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

Wacom Co., Ltd.

(TSE Sec.1 6727)

Oct. 31, 2006

Contents

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¥)

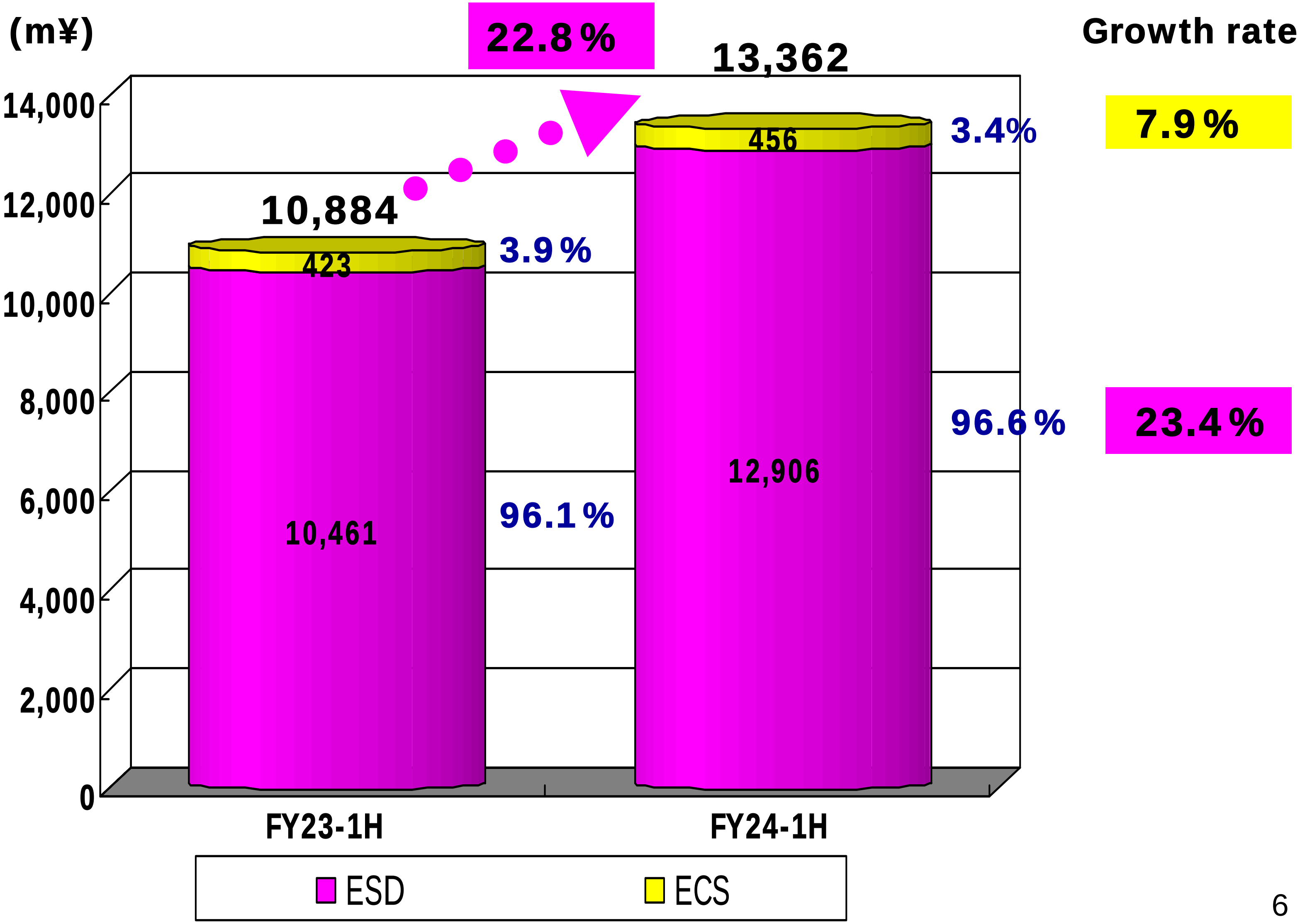
	FY23-1H	FY24-1H	YoY Growth	
	'05/4-9	'06/4-9	Amount	Ratio
Sales	10,884	13,362	2,479	22.8%
Gross Profit	5,247	6,792	1,545	29.5%
GPM	48.2%	50.8%		
Operating Profit	1,191	1,957	766	64.3%
OPM	10.9%	14.6%		
Recurring Profit	1,202	2,041	839	69.9%
Net Profit aft. Tax	760	1,219	459	60.4%

Consolidated Result by Business Segment

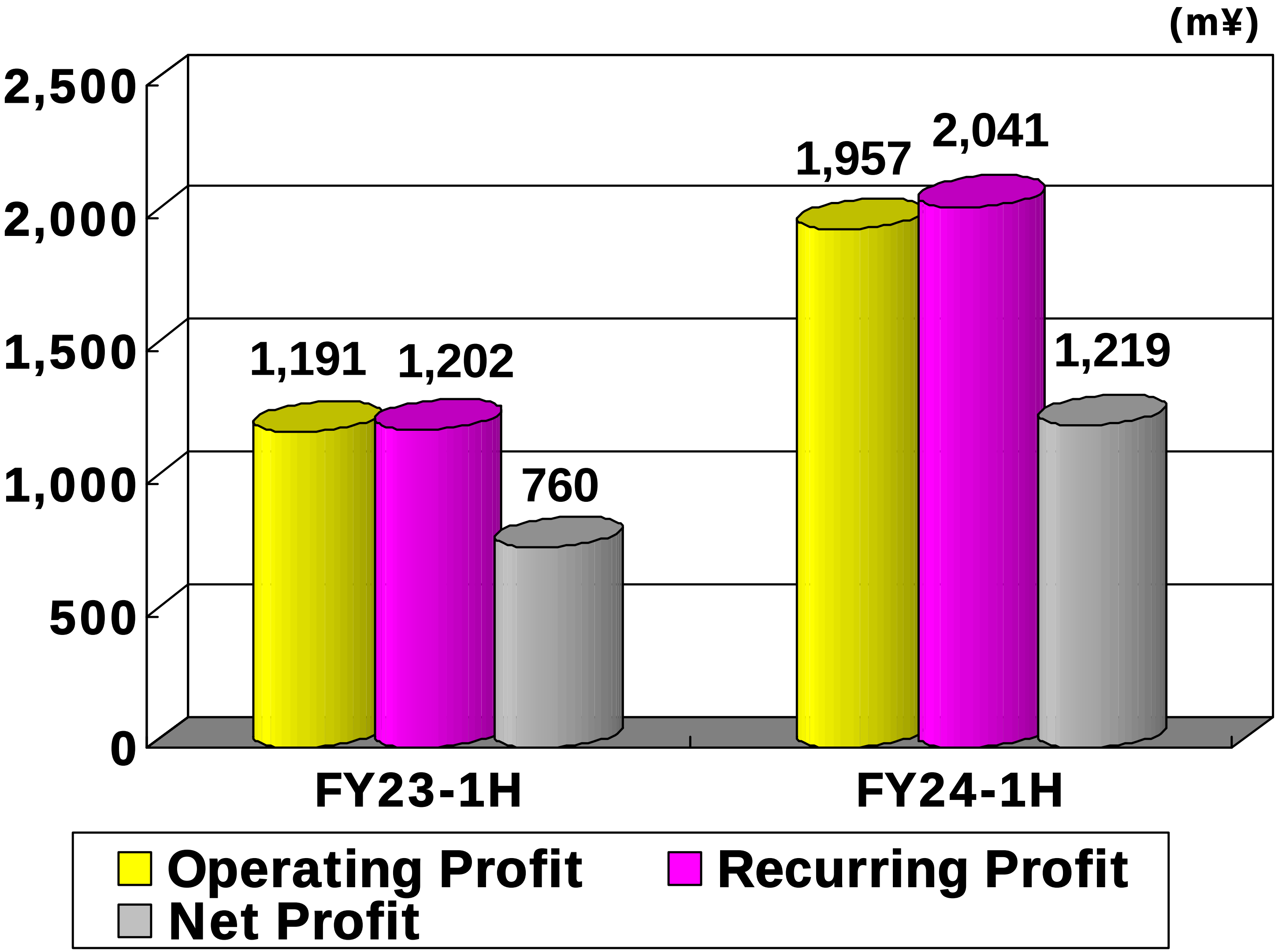
(m¥)

	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

Business Highlight -1

WACOM

<u>ESD</u>

- **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

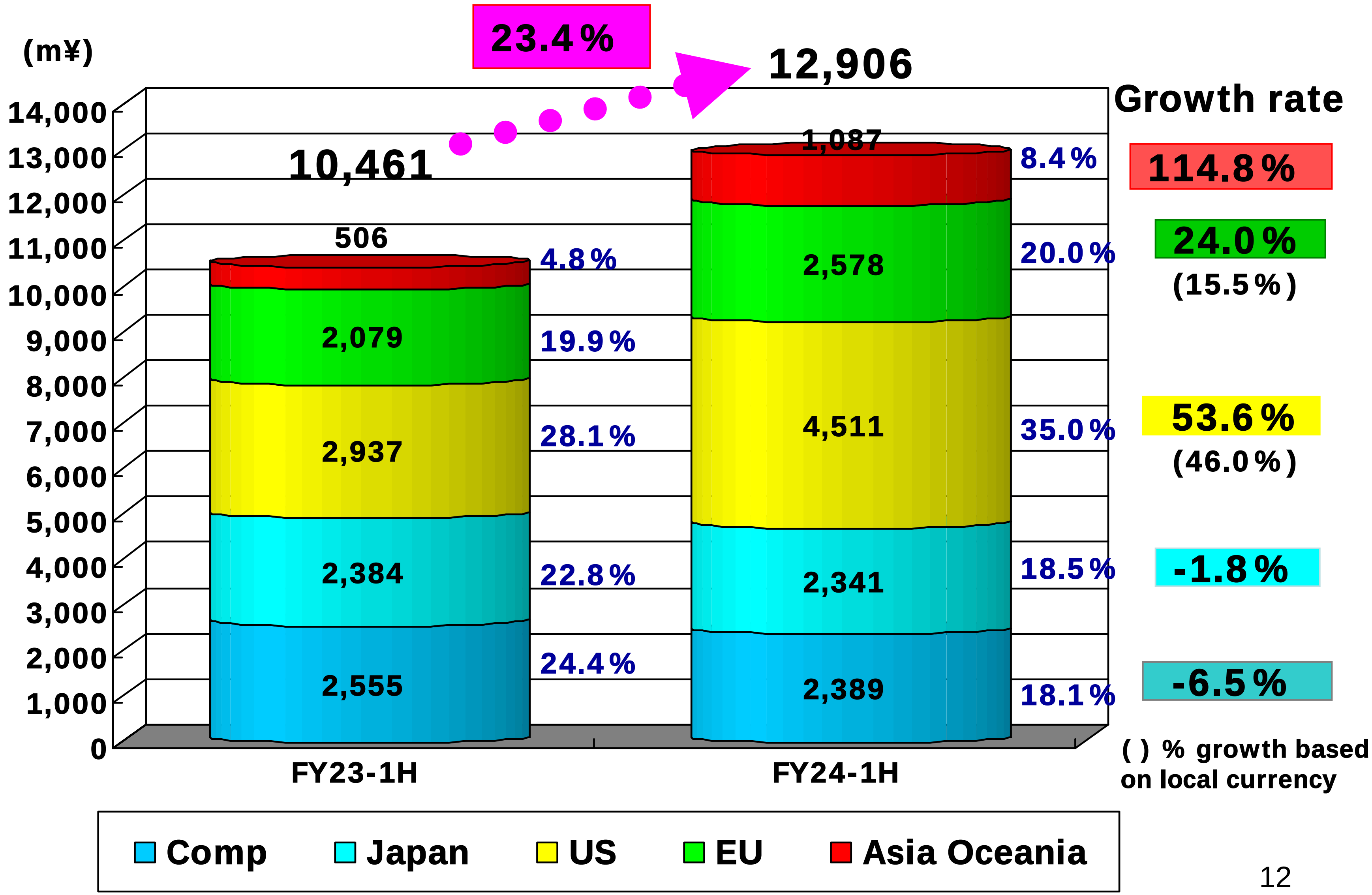
- ECAD/dio V7.0 well received as capital expenditure increases in Japan
- PDM business showed steady improvement in providing engineering services, technical support, and maintenance

Administration

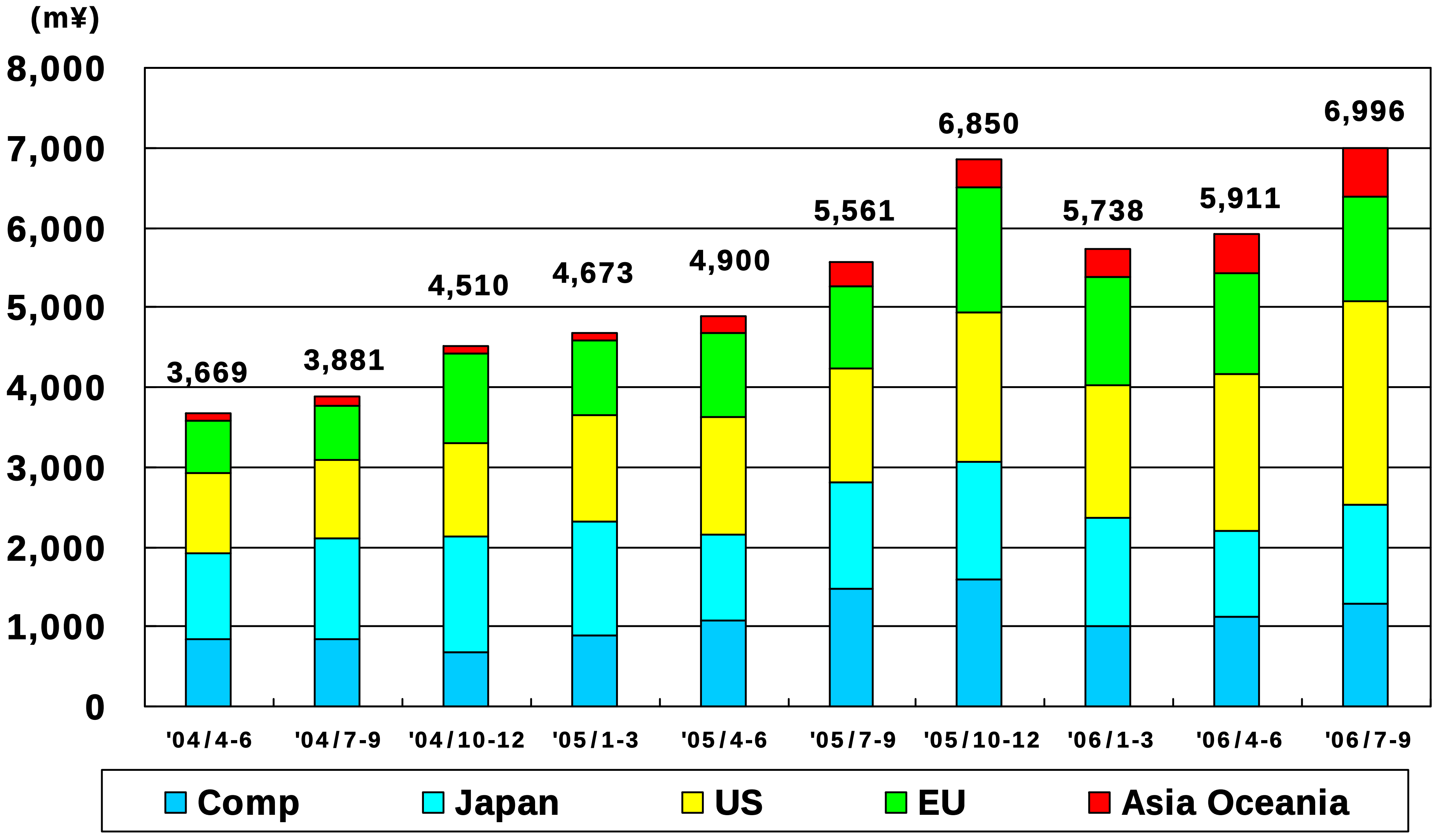
- Applied for Japan-U.S. APA (Advance Pricing Agreement) in June, changed transfer pricing to overseas subsidiaries and revised parent financial forecast
- Established Internal Control Office and started J-SOX project
- Appointed temporary independent auditor

  (PricewaterhouseCoopers Aarata, announced on July 11)
- Initiated Global Branding Project

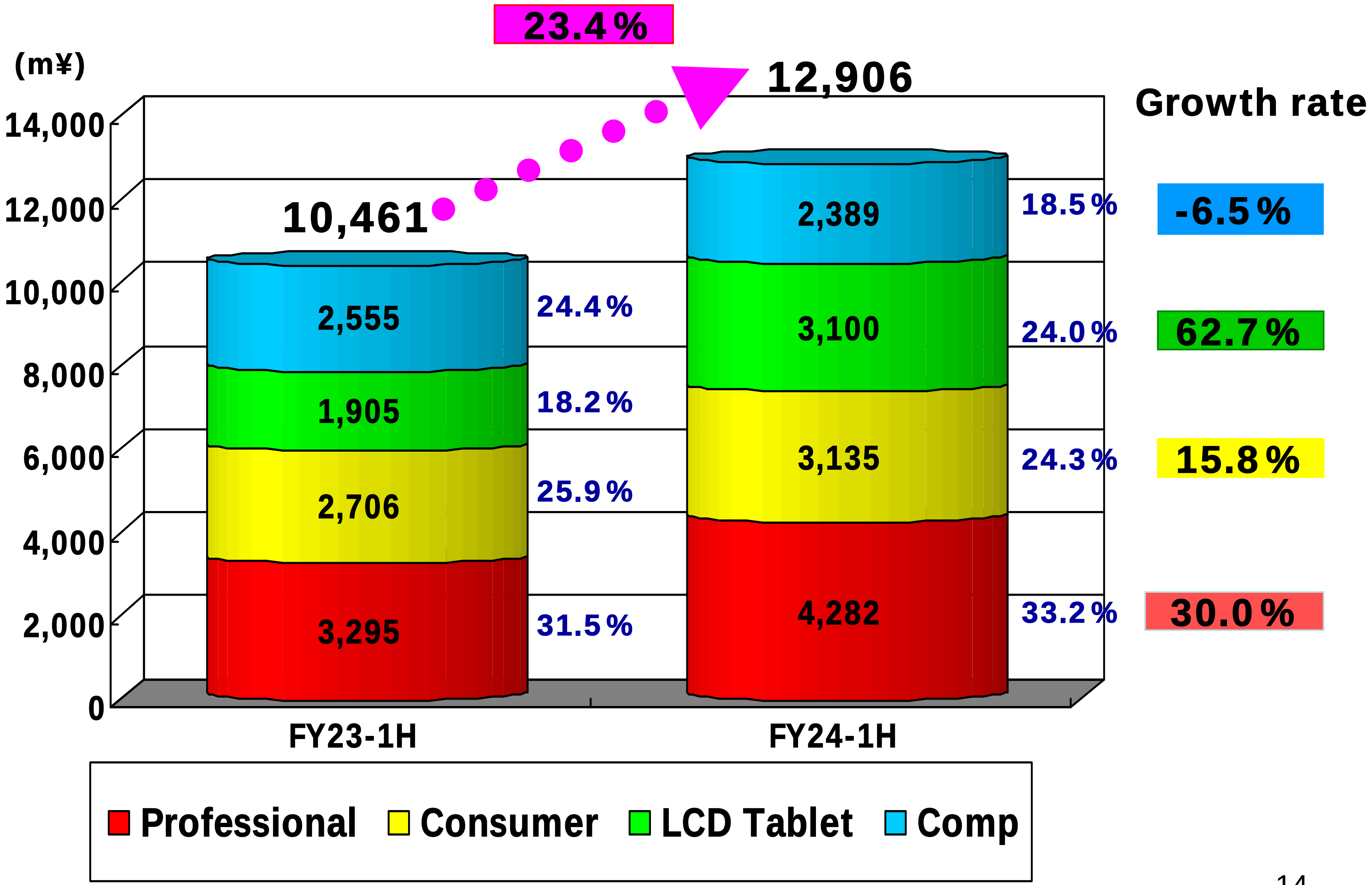
ESD Sales by Region



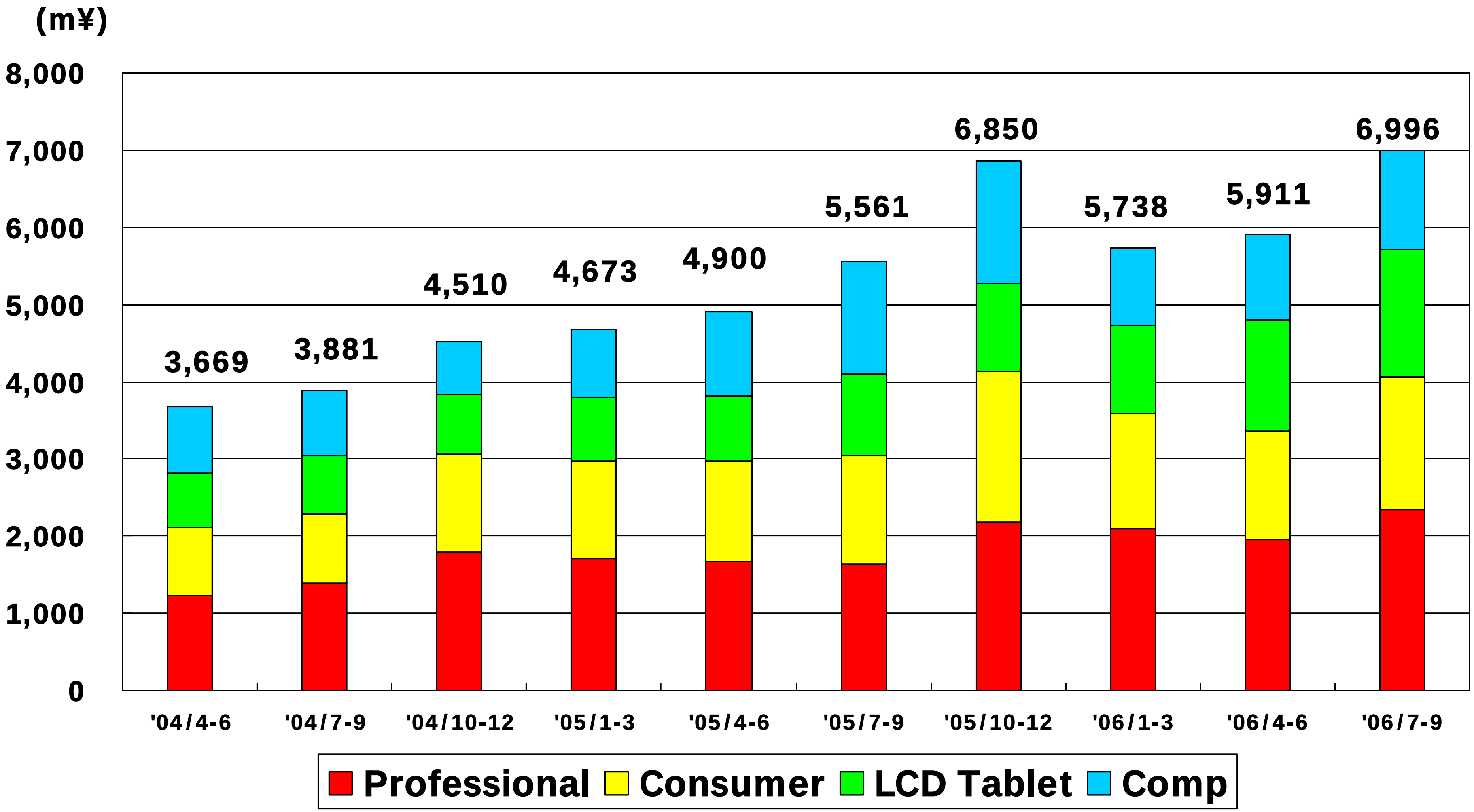
ESD Quarterly Trend by Region



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%

FY24 Business Focus -1

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

FY24 Business Focus -2

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

FY24 Business Focus -3

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 FY23 '05/4-'06/3	Initial Forecast FY24 '06/4-'07/3	Revised Forecast (10/31) FY24 '06/4-'07/3	Revised-Initial Forecast	Growth Rate (YoY)
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 FY23 '05/4-'06/3	Initial Forecast FY24 '06/4-'07/3	Revised Forecast (7/11) FY24 '06/4-'07/3	Revised-Initial Forecast	Growth Rate (YoY)
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	△0.3%

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

Mid-Term Business Plan -WP515

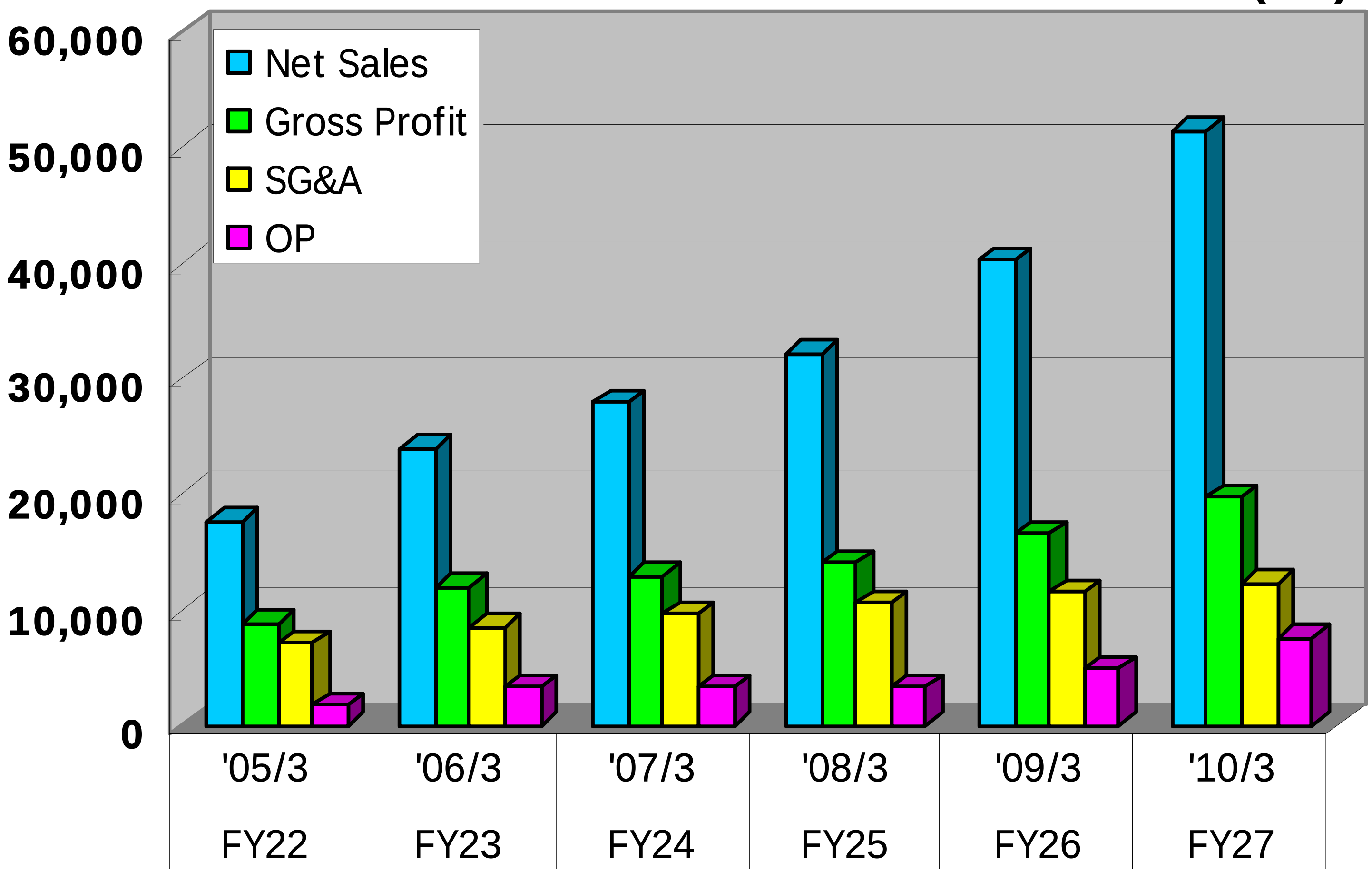
- Basic Strategy

> 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

(m¥)



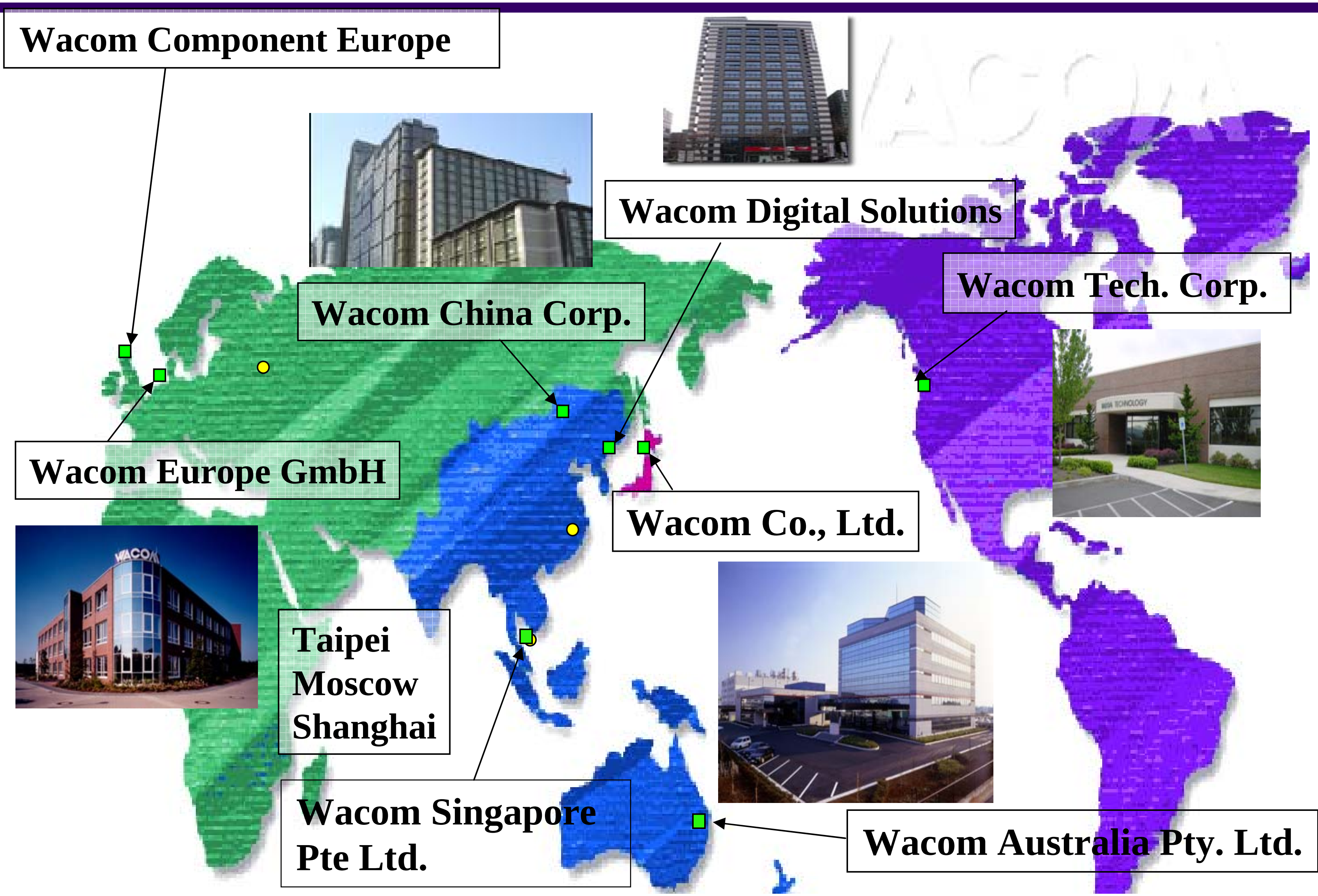
Growth Strategy -1

- 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

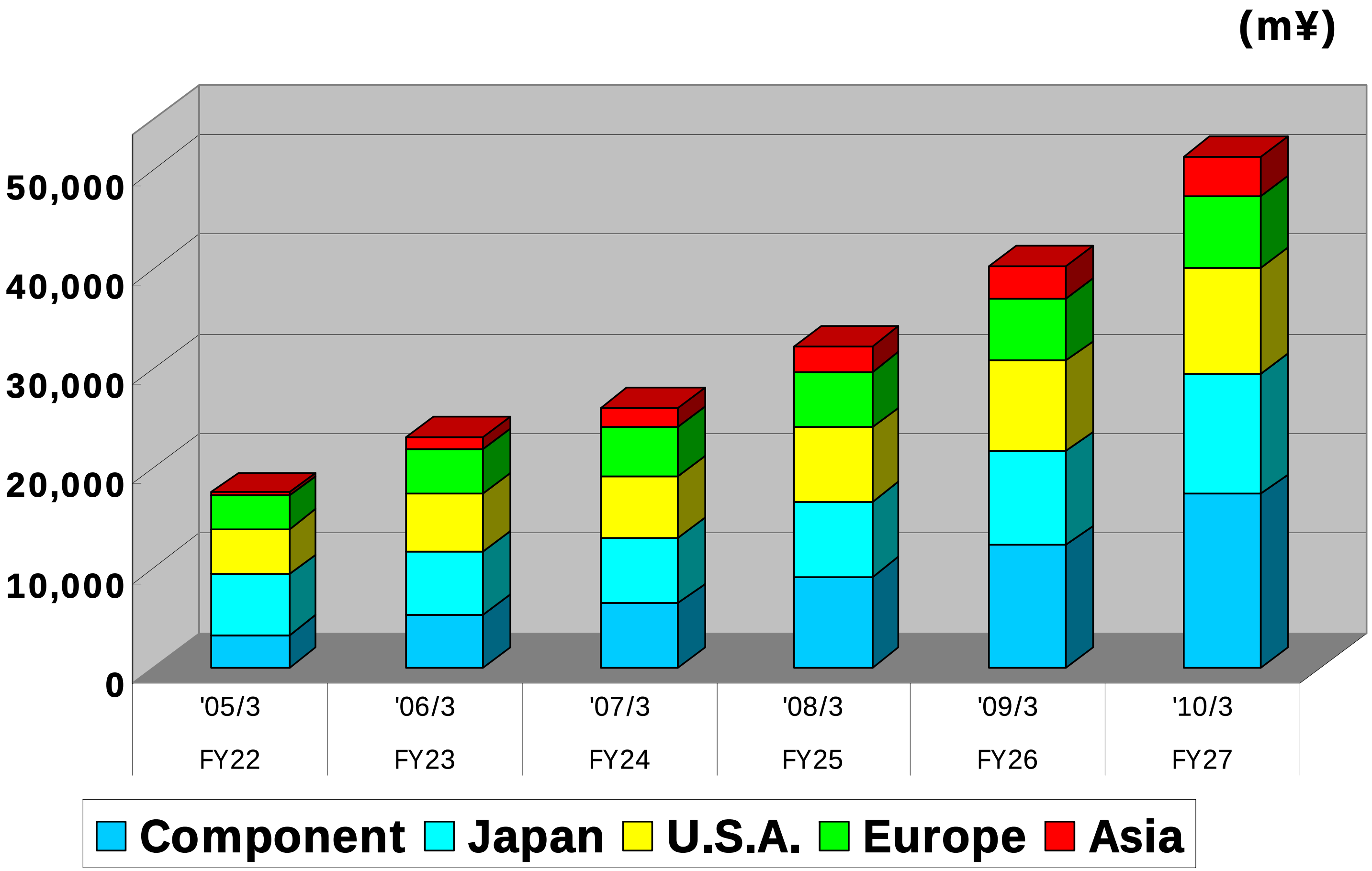
Growth Strategy -2

- 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)

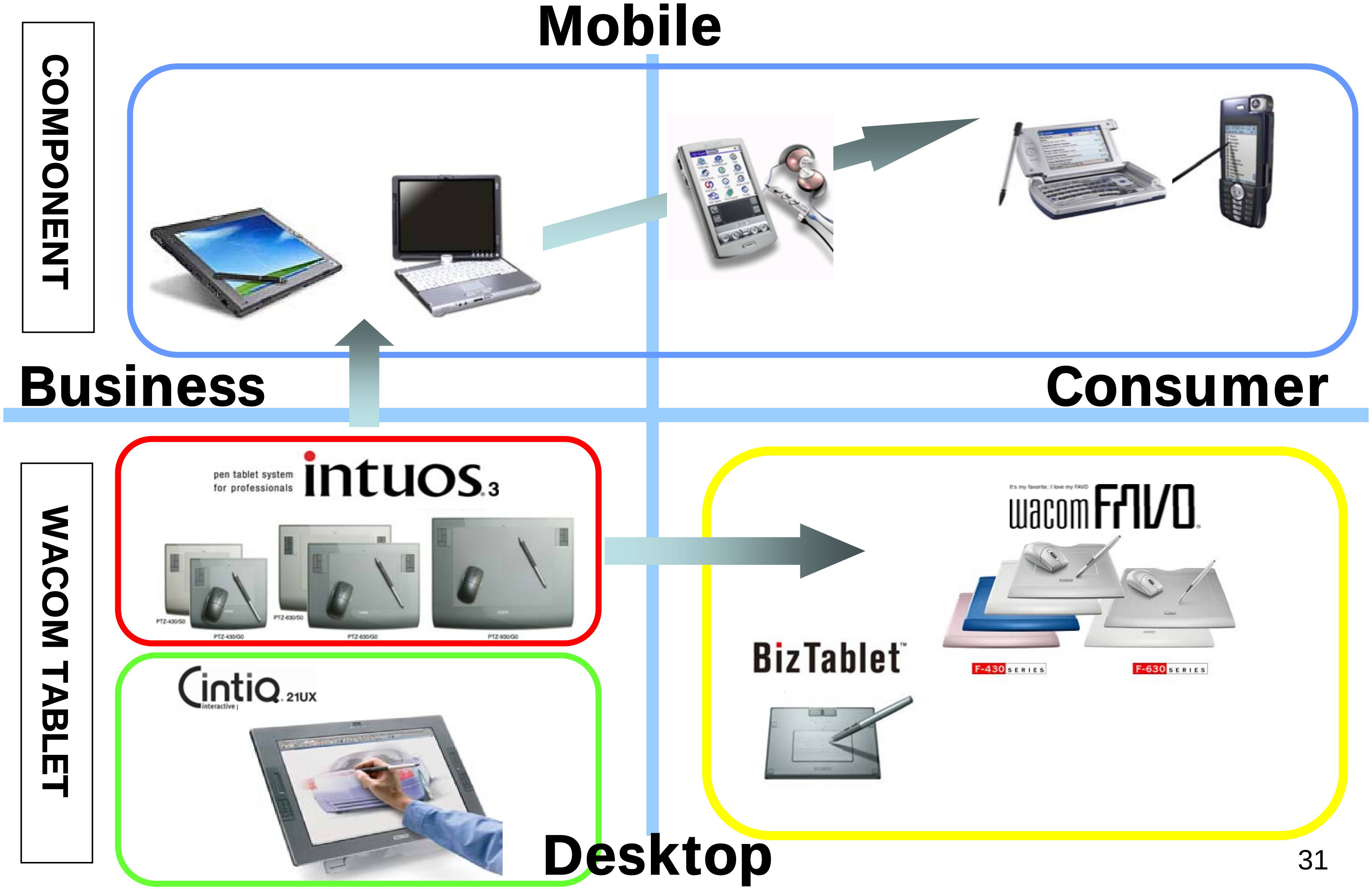
Global Operation



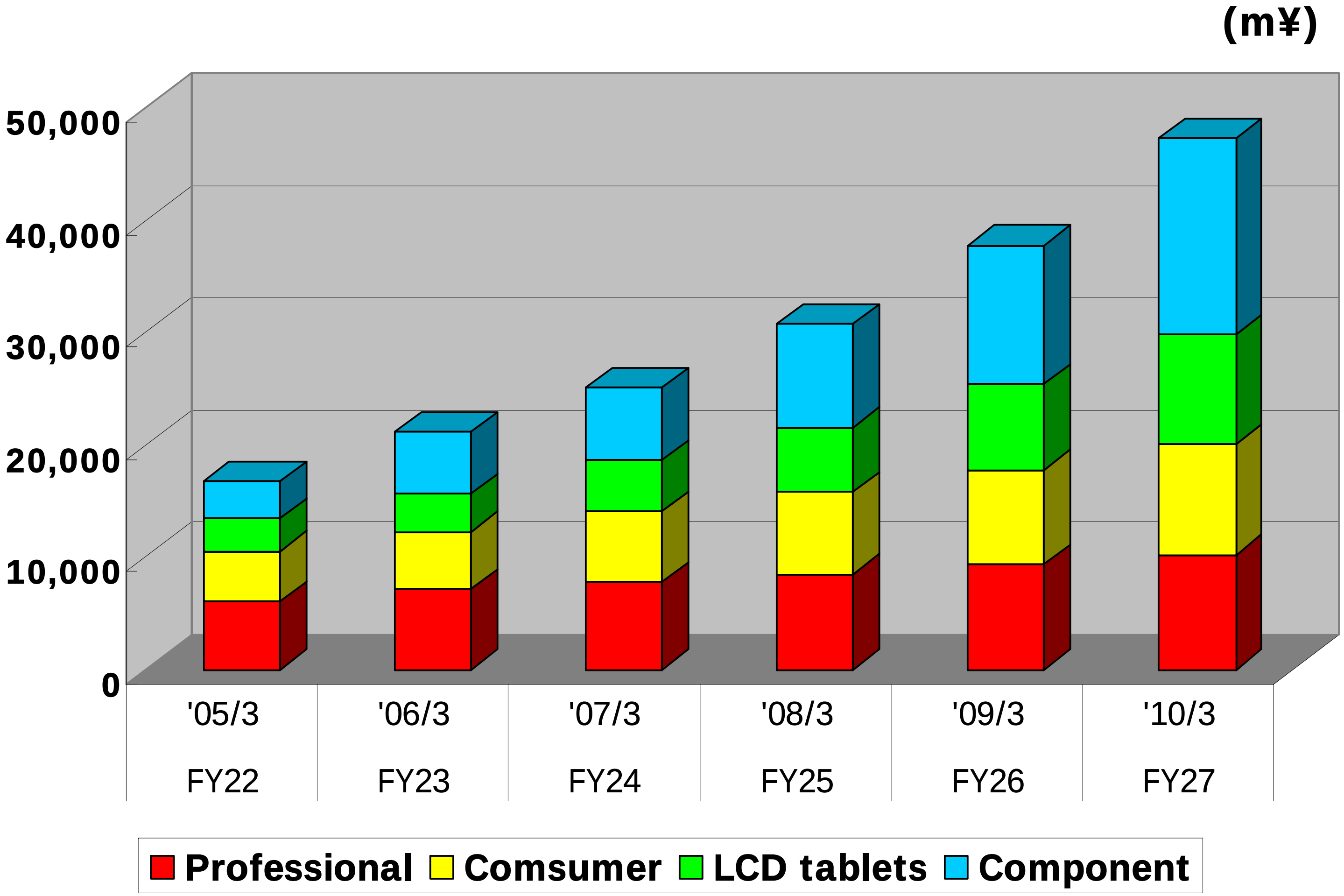
Sales Forecast by Region



Product Portfolio of ESD



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

Penabled™ WACOM

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

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