

FY24-1H (Apr.-Sep. 2006)

Business Report

Wacom Co., Ltd.

(TSE Sec.1 6727)

Oct. 31, 2006



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Consolidated 1H Result Summary

- **Sales:** **+22.8%**
 - ESD Business: **+23.4%**
 - ECS Business: **+7.9%**

- **Operating Profit:** **+64.3%**
 - ESD Business: **+57.5%**
 - ECS Business: **+13.7%**

- **Recurring Profit:** **+69.9%**
 - Interest income +¥43m, Tax refunds ¥54m

- **Net Profit (aft. Tax):** **+60.4%**

Consolidated P/L



(m¥)

| | FY23-1H | FY24-1H | YoY Growth | |
|----------------------------|---------|---------|------------|-------|
| | '05/4-9 | '06/4-9 | Amount | Ratio |
| Sales | 10,884 | 13,362 | 2,479 | 22.8% |
| Gross Profit | 5,247 | 6,792 | 1,545 | 29.5% |
| GPM | 48.2% | 50.8% | | |
| Operating Profit | 1,191 | 1,957 | 766 | 64.3% |
| OPM | 10.9% | 14.6% | | |
| Recurring Profit | 1,202 | 2,041 | 839 | 69.9% |
| Net Profit aft. Tax | 760 | 1,219 | 459 | 60.4% |

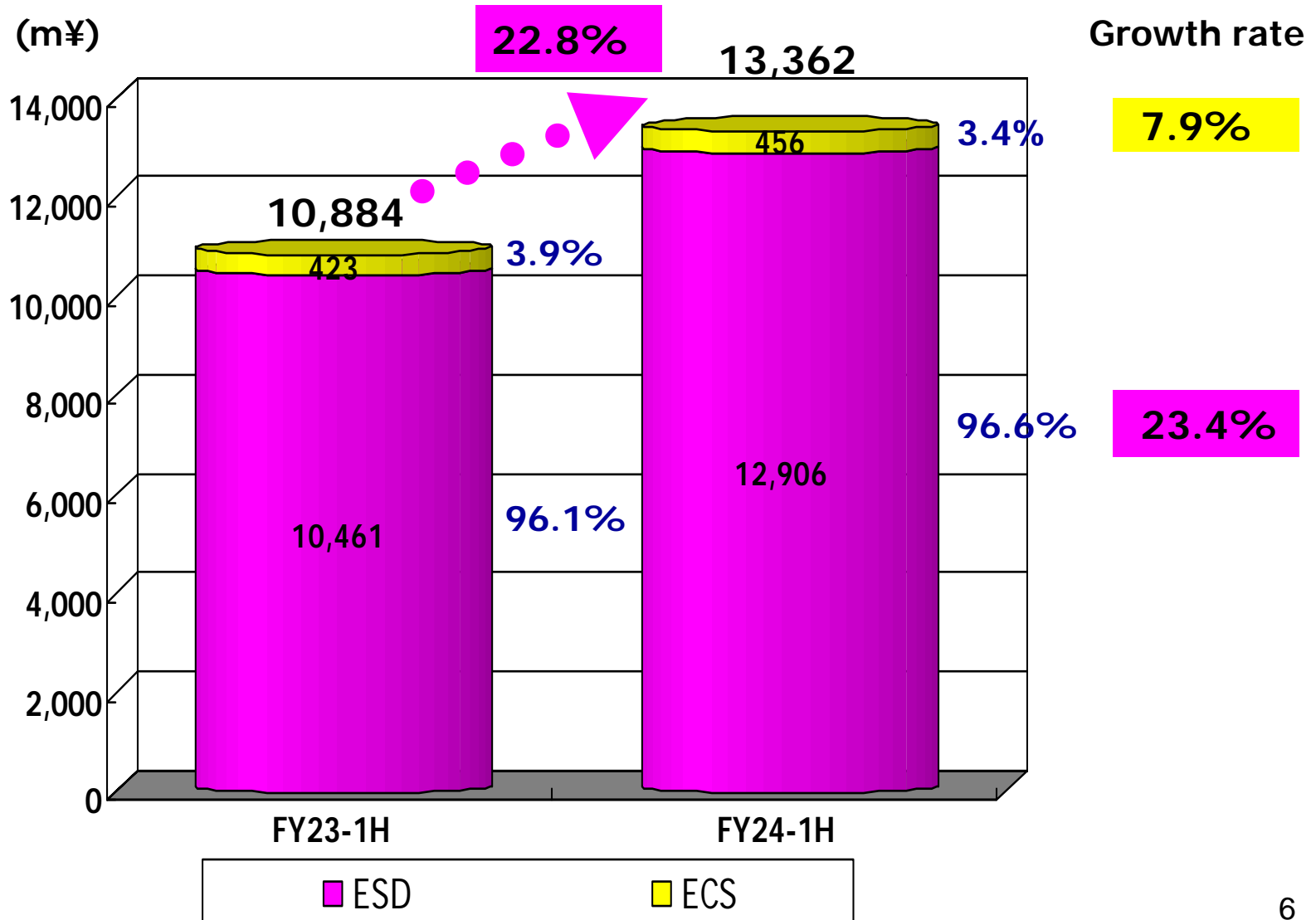
Consolidated Result by Business Segment



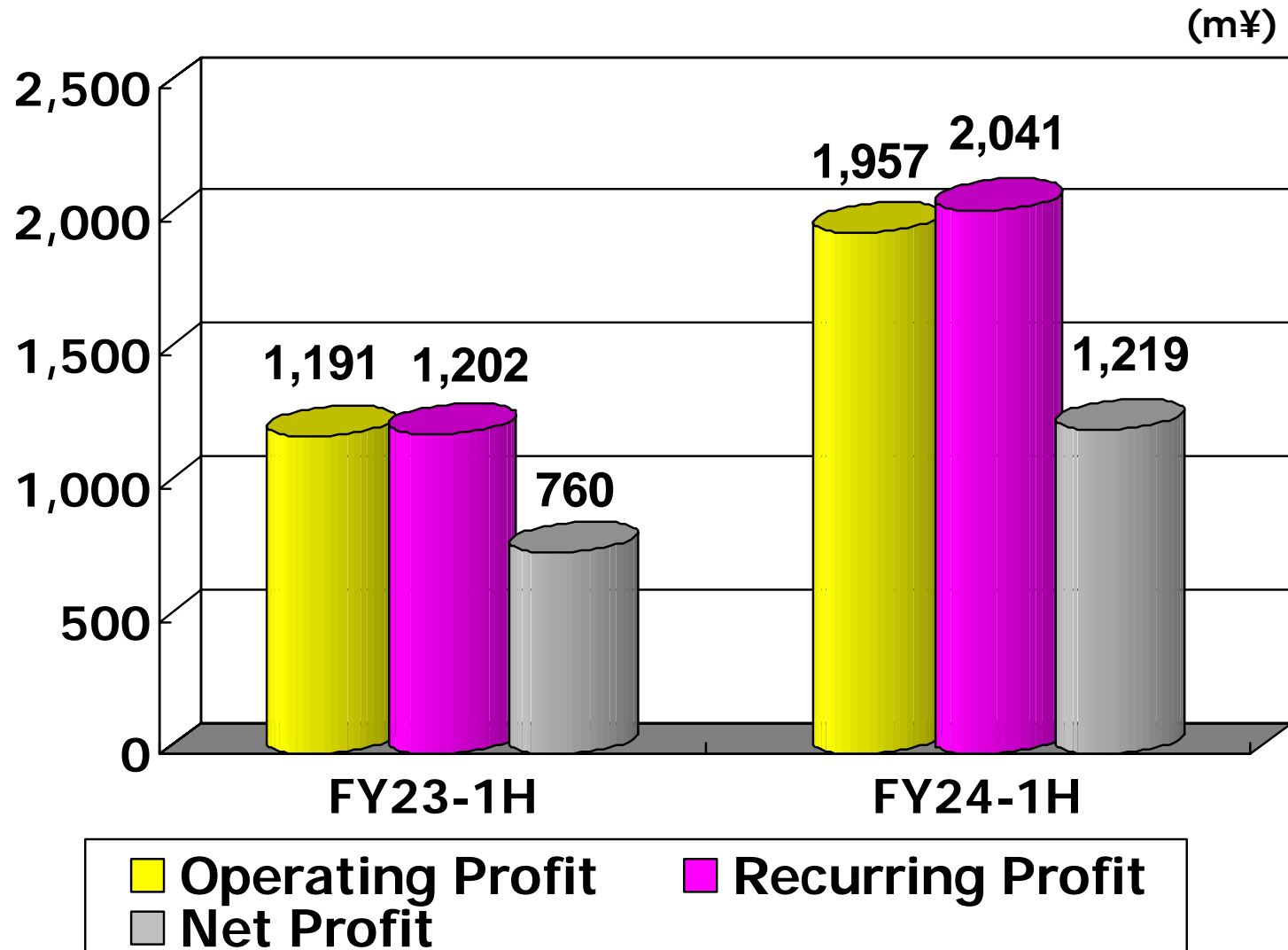
(m¥)

| | FY23-1H | FY24-1H | YoY Growth | |
|------------------------|---------|---------|------------|-------|
| | '05/4-9 | '06/4-9 | Amount | Ratio |
| Sales | 10,884 | 13,362 | 2,479 | 22.8% |
| ESD | 10,461 | 12,906 | 2,446 | 23.4% |
| ECS | 423 | 456 | 33 | 7.9% |
| OP | 1,191 | 1,957 | 766 | 64.3% |
| ESD | 1,748 | 2,754 | 1,005 | 57.5% |
| ECS | 60 | 69 | 8 | 13.7% |
| Corp. and Other | -618 | -865 | -247 | 40.1% |
| OPM | 10.9% | 14.6% | | |

Consolidated Sales Comparison



Consolidated Profit Comparison



Operating Expenses Comparison

(m¥)

| | FY23-1H | FY24-1H | YoY Growth | |
|--------------|--------------|--------------|------------|--------------|
| | '05/4-9 | '06/4-9 | Amount | Ratio |
| Personnel | 1,708 | 1,994 | 286 | 16.7% |
| R&D | 396 | 418 | 21 | 5.4% |
| Ad. & Promo. | 813 | 900 | 87 | 10.6% |
| Other | 1,138 | 1,524 | 386 | 33.9% |
| Total | 4,056 | 4,835 | 779 | 19.2% |

Main Increases

- Increase in employee and allowance for bonus payable
- Project expenses : Global branding, APA preparation, and J-SOX
- Infrastructure investment: WSP establishment, HR/hiring expenses
- Ad. & Promo. : WCL, WTC, WEG

ESD

■ Tablet business

- Although increasing outlook of U.S. economic slowdown and decreasing domestic PC shipments, tablet business were strong
- Professional graphics tablet **+30.0%**
 - Steady growth continued on global level
 - EU, Asia and Oceania growth continued to be strong
 - High-amateur users segment expanded in China
- Consumer graphics tablet **+15.8%**
 - Slowdown in US growth due to uncertain economic outlook
 - Flat growth in Japan by general weakness of PC market
 - EU, Asia and Oceania maintained high growth
- LCD Integrated tablet **+62.7%**
 - Substantial extension on global basis except EU
 - US: Graphics segment doubled, education segment expanded
 - Japan: Medical application for mid-sized clinics and dentists expanded
 - EU: Cintiq21 received reddot design award (June)



reddot design award
winner 2006

Business Highlight -2



■ Components

-6.5%



- Slowdown by inventory adjustment for Tablet PCs and delay in “Windows Vista” launch
- Developed system solutions integrating EMR pen technology with touch panel
 - “**Penabled DualTouch**” technology for Tablet PC
 - “**Penabled DualPad**” technology for notebook PCs, adopted by Fujitsu FMV-BIBLO NB series (April)
- Developed EMR pen tablet sensor system for large size display

■ Others

- WAU (Australian subsidiary) began operation (April)
- WSP (Singapore subsidiary) established (May)
- Exhibit in MS WinHEC2006 (Seattle US in May, Tokyo in June)

Business Highlight -3

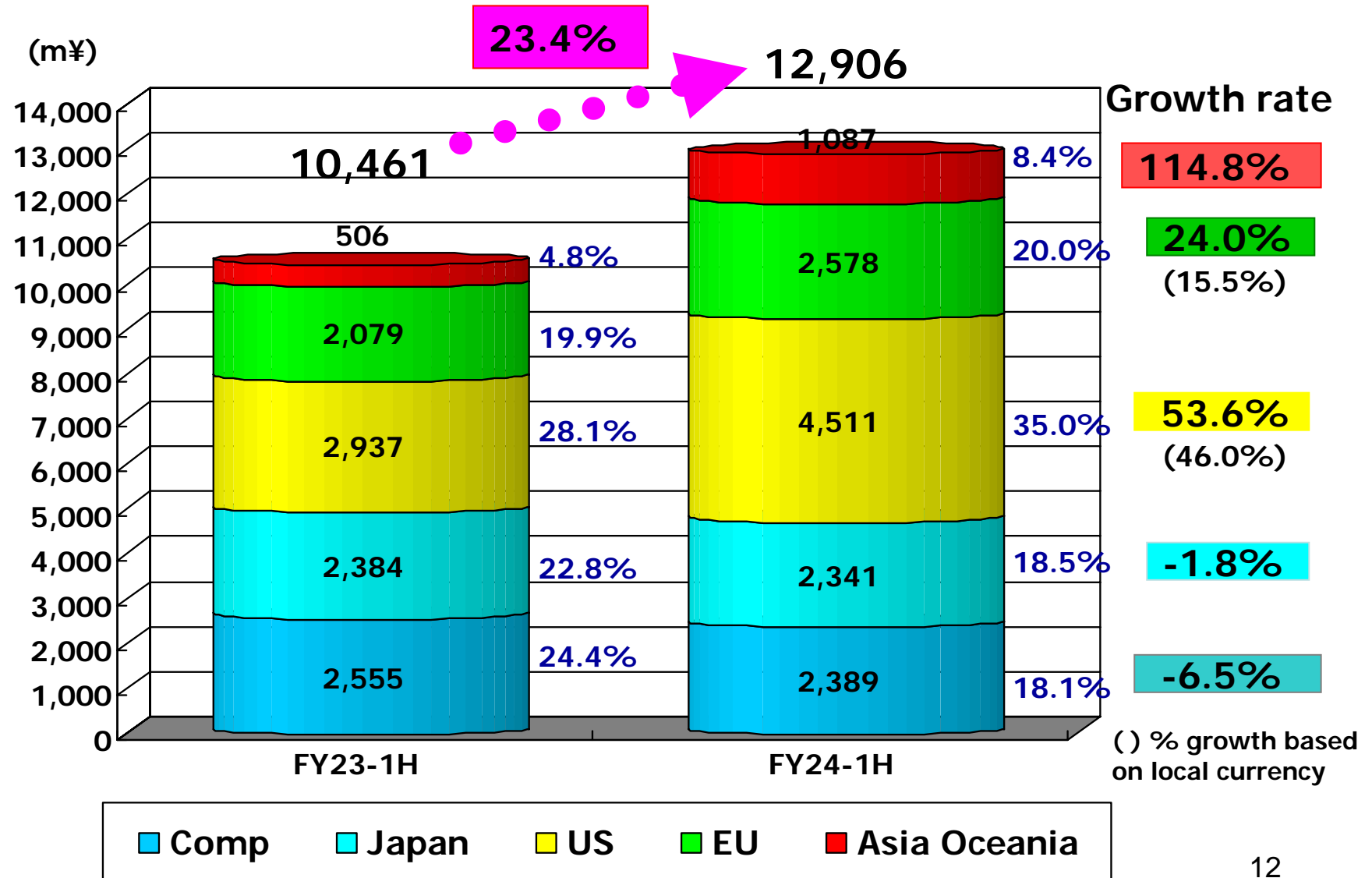
ECS

- ECAD/dio V7.0 well received as capital expenditure increases in Japan
- PDM business showed steady improvement in providing engineering services, technical support, and maintenance

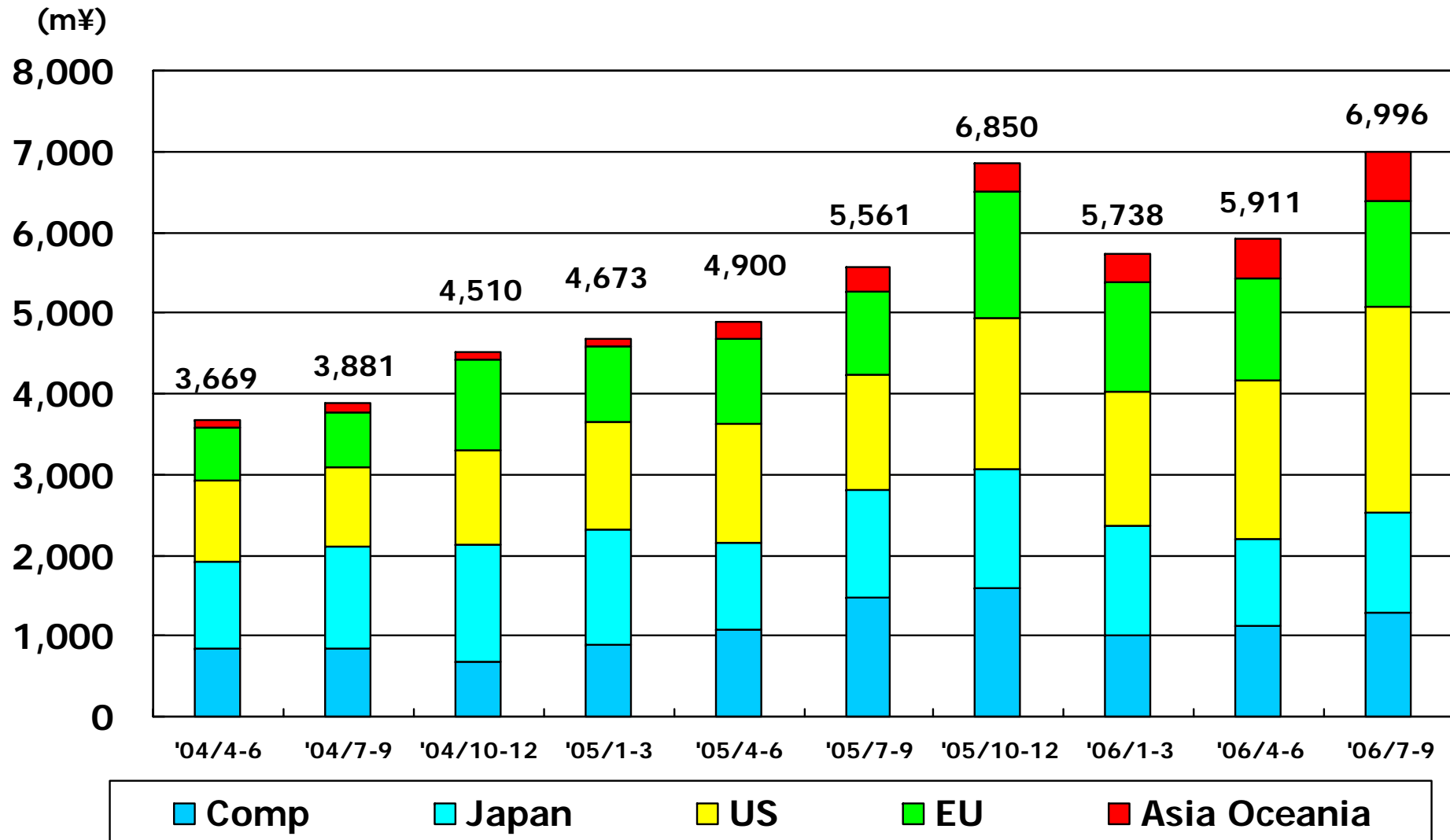
Administration

- Applied for Japan-U.S. APA (Advance Pricing Agreement) in June, changed transfer pricing to overseas subsidiaries and revised parent financial forecast
- Established Internal Control Office and started J-SOX project
- Appointed temporary independent auditor
(PricewaterhouseCoopers Aarata, announced on July 11)
- Initiated Global Branding Project

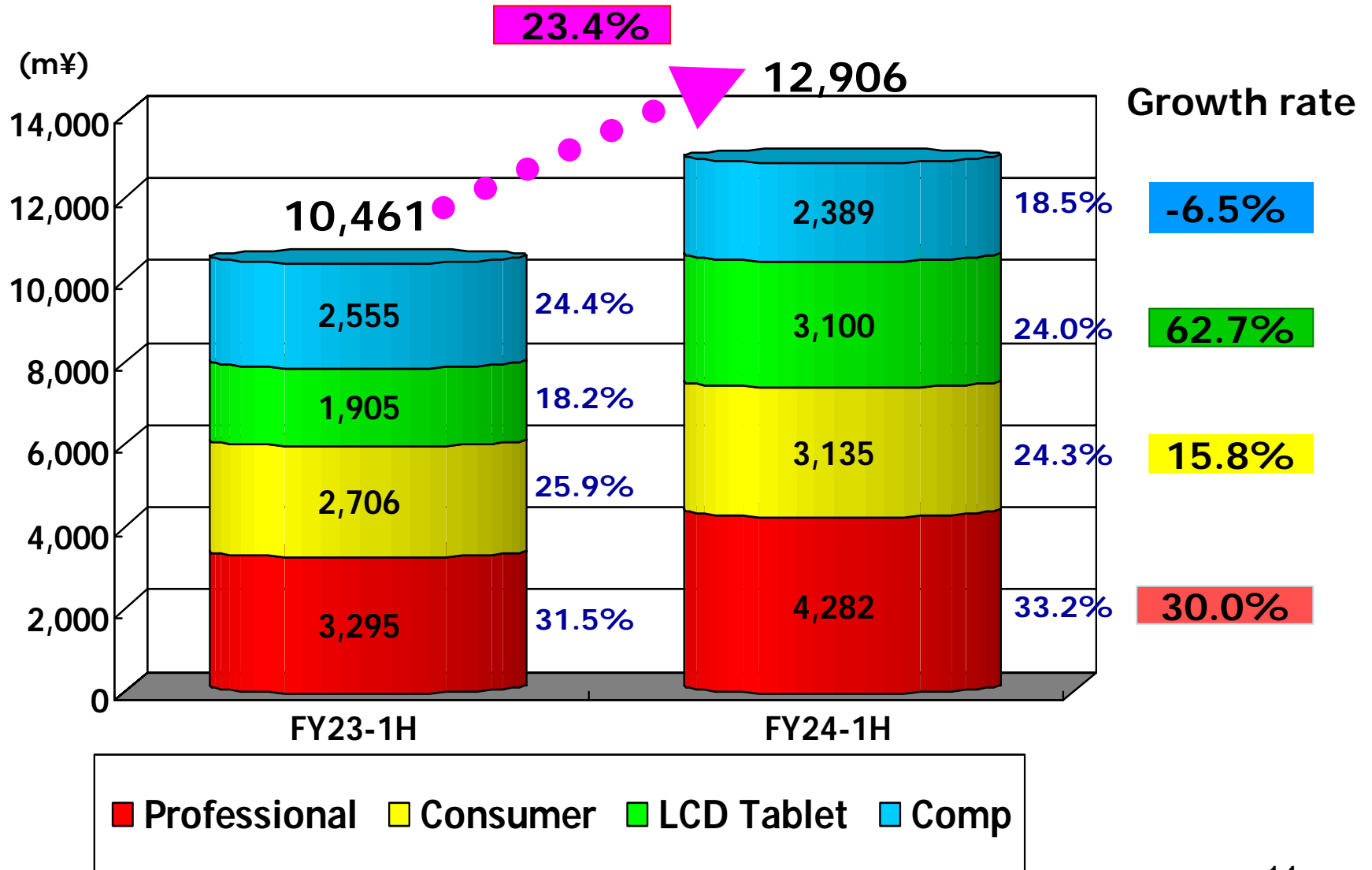
ESD Sales by Region



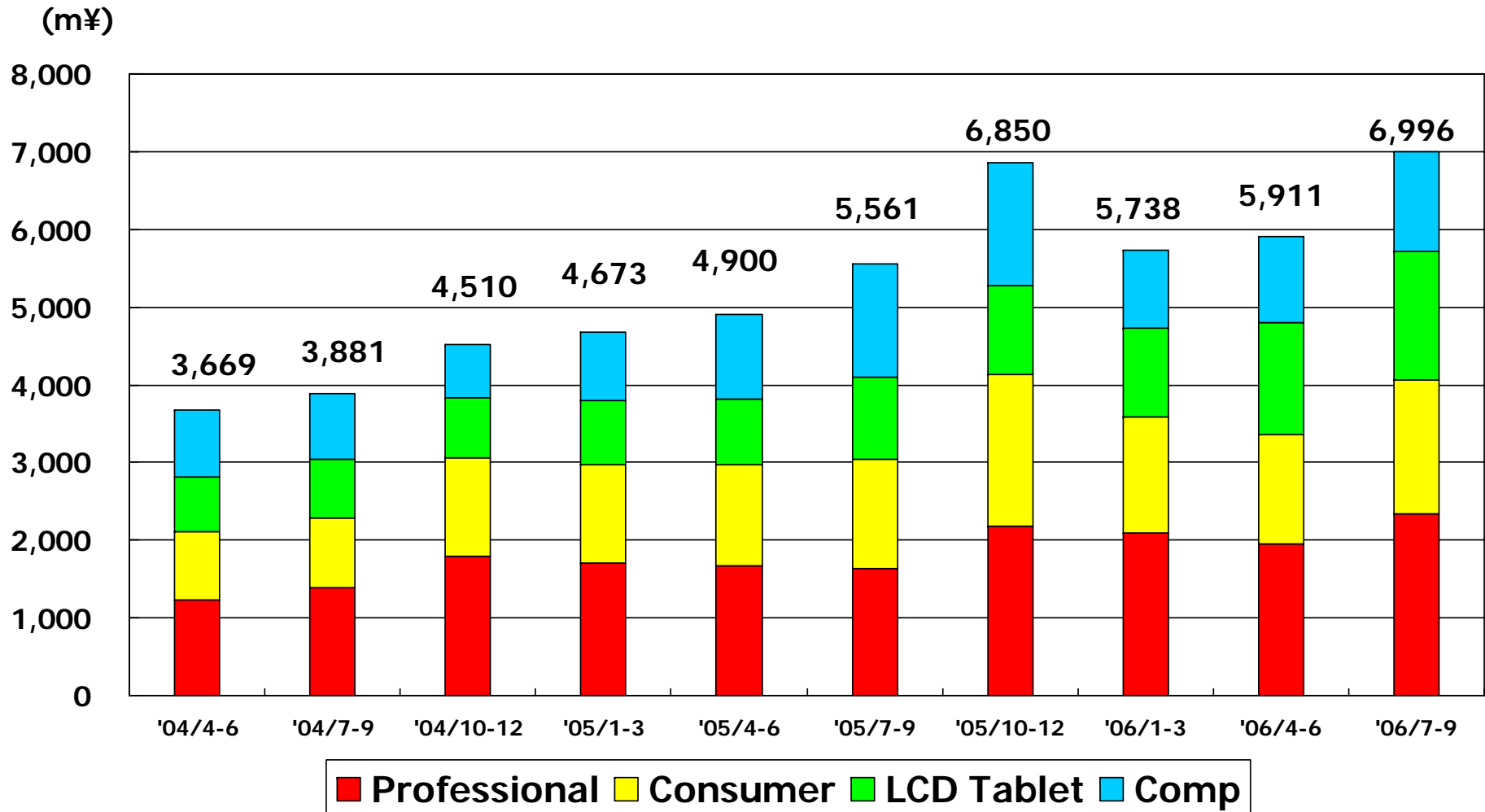
ESD Quarterly Trend by Region



ESD Sales by Product Line



ESD Quarterly Trend by Product Line



Consolidated B/S



(m¥)

| | Mar. 31, 2006 | Sep. 30, 2006 | YoY Growth |
|---------------------------------------------------------|---------------|---------------|------------|
| Current assets | 16,923 | 17,881 | 958 |
| Fixed assets | 4,110 | 4,185 | 75 |
| Total assets | 21,033 | 22,066 | 1,033 |
| Current liabilities | 6,949 | 7,186 | 237 |
| Fixed liabilities | 796 | 631 | △165 |
| Total liabilities | 7,745 | 7,817 | 72 |
| Minority interest in consolidated subsidiaries | 0 | 0 | 0 |
| Total shareholders' equity (Net assets) | 13,288 | 14,249 | 961 |
| Total liabilities and shareholders' equity (Net assets) | 21,033 | 22,066 | 1,033 |
| Equity ratio | 63.2% | 64.6% | 1.4% |
| Book value per share (¥) | 32,137.43 | 34,469.35 | 2,331.92 |

Consolidated B/S Highlight



- Increase of paid-in capital : **¥780m**
- Equity ratio: **+1.4%**
63.2%(End of Mar. 2006) → 64.6%(End of Sep. 2006)
- Book value per share
(net assets): **+¥2,332 (+7.3%)**
¥32,137 (End of Mar. 2006)
→ ¥34,469 (End of Sep. 2006)

Consolidated C/F

| | (m¥) | | |
|---------------------------------------------|---------|---------|------------|
| | FY23-1H | FY24-1H | YoY Growth |
| | FY05 | FY06 | Amount |
| C/F from operating activities | 284 | 1,220 | 936 |
| C/F from investing activities | 4 | -143 | -147 |
| C/F from financing activities | -385 | -1,278 | -893 |
| Effect of change in exchange rate | 47 | 72 | 25 |
| Increase of cash & cash equivalent | -49 | -128 | -79 |
| Beginning balance of Cash & cash equivalent | 4,233 | 10,343 | 6,109 |
| Ending balance of cash and cash equivalent | 4,184 | 10,214 | 6,031 |

C/F from operating activities (m¥)

| | |
|---------------------------------------------|--------|
| ·Net profit before taxes | 2,042 |
| ·Increase in notes and accounts receivables | -1,240 |
| ·Decrease in inventories | 394 |

C/F from investing activities

| | |
|-----------------------------|------|
| ·Acquisition of fixed asset | -138 |
|-----------------------------|------|

C/F from financing activities

| | |
|------------------------------------|------|
| ·Redemption of bonds payment | -500 |
| ·Long-term accrued revenue payment | -363 |
| ·Dividends payment | -407 |

Parent P/L



(m¥)

| | FY23-1H | FY24-1H | YoY Growth | |
|-------------------------|---------|---------|------------|--------|
| | '05/4-9 | '06/4-9 | Amount | Ratio |
| Sales | 8,519 | 10,375 | 1,856 | 21.8% |
| Gross Profit | 2,976 | 4,015 | 1,039 | 34.9% |
| GPM | 34.9% | 38.7% | | |
| Operating Profit | 274 | 1,079 | 805 | 294.2% |
| OPM | 3.2% | 10.4% | | |
| Recurring Profit | 258 | 1,061 | 803 | 311.4% |
| Net Profit | 173 | 635 | 462 | 266.2% |

ESD

- Enhance leadership in tablet business
 - Professional graphics
 - Worldwide sales and new market development for **Intuos3**
 - New channel expansion in China, Australia, Korea, and AP
 - Consumer graphics
 - Branding investments and new channel development
 - Christmas selling season promotion
 - Further expansion of wireless product
 - LCD integrated tablet
 - Expansion of **Cintiq21UX** sales in high-end graphics
 - Penetration of medical (electronic medical chart) market
 - Widening to educational market and new market
 - Spread to general distribution

ESD

- Continued investment in component business
 - Supply of “**Penabled DualTouch**” technology
 - New user exploration of desktop TabletPC
 - Development of new customers in Smart Phone, e-Paper, and PDA
 - Penabled application partnership expansion
 - Cultivate new customers in game and info-appliances

- SCM and QA enhancement
 - Global SCM process enhancement
 - QCD (quality, cost and delivery) improvements
 - Enhancement of oversea SCM offices

- R&D investments
 - “Windows Vista” related new products development
 - Next generation basic technology development and current technology/product improvement

- New Business Development



ECS

- Expansion of “ECAD/dioV7.0” customer base
- Establishment of PDM services business

Corporate and Other

- Global branding investment
- J-SOX compliance and enhancement in global corporate governance
- Global IT infrastructure investment
- ISO9001 & ISO14001 integration

FY06 Forecast



(m¥)

| Consolidated Forecast | Actual | Initial Forecast | Revised Forecast (10/31) | Revised-Initial Forecast | Growth Rate (YoY) |
|-----------------------|---------------------|---------------------|--------------------------|--------------------------|-------------------|
| | FY23 '05/4-'06/3 | FY24 '06/4-'07/3 | FY24 '06/4-'07/3 | | |
| Sales | 23,992 | 28,000 | 28,300 | 300 | 18.0% |
| RP | 3,387 | 3,900 | 4,350 | 450 | 28.4% |
| NP | 2,146 | 2,450 | 2,600 | 150 | 21.2% |

(m¥)

| Parent Forecast | Actual | Initial Forecast | Revised Forecast (7/11) | Revised-Initial Forecast | Growth Rate (YoY) |
|-----------------|---------------------|---------------------|-------------------------|--------------------------|-------------------|
| | FY23 '05/4-'06/3 | FY24 '06/4-'07/3 | FY24 '06/4-'07/3 | | |
| Sales | 18,303 | 21,400 | 23,000 | 1,600 | 25.7% |
| RP | 1,044 | 1,100 | 2,800 | 1,700 | 168.3% |
| NP | 685 | 700 | 1,760 | 1,060 | 156.8% |

Consolidated 2H Forecast



(m¥)

| Consolidated Forecast | Actual | Initial Forecast | Revised Forecast (10/31) | Revised-Initial Forecast | Growth Rate (YoY) |
|-----------------------|---------------------|---------------------|--------------------------|--------------------------|-------------------|
| | FY23 '05/4-'06/3 | FY24 '06/4-'07/3 | FY24 '06/4-'07/3 | | |
| Sales | 13,109 | 14,638 | 14,938 | 300 | 14.0% |
| RP | 2,186 | 1,859 | 2,309 | 450 | 5.6% |
| NP | 1,386 | 1,231 | 1,381 | 150 | Δ0.3% |

Main Assumptions for Earnings Revision

- Concern for US economy slowdown
- Reluctance in buying PC, waiting for "Windows Vista" release
- Continuous firm sales of "Intuos3"
- Limited Christmas selling season of consumer products
- LCD integrated tablet continues to grow
- Shipping adjustment of pen sensor components for Tablet PC

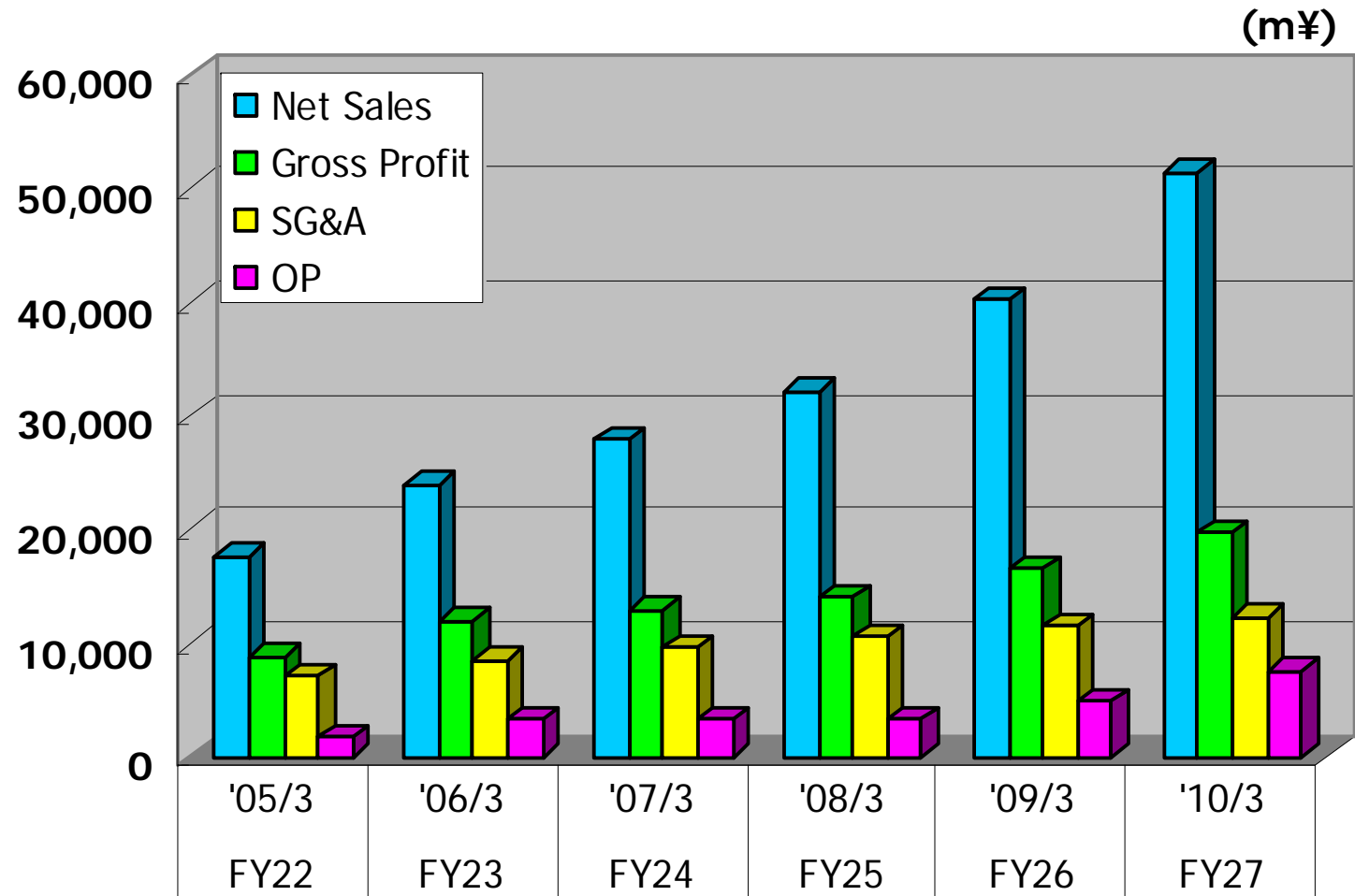
■ Basic Strategy

Focus on “Human Interface Solutions” and
Establish “De-facto Standard”
in Digital Paper Era

■ WP515: Financial Goals

- By FY27 (ends March 2010)
 - Consolidated revenue: 50 billion Japanese yen
 - Consolidated operating income margin: 15%

Consolidated P/L Forecast



Growth Strategy -1



- Strengthen leadership in tablet industry for the growth
 - Strengthen leadership in product by global branding
 - Expand new segments and regional coverage to AP and BRICs
 - Guide professional users to LCD pen tablets
- Expand component business
 - Expand Tablet PC from mobile to desktop platform
 - Expand platforms from PC to mobile phone, game, and info-appliances
- Global branding and enhancing its value
 - Invest in global brand enhancements
 - Continue to improve customer values
- New technology and new business development
 - Develop new generation pen sensor technology
 - Develop and/or acquire new UI technology
 - Merge display technology with pen sensor technology
 - Develop new business segments and M&A

Growth Strategy -2



- Strengthen/integrate global SCM function
 - Optimal SCM solution in QCD (quality, cost, and delivery)
 - Utilize EMS and integrate QCD process
 - Black box production of key components
- Strengthen/integrate global QA function
 - Build global QA process including EMS
 - Enhance organization and human resources
- Global process integration and global IT support
 - Global business process reengineering
 - Pursue high productivity and efficiency by global IT support
 - SOX compliance
- Enhancing global partnerships
 - OS, application, display, and solutions
 - Promote PPP (Penabled Partnership Program)

Global Operation



Wacom Component Europe



Wacom Digital Solutions

Wacom Tech. Corp.



Wacom China Corp.

Wacom Co., Ltd.

Wacom Europe GmbH



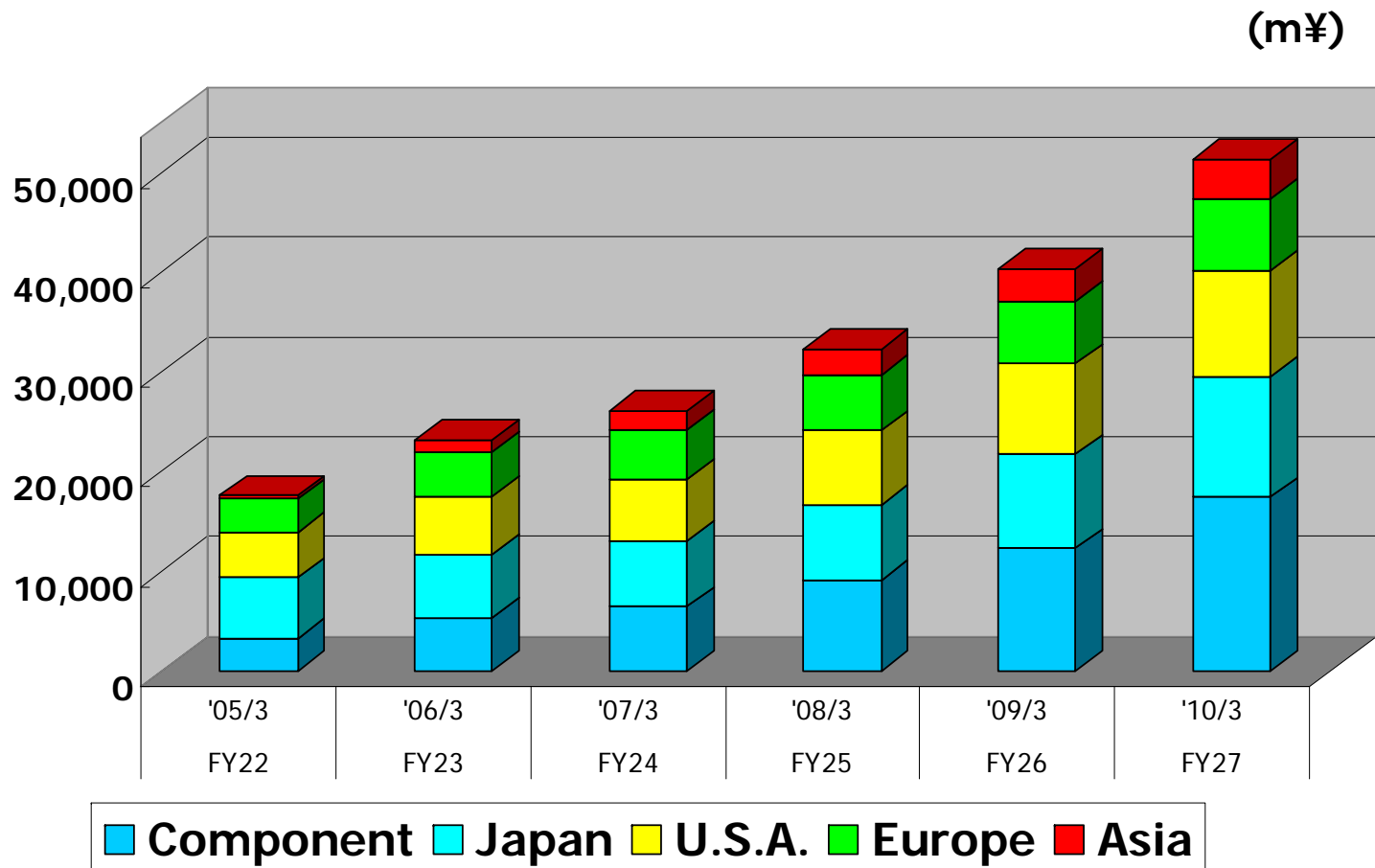
**Taipei
Moscow
Shanghai**

**Wacom Singapore
Pte Ltd.**



Wacom Australia Pty. Ltd.

Sales Forecast by Region



Product Portfolio of ESD



COMPONENT

Mobile



Business

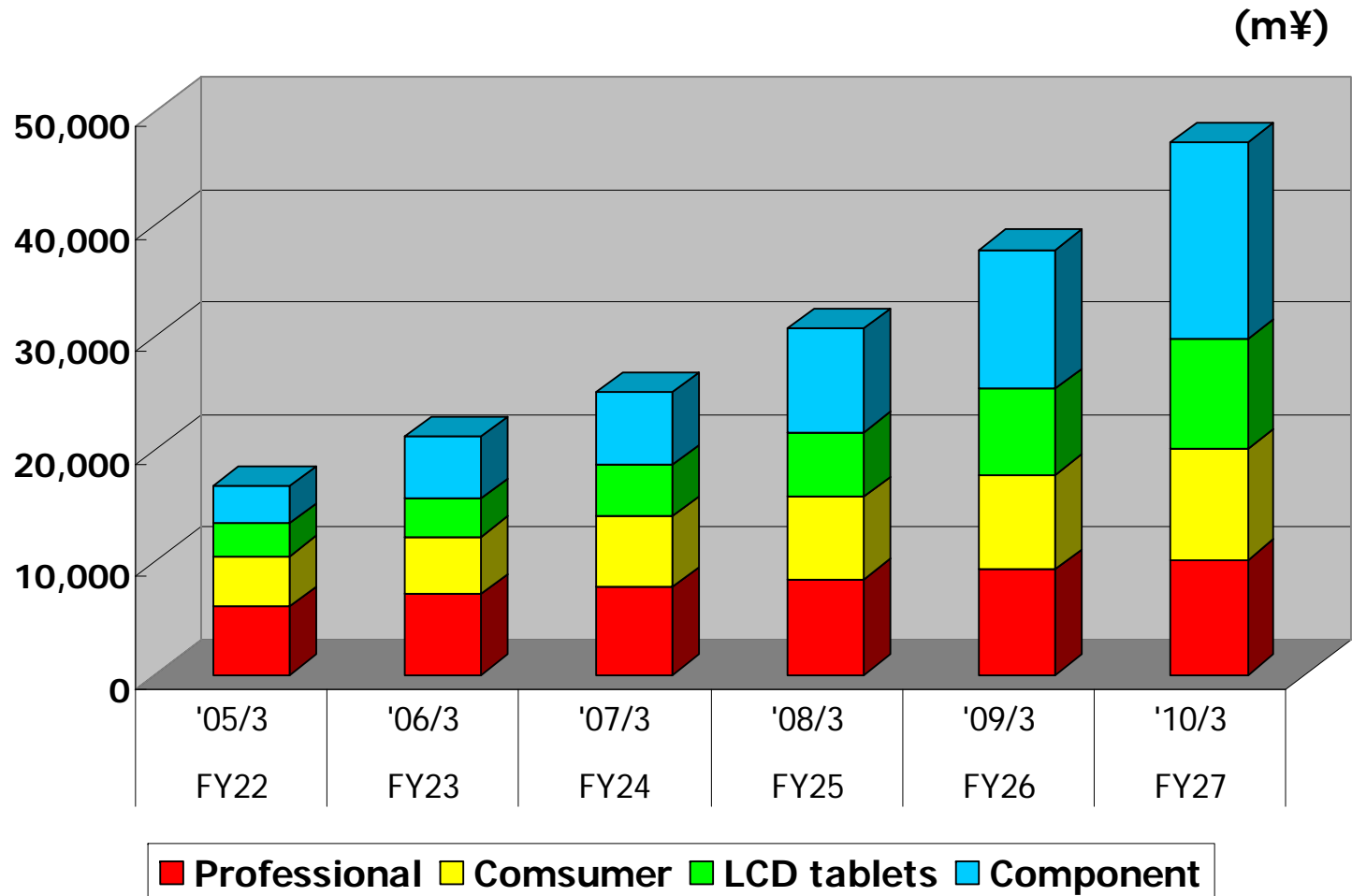
Consumer

WACOM TABLET



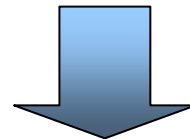
Desktop

Sales Forecast by Product Line

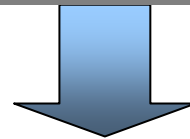


Product Line Strategy

- Advanced design tools for professionals
- Natural and intuitive input device for consumers
- Intuitive UI solutions for vertical applications
- Low-cost, high-performance pen technology for mobile info-appliances



Technology Standard



**De-facto Standard
in Digital Paper Era**





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

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