¥34,528	¥35,892	\$305
(2) Interest cost	5,564	5,637	48
(3) Recognized actuarial loss	2,525	4,044	34
(4) Amortization of transition obligation	27,644	-	-
(5) Net periodic pension expense	<u>¥70,261</u>	<u>¥45,573</u>	<u>\$387</u>

The assumptions used as of March 31, 2005 and 2006 are as follows:

	2005	2006
(1) Discount rate	2.0%	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	-
(4) Amortization of unrecognized actuarial differences	Straight-line over 5 years	Straight-line over 5 years

The accrued retirement benefits as of March 31, 2005 and 2006 include accrued severance indemnities for directors and statutory corporate auditors, amounting to ¥155,724 thousand and ¥219,125 thousand (\$1,865 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 2006 year-end appropriation of retained earnings of the Company, which was approved at the General Meeting of Shareholders held in June 2006, is presented below:

	Thousands of yen	Thousands of U.S. dollars
Appropriation for:		
Cash dividends, ¥1,000.00 (\$8.51) per share	¥412,600	\$3,512
Bonuses to directors and statutory corporate auditors	28,000	238
	<u>¥440,600</u>	<u>\$3,750</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, amount to ¥735,476 thousand and ¥773,046 thousand (\$6,580 thousand) for the years ended March 31, 2005 and 2006, 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		
	Year ended March 31 2005	Year ended March 31 2006	March 31 2006
Advertising expenses	¥912,798	¥1,095,727	\$9,328
Provision for allowance for doubtful accounts	6,536	19,573	167
Salaries	1,638,268	1,904,750	16,215
Pension expenses	55,507	64,780	551
Provisions for severance indemnities of directors and statutory corporate auditors	99,787	63,401	540
Provisions for bonuses to employees	248,104	442,507	3,767
Others	4,124,350	4,955,659	42,186
Total	¥7,085,350	¥8,546,397	\$72,754

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 39.7%, for the years ended March 31, 2005 and 2006.

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

	Thousands of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Foreign tax credit	¥233,099	¥115,655	\$984
Accrued expenses	19,164	33,100	282
Accrued retirement benefits	99,877	113,728	968
Accrued bonuses	66,729	106,264	905
Inventory-intercompany profit	97,190	95,837	816
Accrued severance indemnities for directors and statutory corporate auditors	67,062	86,992	741
Write-down of investment securities	51,181	44,966	383
Enterprise tax	38,490	36,460	310
Software development costs	21,520	40,698	346
Lump-sum depreciation assets	14,560	17,470	149
Others	20,803	14,026	119
Gross deferred tax assets	729,675	705,196	6,003
Less-Valuation allowance	(233,099)	(115,655)	(985)
Total deferred tax assets	496,576	589,541	5,018
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries	(111,636)	(184,372)	(1,569)
Unrealized gains on other securities	(12,480)	-	-
Total deferred tax liabilities	(124,116)	(184,372)	(1,569)
Net deferred tax assets	¥372,460	¥405,169	\$3,449

The reconciliation between the statutory tax rate and the income tax rate in the consolidated statements of income for the years ended March 31, 2005 and 2006 is as follows:

	March 31, 2005	March 31, 2006
Statutory effective tax rate	39.7%	39.7%
(Reconciliation)		
Non deductible expenses for tax purposes	1.4	0.7
Equalization tax	0.6	0.3
International tax rate differences	(1.7)	(0.7)
Foreign tax credit	7.9	-
Valuation allowance	2.1	-
Tax credit of corporation tax	(5.0)	(2.4)
Others	-	(0.7)
Effective income tax rate	45.0%	36.9%

11. Leases:

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases; leases that 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 subsidiaries, as a lessee, is shown below:

(1) Capital leases, which do not transfer ownership of the assets to the lessee, are as follows:

a) Acquisition costs of leased assets under capital leases are as follows:

	Thousands of yen		Thousands of U.S. dollars
	March 31		
	2005	2006	2006
Machinery, equipment and vehicles	¥8,021	¥8,021	\$68
Tools and furniture	27,825	24,434	208
Software	46,240	46,240	393
Accumulated depreciation	(37,384)	(45,056)	(383)
Total	¥44,702	¥33,639	\$286

b) Future lease payments under capital leases are as follows:

	Thousands of yen		Thousands of U.S. dollars
	March 31		
	2005	2006	2006
Due within one year	¥15,264	¥14,803	\$126
Due after more than one year	32,432	23,924	203
	¥47,696	¥38,727	\$329

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

	Thousands of yen		Thousands of U.S. dollars
	March 31		
	2005	2006	2006
Lease payments	¥15,665	¥15,506	\$132
Amount representing depreciation	¥14,430	¥16,501	\$140
Amount representing interest	¥821	¥585	\$5

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

	Thousands of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2006	2006
Due within one year	¥11,116	¥18,523	\$157
Due after one year	21,382	24,211	206
Total minimum lease payments	¥32,498	¥42,734	\$363

There are no impairment losses allocated to leased assets.

12. Derivatives:

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Company's business. Accordingly, the market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Company does not hold derivatives for trading or speculative purposes. Because the counterparties to these derivatives are limited to major international finance institutions, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been come out in accordance with internal policies which regulate the authorization and credit limit amount.

Certain information on outstanding derivative contracts is shown below.

	Thousands of yen		
	March 31, 2005		
	Contract amount	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts: To sell U.S. dollars	¥295,596	¥298,457	¥2,861

	Thousands of yen		
	March 31, 2006		
	Contract amount	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts: To sell U.S. dollars	¥ –	¥ –	¥ –
To sell Euros	140,665	141,867	(1,202)

	Thousands of U.S. dollars		
	March 31, 2006		
	Contract amount	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts: To sell U.S. dollars	\$ –	\$ –	\$ –
To sell Euros	1,197	1,207	(10)

13. Earnings per share information:

Basic net income per share for the years ended March 31, 2005 and 2006 amounts to ¥9,826.49 and ¥5,420.51 (\$46.14), respectively. Diluted net income per share amounts to ¥9,386.80 and ¥5,283.96 (\$44.98) for 2005 and 2006, respectively.

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, as shown below.

	Thousands of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2006	2006
Basic net income per share:			
Net income	¥944,392	¥2,145,821	\$18,267
Amounts not attributable to the common shareholders	(14,000)	(28,000)	(238)
Net income attributable to the common shareholders	¥930,392	¥2,117,821	\$18,029
Weighted-average number of common shares outstanding during each fiscal year (unit: shares)	94,682	390,705	390,705
Diluted net income per share:			
Adjustments to net income	¥ –	¥ –	\$ –
Increase in the number of common shares outstanding during each fiscal year that would result in exercising options to issue new shares (unit: shares)	4,435	10,097	10,097

The following are the stock options granted to directors and employees which would result in an increase in the number of common shares with the following exercise prices.

	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	to June 26, 2008
	June 24, 2004	300	¥1,230,900	From June 25, 2006 to June 24, 2009
	June 23, 2005	200	242,865	From June 24, 2007 to June 23, 2010
		7,110		

14. Contingent liabilities:

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

15. Segment information:

(1) Segments by industry

	Thousands of yen						
	March 31, 2005					Elimination/ Corporate	Consolidated
	ESD business	ECS business	EHI business	Total			
I. Net sales:							
(1) Outside customers	¥16,733,150	¥885,798	¥31,984	¥17,650,932	¥ -	¥17,650,932	
(2) Inter-segment	-	-	-	-	(-)	-	
Total	16,733,150	885,798	31,984	17,650,932	(-)	17,650,932	
Operating expenses	13,806,846	776,072	102,727	14,685,645	1,123,929	15,809,574	
Operating income	¥2,926,304	¥109,726	(¥70,743)	¥2,965,287	(¥1,123,929)	¥1,841,358	
II. Assets, depreciation and capital expenditure:							
Assets	¥8,915,363	¥485,265	¥41,868	¥9,442,496	¥4,666,807	¥14,109,303	
Depreciation	219,638	23,961	3,348	246,947	126,585	373,532	
Capital expenditure	213,192	3,326	76	216,594	100,175	316,769	

	Thousands of yen						
	March 31, 2006					Elimination/ Corporate	Consolidated
	ESD business	ECS business	Total				
I. Net sales:							
(1) Outside customers	¥23,048,789	¥943,417	¥23,992,206	¥ -	¥23,992,206		
(2) Inter-segment	-	-	-	(-)	-		
Total	23,048,789	943,417	23,992,206	(-)	23,992,206		
Operating expenses	18,473,856	790,971	19,264,827	1,303,014	20,567,841		
Operating income	¥4,574,933	¥152,446	¥4,727,379	(¥1,303,014)	¥3,424,365		

Thousands of U.S. dollars						
March 31, 2006						
	ESD business	ECS business	Total	Elimination/ Corporate	Consolidated	
I. Net sales:						
(1) Outside customers	\$196,210	\$8,031	\$204,241	\$ -	\$204,241	
(2) Inter-segment	-	-	-	(-)	-	
Total	196,210	8,031	204,241	(-)	204,241	
Operating expenses	157,264	6,733	163,997	11,093	175,090	
Operating income	\$38,946	\$1,298	\$40,244	(\$11,093)	\$29,151	
II. Assets, depreciation and capital expenditure:						
Assets	\$99,466	\$4,912	\$104,378	\$74,670	\$179,048	
Depreciation	1,713	369	2,082	1,026	3,108	
Capital expenditure	1,803	374	2,177	92	2,269	

Notes:

- Segment information by business activity is determined in consideration of the product line and management control of the business.
- The main products of each business segment:
 - ESD business: Professional graphics tablet, Consumer graphics tablet, LCD tablet, Pen sensor component
 - ECS business: ECAD/duo, SMARTTEAM
- Corporate expenses mainly include the administrative expenses of the Company.
- Corporate assets mainly include cash, investment securities and assets belonging to the general and administrative departments of the Company.
- As EHI department was integrated with ESD department effective from this fiscal year, segment information for EHI business is included in ESD business. This change resulted in insignificant impact on the segment information.

(2) Geographic areas

	Thousands of yen						
	March 31, 2005					Elimination/ Corporate	Consolidated
	Japan	U.S.A.	Europe	Asia	Total		
I. Net sales:							
(1) Outside customers	¥9,385,582	¥4,509,266	¥3,385,636	¥370,448	¥17,650,932	¥ -	¥17,650,932
(2) Inter-segment	4,312,222	106,741	164,810	13,305	4,597,078	(4,597,078)	-
Total	13,697,804	4,616,007	3,550,446	383,753	22,248,010	(4,597,078)	17,650,932
Operating expenses	12,015,423	3,679,488	3,069,070	465,311	19,229,292	(3,419,718)	15,809,574
Operating income (loss)	¥1,682,381	¥936,519	¥481,376	(¥81,558)	¥3,018,718	(¥1,177,360)	¥1,841,358
II. Assets	¥7,629,019	¥2,226,531	¥1,360,898	¥235,422	¥11,451,870	¥2,657,433	¥14,109,303

	Thousands of yen						
	March 31, 2006					Elimination/ Corporate	Consolidated
	Japan	U.S.A.	Europe	Asia/ Oceania	Total		
I. Net sales:							
(1) Outside customers	¥11,305,478	¥6,477,616	¥4,983,442	¥1,225,670	¥23,992,206	¥ -	¥23,992,206
(2) Inter-segment	6,997,712	148,960	150,098	74,418	7,371,188	(7,371,188)	-
Total	18,303,190	6,626,576	5,133,540	1,300,088	31,363,394	(7,371,188)	23,992,206
Operating expenses	15,851,924	5,392,638	4,171,090	1,104,981	26,520,633	(5,952,792)	20,567,841
Operating income	¥2,451,266	¥1,233,938	¥962,450	¥195,107	¥4,842,761	(¥1,418,396)	¥3,424,365
II. Assets	¥8,345,111	¥3,311,950	¥2,048,939	¥673,940	¥14,379,940	¥6,652,923	¥21,032,863

	Thousands of U.S. dollars						
	March 31, 2006					Elimination/ Corporate	Consolidated
	Japan	U.S.A.	Europe	Asia/ Oceania	Total		
I. Net sales:							
(1) Outside customers	\$96,241	\$55,143	\$4,423	\$10,434	\$204,241	\$ -	\$204,241
(2) Inter-segment	59,570	1,268	1,278	633	62,749	(62,749)	-
Total	155,811	56,411	43,701	11,067	266,990	(62,749)	204,241
Operating expenses	134,944	45,907	35,508	9,406	225,765	(50,675)	175,090
Operating income	\$20,867	\$10,504	\$8,193	\$1,661	\$41,225	(\$12,074)	\$29,151
II. Assets	\$71,040	\$28,194	\$17,442	\$5,737	\$122,413	\$56,635	\$179,048

Notes:

- Segment information by geographic area is determined, taking account of geographic area where the Company or its subsidiaries are located.
- The countries in each geographic segment excluding Japan and U.S.A.:
 - Europe: Germany, The United Kingdom
 - Asia/ Oceania: China, South Korea, Australia
- Corporate expenses mainly include the administrative expenses of the Company.
- Corporate assets mainly include cash, investment securities and assets belonging to the general and administrative departments of the Company.
- As Wacom Australia, a wholly owned subsidiary of the Company, was established in April 2005, "Asia / Oceania" is named for Asia. The amounts of net sales, operating expenses, and operating income in China for the period ended March 31, 2006 are ¥565,000 thousand (\$4,809 thousand), ¥512,587 thousand (\$4,363 thousand), and ¥52,413 thousand (\$446 thousand), respectively. The amounts of net sales, operating expenses and operating income in South Korea for the same period are ¥670,128 thousand (\$5,704 thousand), ¥534,628 thousand (\$4,551 thousand), and ¥135,500 thousand (\$1,153 thousand), respectively.

(3) Overseas sales

	Thousands of yen			
	March 31, 2005			
	North America	Europe	Others	Total
I. Overseas sales	¥4,700,391	¥3,169,746	¥3,202,576	¥11,072,713
II. Consolidated sales	-	-	-	17,650,932
III. Percentage of overseas sales to consolidated sales	26.6%	18.0%	18.1%	62.7%

	Thousands of yen			
	March 31, 2006			
	North America	Europe	Others	Total
I. Overseas sales	¥6,598,445	¥4,734,920	¥4,957,105	¥16,290,470
II. Consolidated sales	-	-	-	23,992,206
III. Percentage of overseas sales to consolidated sales	27.5%	19.7%	20.7%	67.9%

	Thousands of U.S. dollars			
	March 31, 2006			
	North America	Europe	Others	Total
I. Overseas sales	\$56,171	\$40,307	\$42,199	\$138,677
II. Consolidated sales	-	-	-	204,241
III. Percentage of overseas sales to consolidated sales	27.5%	19.7%	20.7%	67.9%

Notes:

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

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

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

Report of Independent Auditors

To the Board of Directors
and Shareholders of Wacom Co., Ltd.

We have audited the accompanying consolidated balance sheets of Wacom Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wacom Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 30, 2006

Corporate Data

(As of July 1, 2006)

Established	July 12, 1983	Head Office / Factory	2-510-1 Toyonodai Otonemachi, Kita Saitama-Gun, Saitama 349-1148, Japan TEL: +81-480-78-1211 (Main) FAX: +81-480-78-1220
Capital	¥3.8 billion (As of March 31, 2006)	Branch / Offices	Tokyo Branch Harmony Tower 18th Floor, 1-32-2 Hon-cho, Nakano-ku, Tokyo 164-0012, Japan
Employees	Consolidated: 465 Non-consolidated: 297 (As of March 31, 2006)		Nagoya Office Origin Nishiki Bldg. 8th Floor, 1-6-17 Nishiki Naka-ku, Nagoya-shi, Aichi 460-0003, Japan
Business Segments	1. Electronic Systems and Devices (ESD) Business Development, manufacture, and sale of computer input devices <ul style="list-style-type: none">• Professional pen tablets• Consumer pen tablets• Interactive pen displays• Pen sensor components 2. Engineering Collaborative Solutions (ECS) Business Development, manufacture, sale, support, and maintenance of industrial systems <ul style="list-style-type: none">• Electronic design CAD software• PDM/SMARTTEAM		Osaka Office Shogyo 2nd Bldg. 6th Floor, 5-4-9 Toyosaki Kita-ku, Osaka-shi, Osaka 531-0072, Japan
Banks	Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Saitama Resona Bank, Ltd.		Fukuoka Office Sumitomo Hakata Ekimae Daini Bldg. 5th Floor, 2-6-23 Hakataeki Higashi, Hakata-ku Fukuoka-shi, Fukuoka 812-0013, Japan
		Overseas Affiliates	Wacom Technology Corporation (U.S.A.) 1311 SE Cardinal Court, Vancouver, WA 98683, U.S.A.
			Wacom Europe GmbH (Germany) Europark Fichtenhain A9 D-47807, Krefeld, Germany
			Wacom China Corporation (China) 1108, Block One, Kuntai International Bldg., 12 Chao Wai Street, Chao Yang District, Beijing, China 100020
			Wacom Components Europe Ltd. (UK) 322 Cambridge Science Park Milton Road, Cambridge CB4 0WG England
			Wacom Digital Solutions Co., Ltd. (Korea) Gangnam Telepia B/D 9th Floor, 662-18, Yeoksam-dong, Gangnam-gu, Seoul, 135-080, Korea
			Wacom Australia Pty. Ltd. (Australia) Level 5, 18 Orion Rd, Lane Cove West NSW 2066, Australia
			Wacom Singapore Pte Ltd. (Singapore) 3 Bishan Place, CPF Bishan Building #06-08 Singapore 579838

Investor Information

(As of March 31, 2006)

Stock Exchange Listing

Tokyo Stock Exchange First Section, Jasdq Securities Exchange (Trade code 6727)

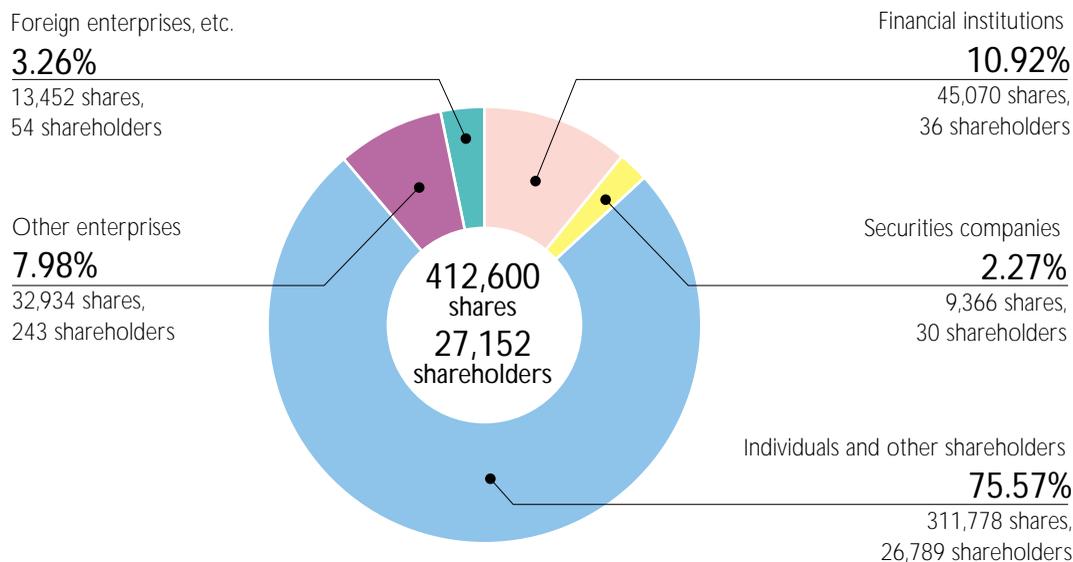
Share Data

Total number of shares to be issued	1,380,000
Total number of issued shares	412,600
Number of shareholders	27,152

Major Shareholders

Name of shareholder	Number of shares owned	Percentage of voting rights (%)
Yoji Eto	41,920	10.16
Japan Trustee Services Bank, Ltd. (Trust Account)	13,928	3.38
Wilnau Co.	12,100	2.93
Japan Securities Finance Co., Ltd.	10,596	2.57
Masahiko Yamada	7,420	1.80
OHJIC Co., Ltd.	6,020	1.46
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,662	1.37
USI Japan Co., Ltd.	5,600	1.36
Yoshimi Ogawa	5,500	1.33
Koichi Noda	4,208	1.02

Shareholder Distribution





Wacom Co., Ltd.

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

