

# FY08 1H Financial Results and FY08 Forecast

## DISCO CORPORATION

November 13<sup>th</sup>, 2008

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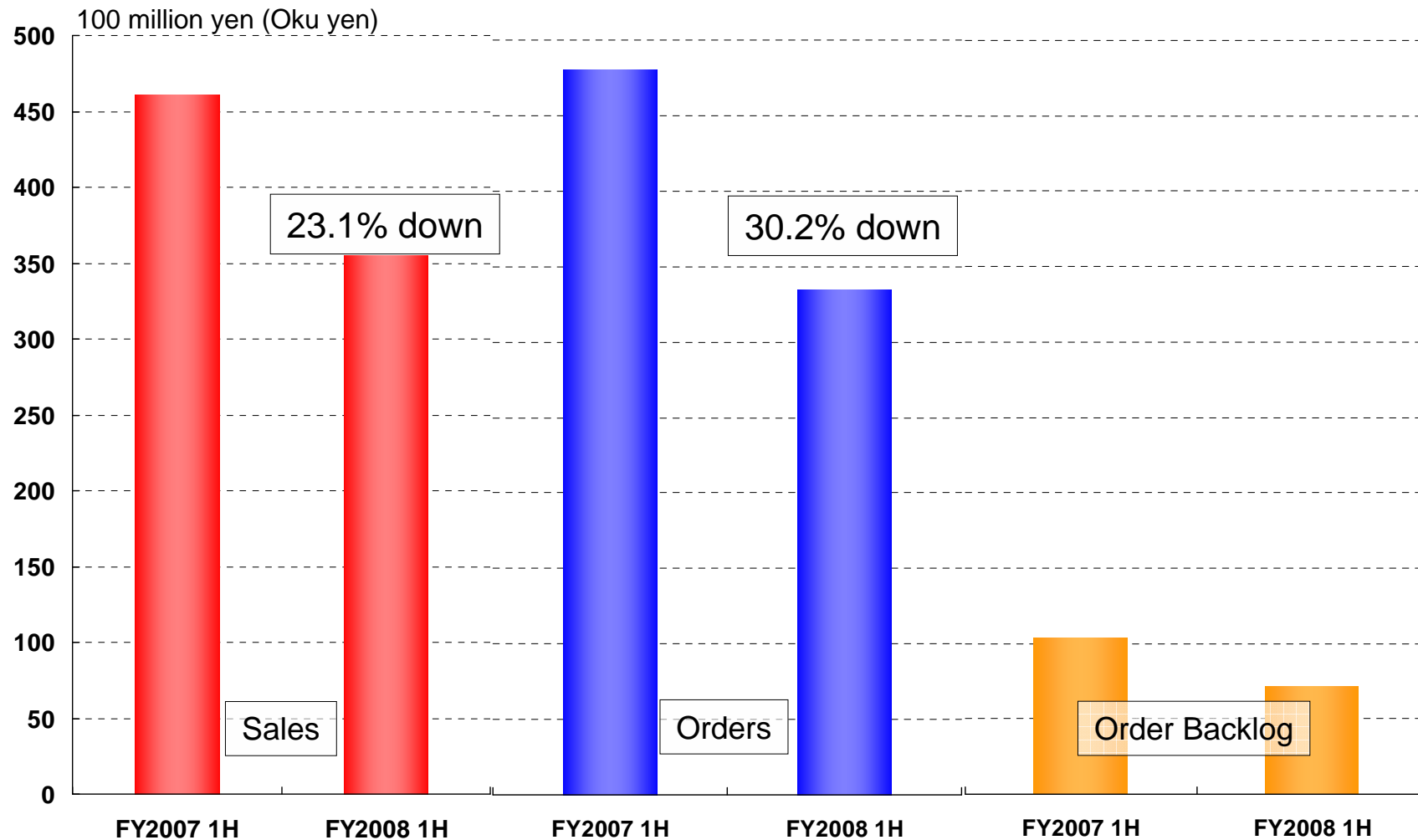
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# **FY08 1H Financial Results and FY08 Full Year Forecast**

Keizo Sekiya  
Executive Director

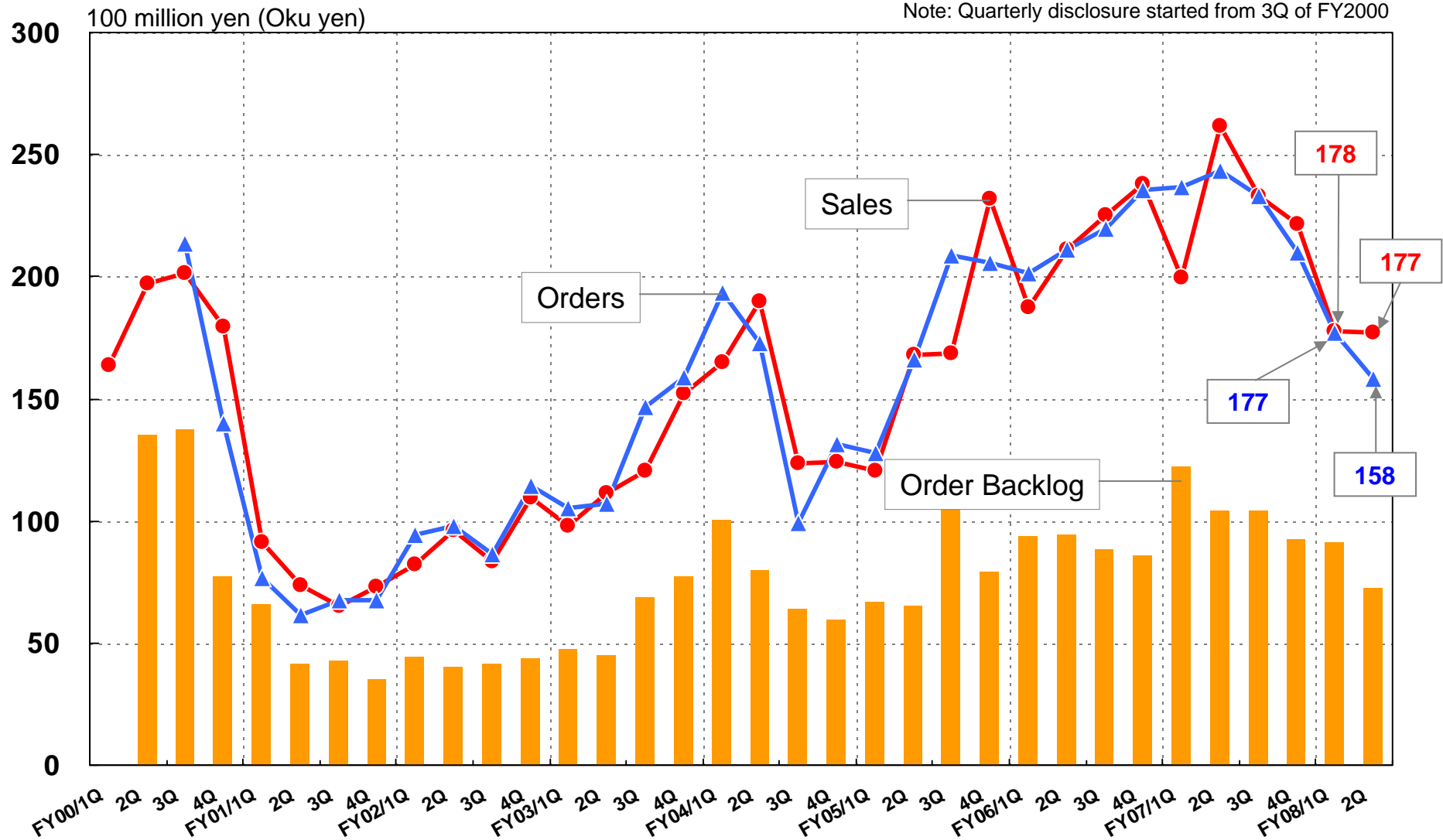
General Manager, Corporate Communications

# Consolidated Sales, Orders, Order Backlog



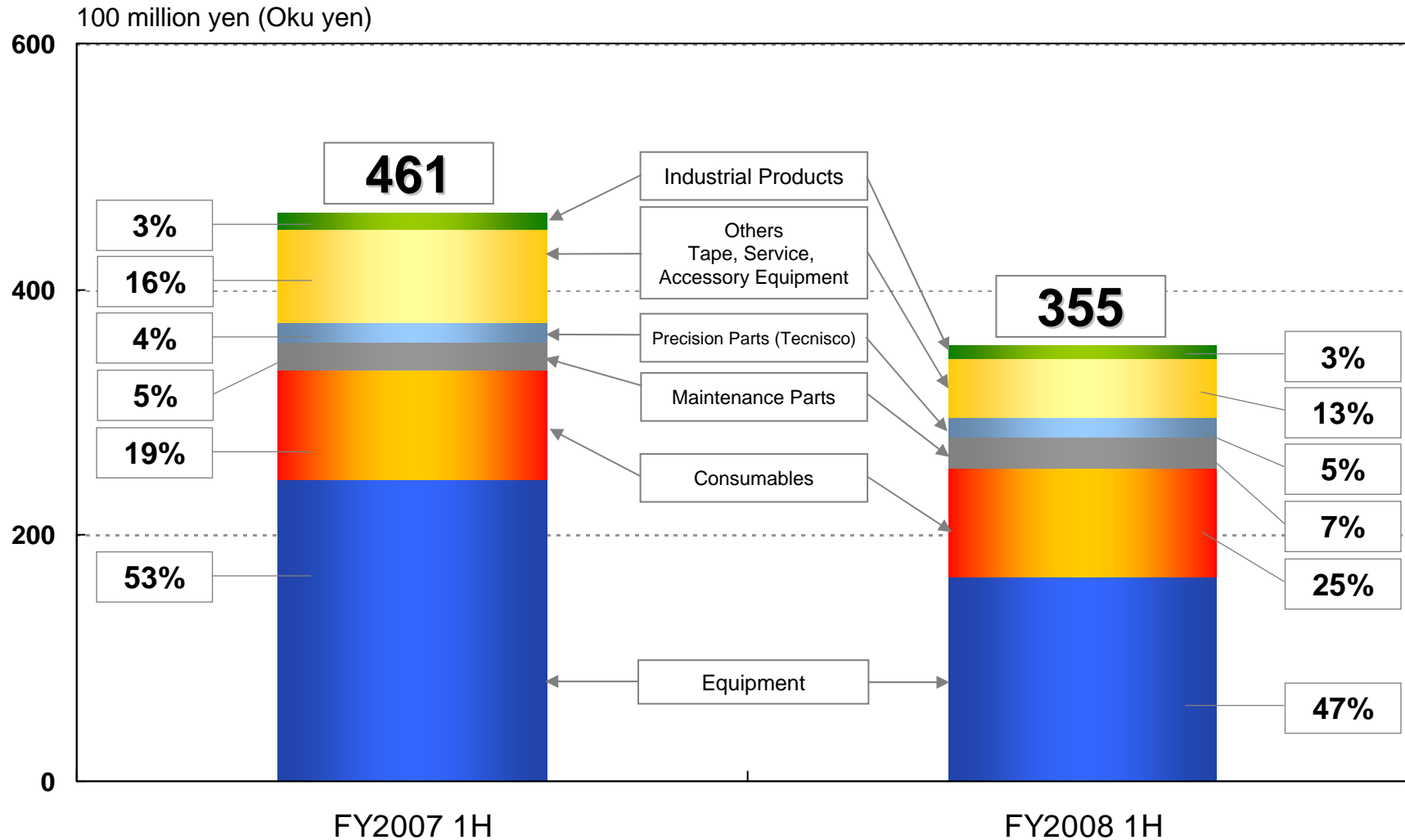
- Both sales and orders drastically decreased due to the slowdown of the economy and prolonged stagnation of the semiconductor market.

# Quarterly Sales/Orders



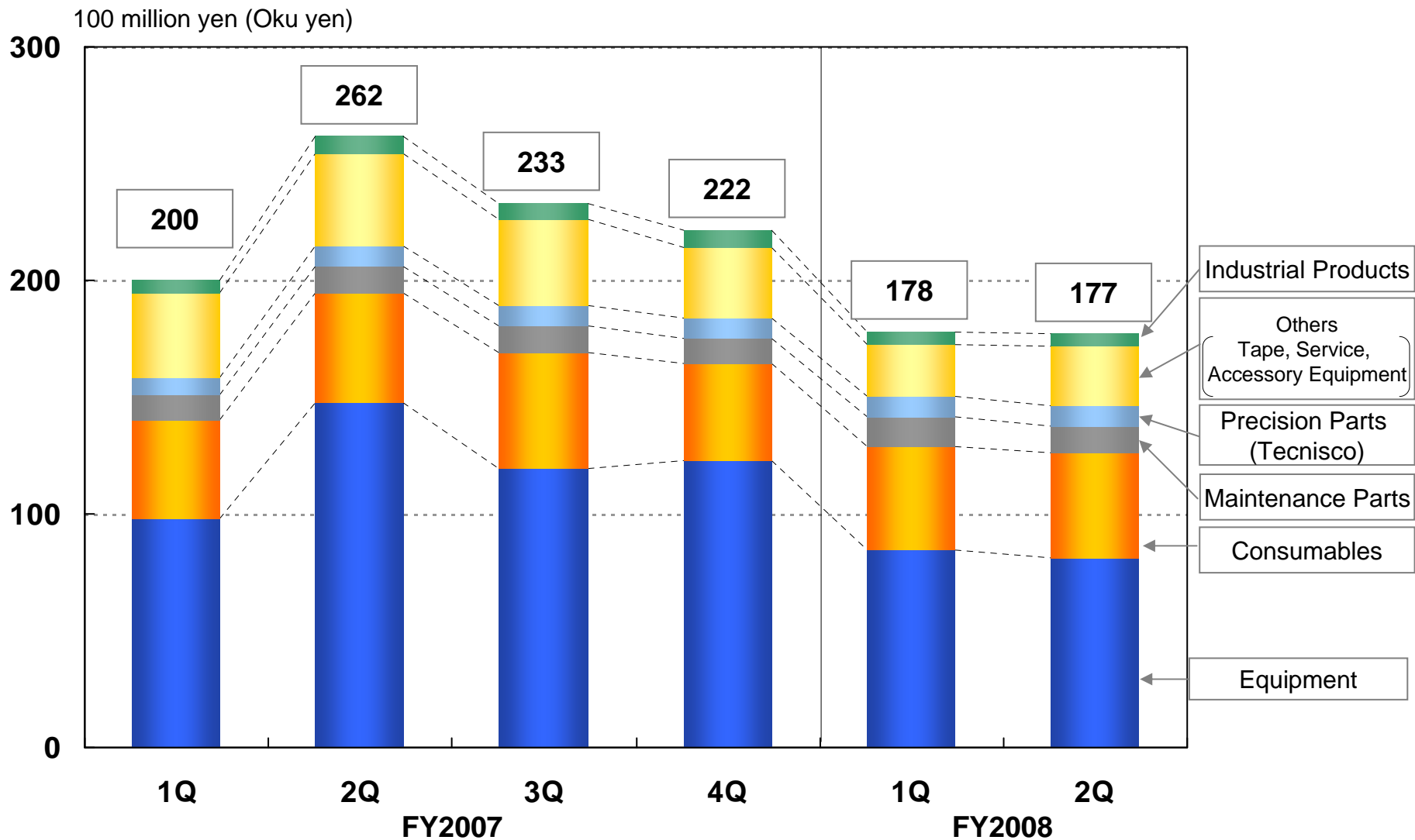
- 2Q sales stayed at the same level as 1Q, however, the drop from last fiscal year was significant.
- Orders continued to decrease.

# Consolidated Sales Breakdown by Product



- As a result of the significant drop in equipment sales, percentage distribution of other products goes up.
- Sales of consumables stayed at a high level from last fiscal year, and the percentage distribution exceeded 25%.

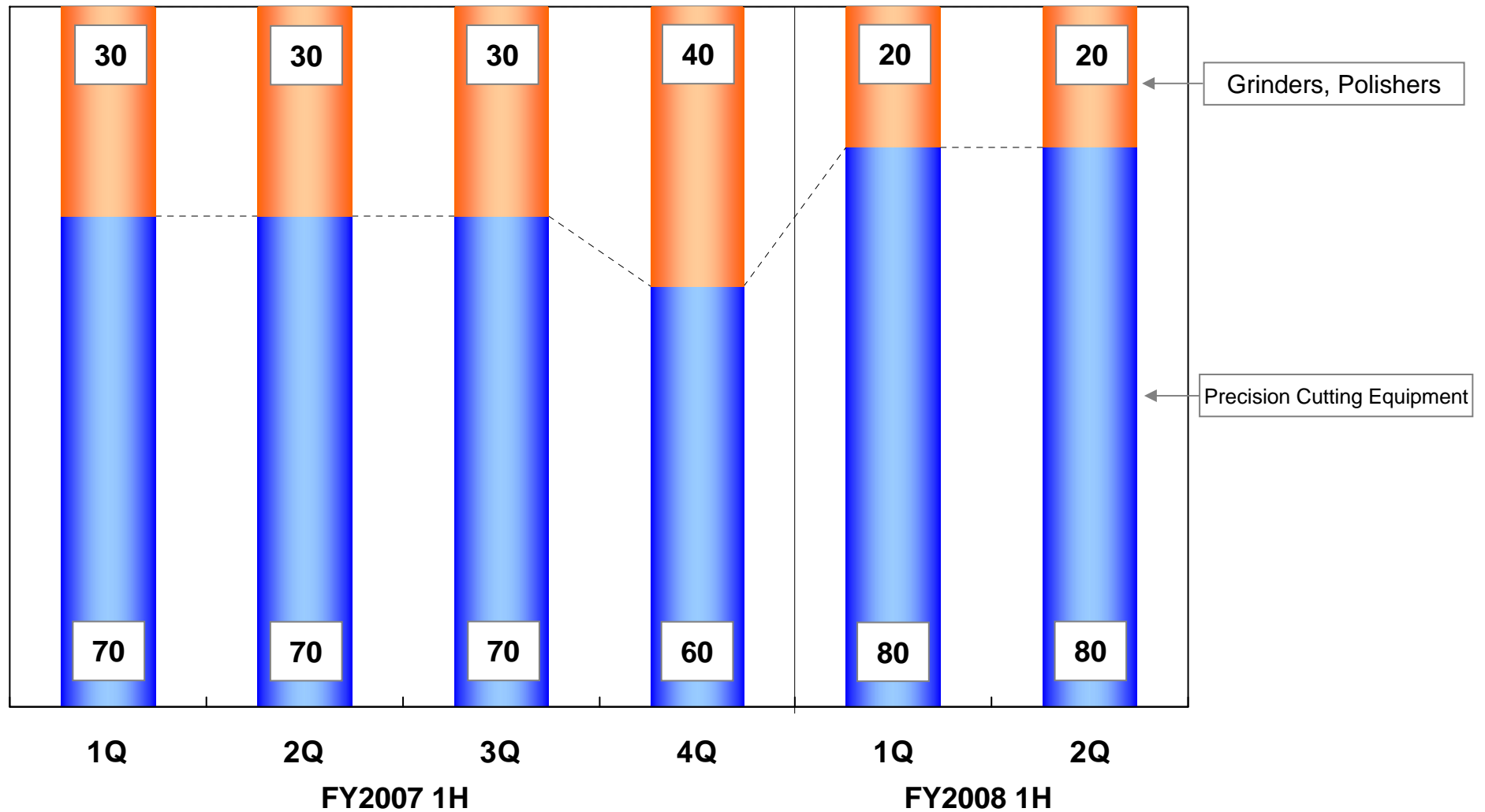
# Consolidated Quarterly Sales Breakdown by Product



- Although equipment sales dropped from 4Q, 1Q and 2Q equipment sales stayed at the same level.
- Sales of consumables slightly increased from 1Q to 2Q and grew steadily in quantity.

# Quarterly Equipment Sales Breakdown

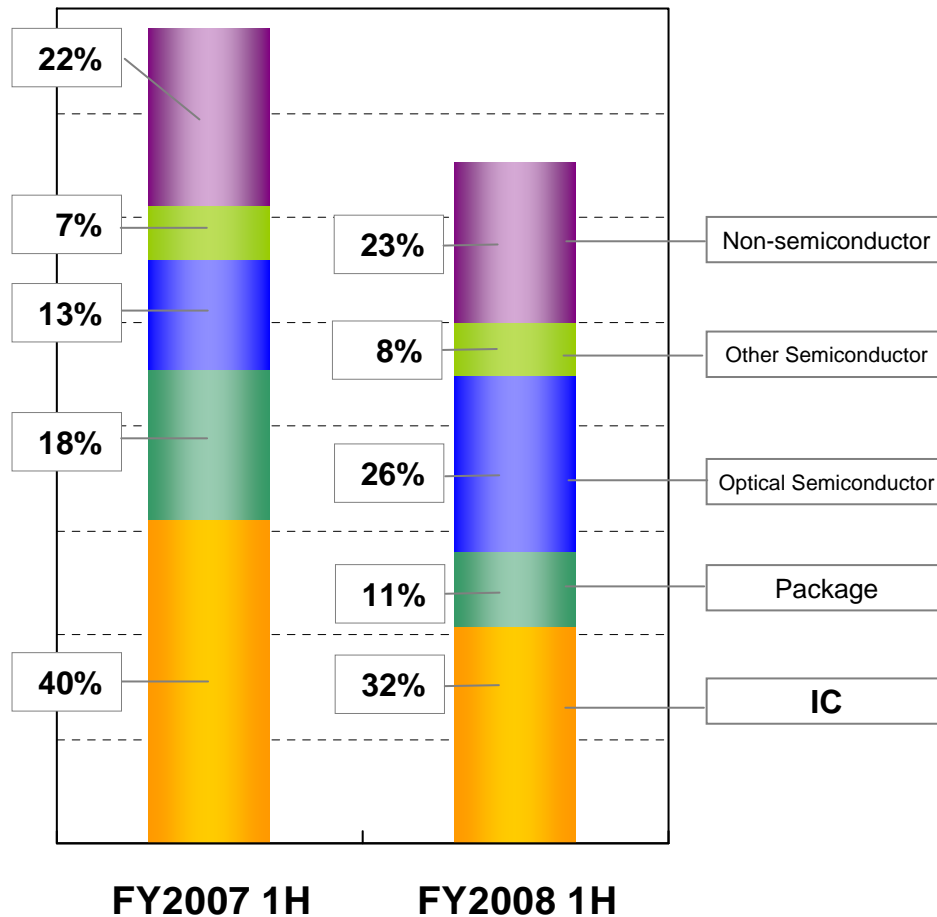
(%)



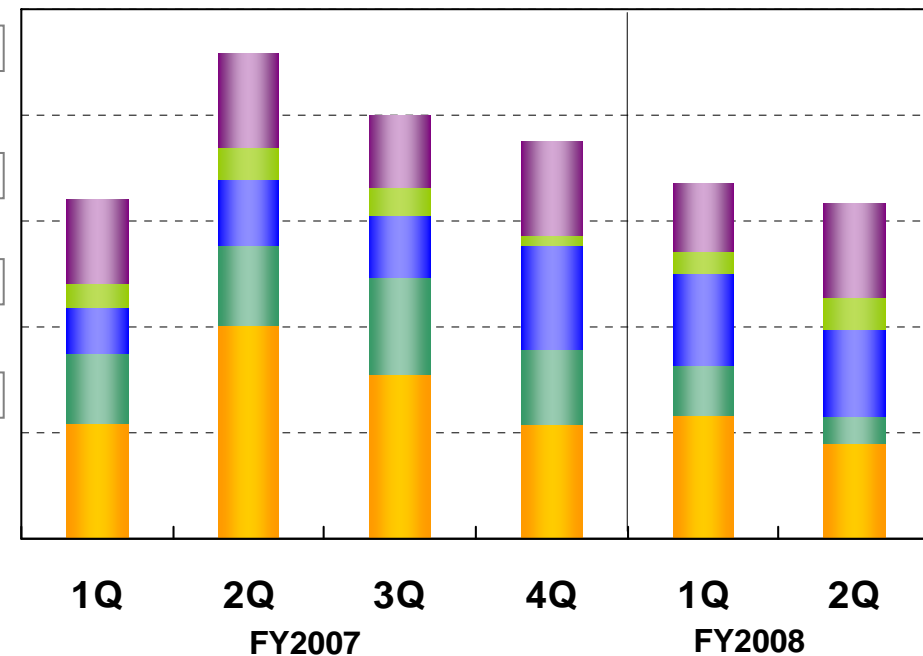
- The ratio of cutting, dicing saws went up due to a significant drop in sales of grinders, polishers.

# Equipment, Non-consolidated Cutting, Dicing Saws\* Sales Breakdown by Application

\*Cutting, dicing saws include blade dicers and laser saws.



## Quarterly Movement

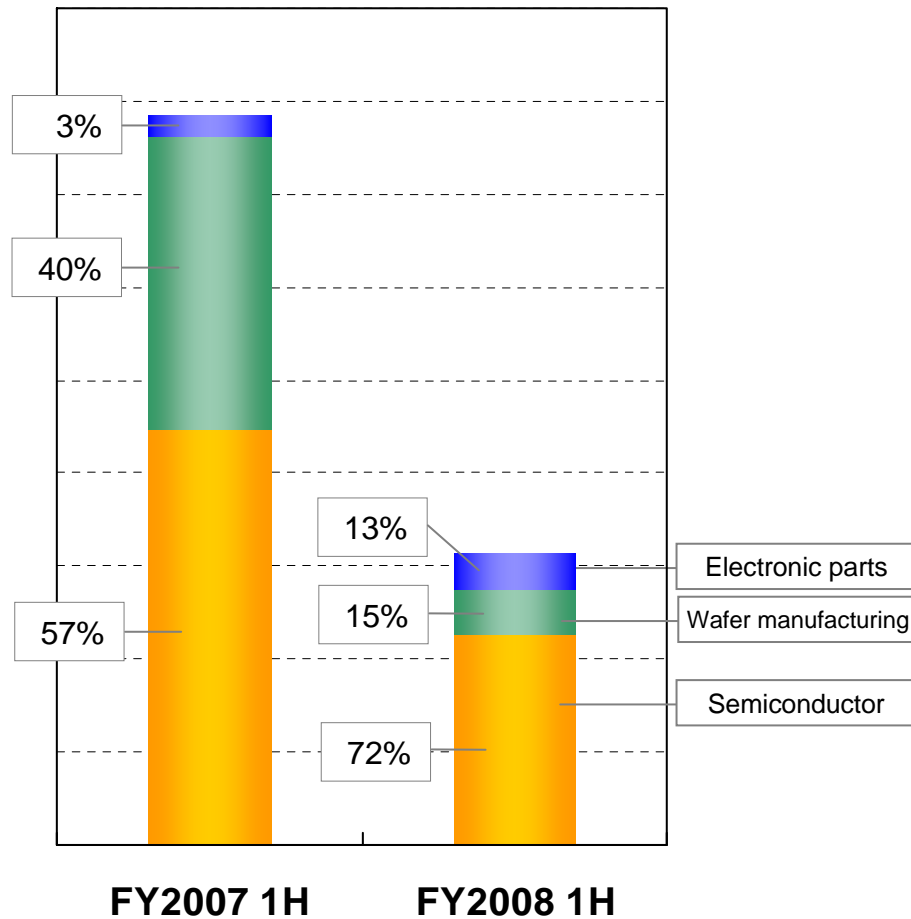


- Sales for ICs and packages drastically decreased mainly because of stagnating investment activities at IC related manufacturers, especially memory manufacturers.
- Shipments of laser saws for LED application especially to Taiwan were strong and the percentage for optical semiconductors went up.

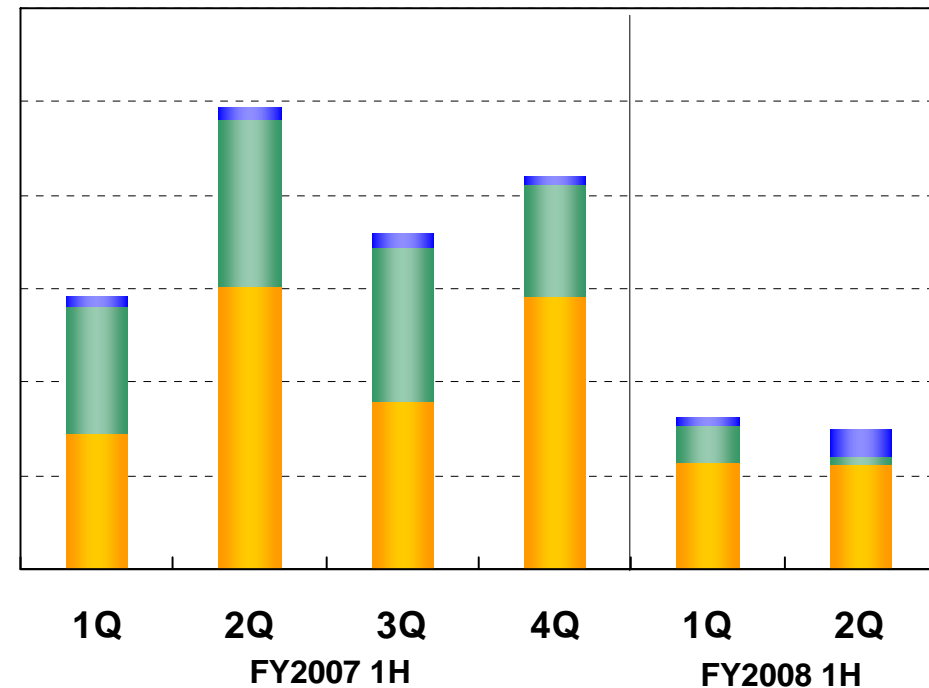


# Equipment, Non-consolidated Grinders, Polishers\* Sales Breakdown by Application

\*Grinders, polishers also include surface planers and grinders/polishers.



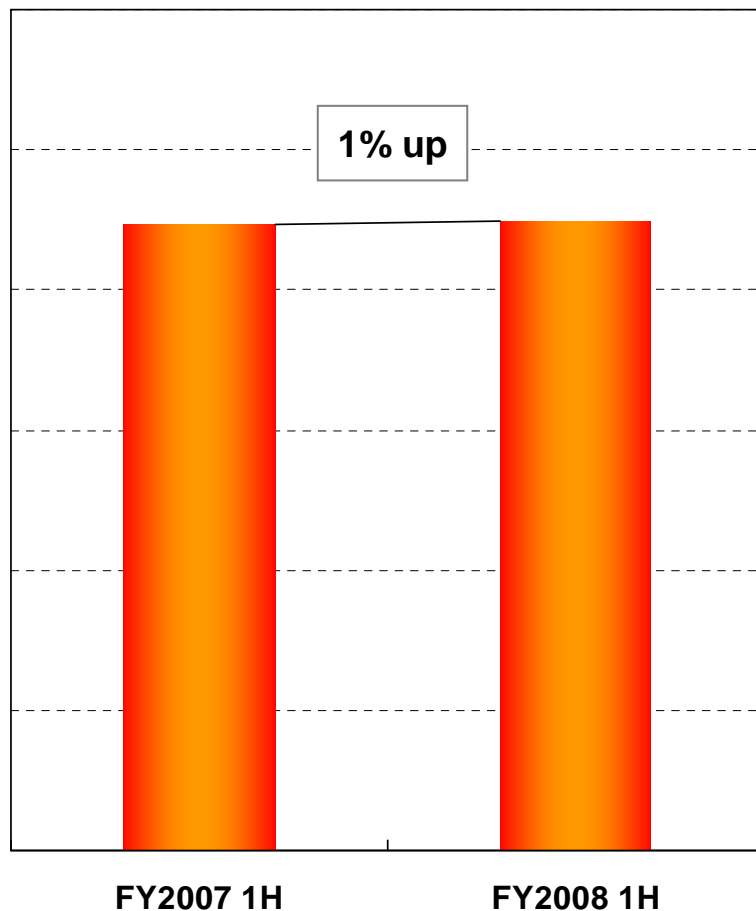
## Quarterly Movement



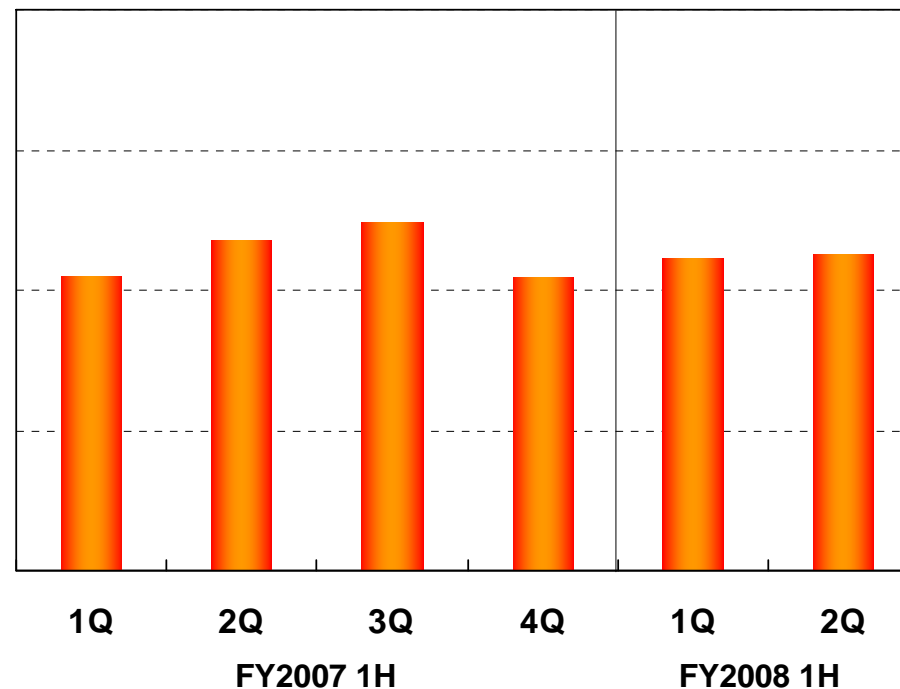
- Grinder sales to wafer manufacturing sharply dropped due to completion of customers' capacity improvement.
- Sales of equipment for ultrathinning application were stagnated due to memory manufacturers, who are leading players of ultrathinning, reducing their investment.

# Consumables\* Sales

\*Consumables include dicing blades, grinding and dry polishing wheels, etc.

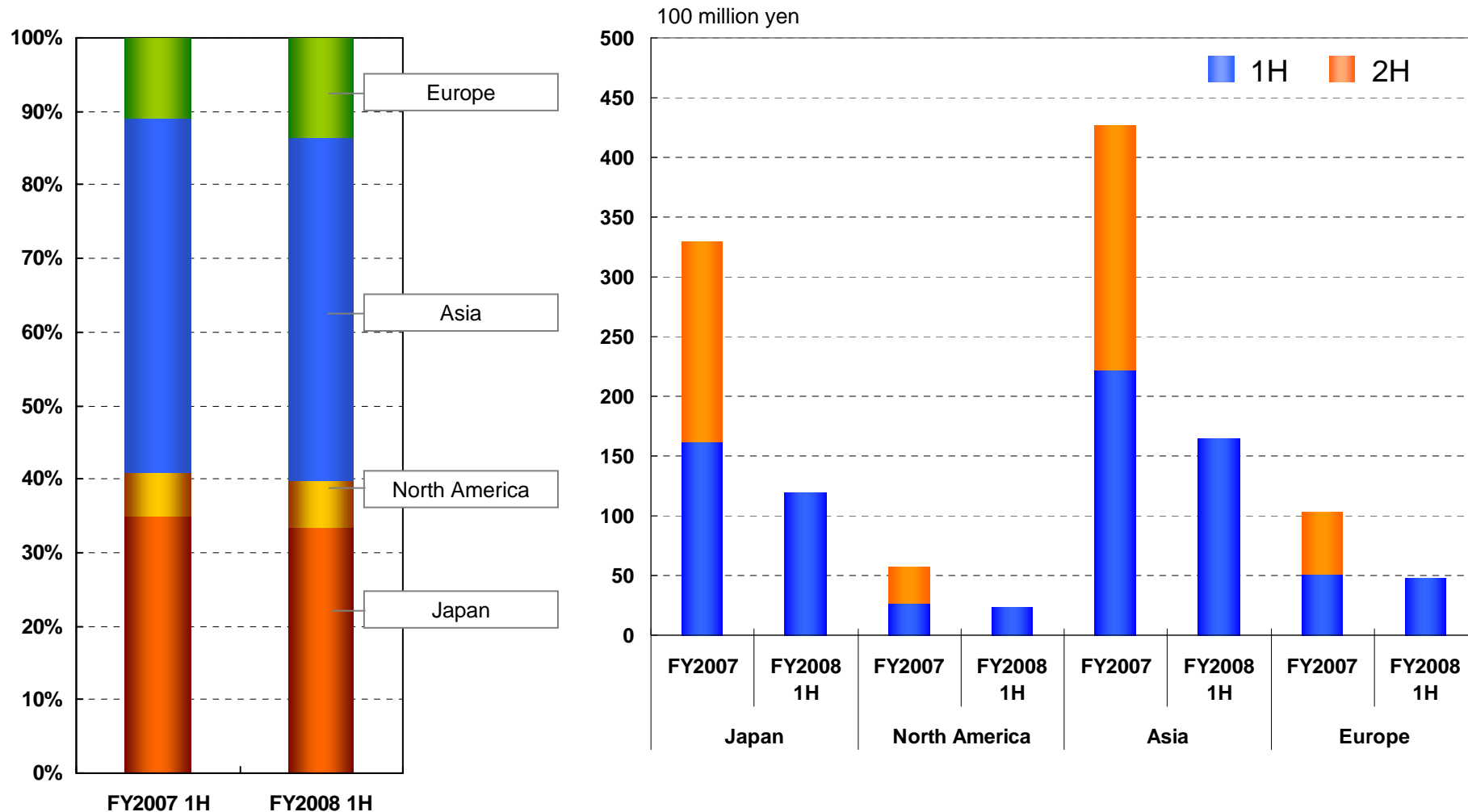


## Quarterly Movement



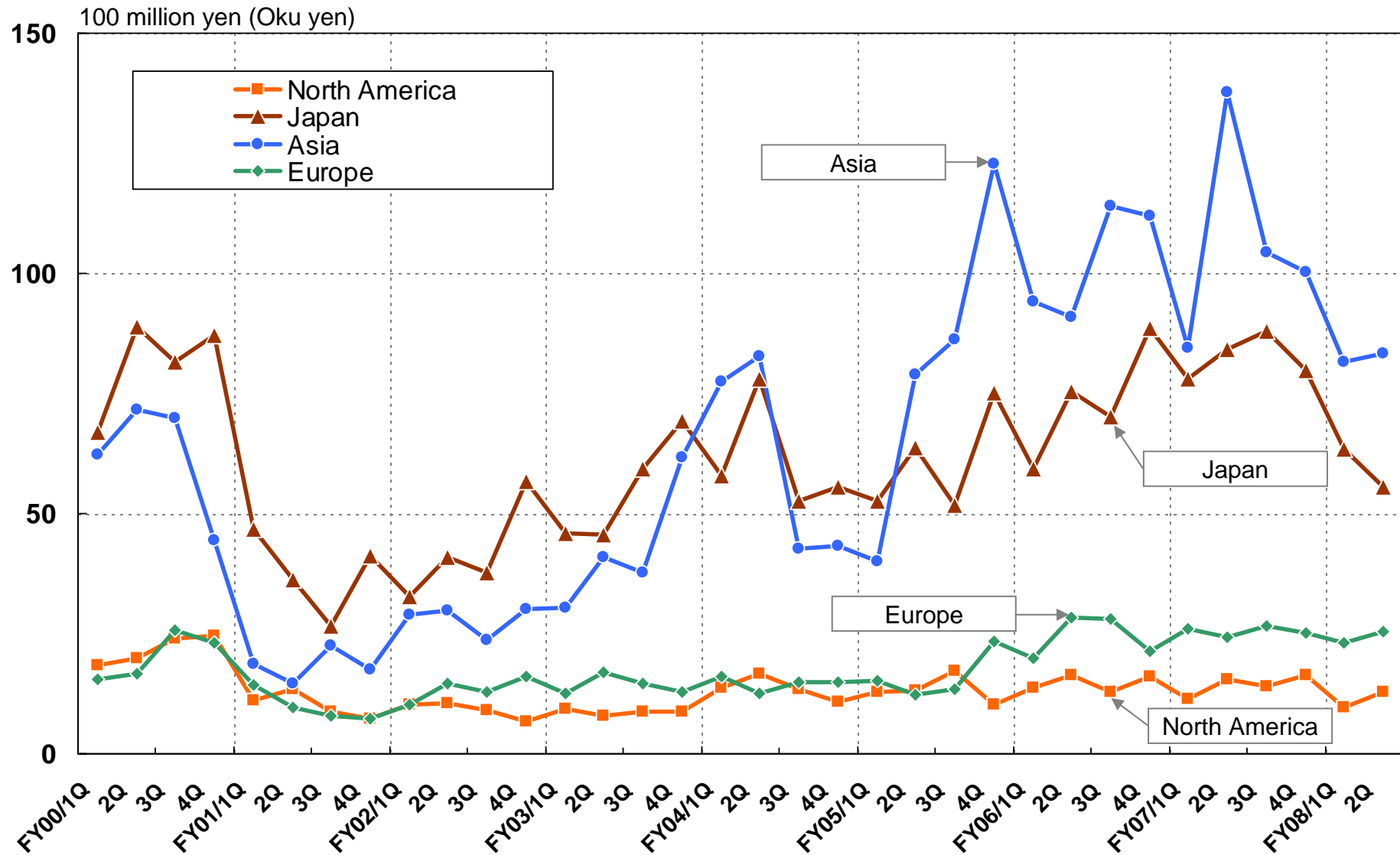
- Sales of consumables were stable even under a downturn period in customers' capital investment.
- The monetary growth of consumables was small mainly due to yen appreciation, however, quantity growth was relatively robust.

# Sales Breakdown by Region



- The percentage for Europe rose in regional sales distribution since sales in Japan and Asia decreased.
- Sales in Japan and Asia were very tough with a 25% drop from last 1H.

# Quarterly Regional Sales



- Quarterly sales in Asia, North America and Europe improved slightly in 2Q, and sales in Japan were very weak.

# FY2008 1H Earning Results

100 million yen, (Oku yen)

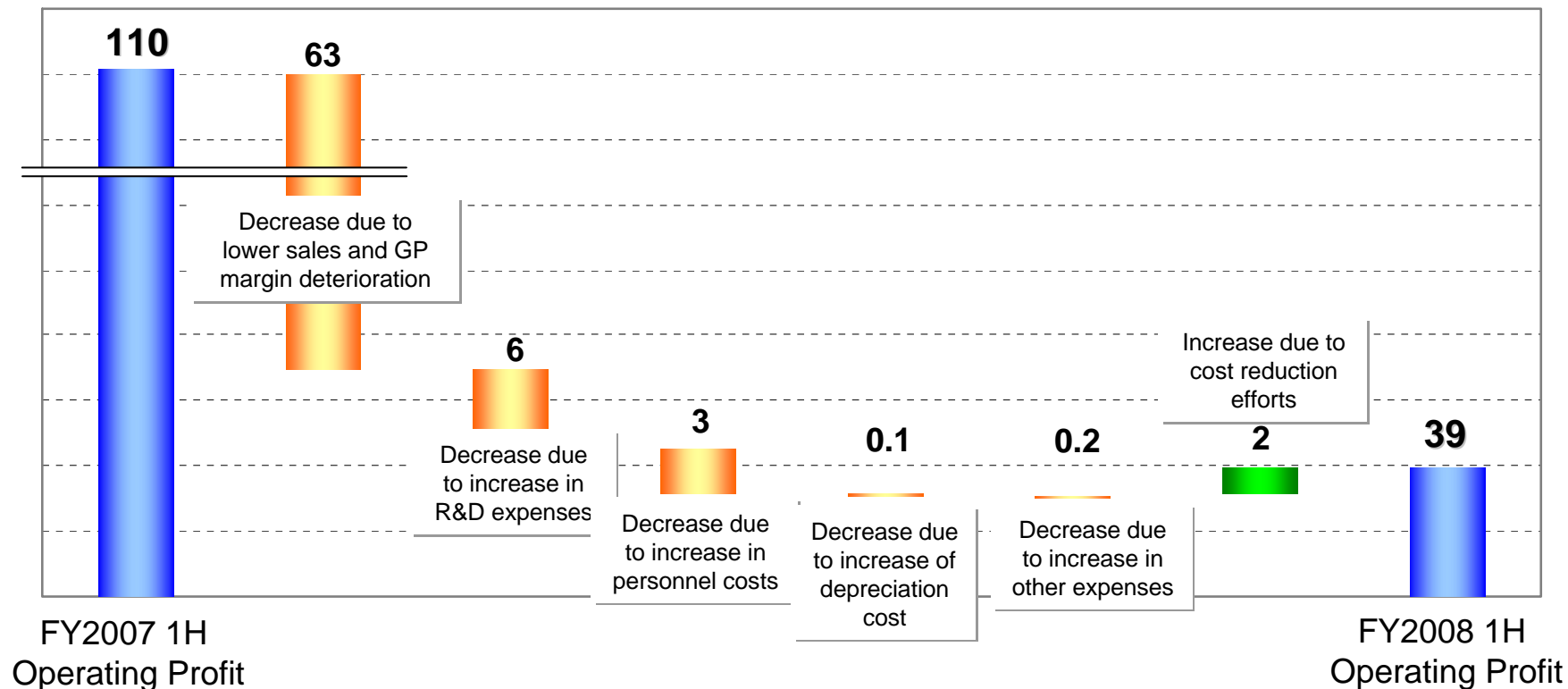
	FY2007 1H	FY2008 1H	△	
			Amount	(%)
<b>Sales</b>	<b>461</b>	<b>355</b>	<b>△106</b>	<b>△23.1</b>
<b>Gross Profit</b>	<b>238</b>	<b>175</b>	<b>△63</b>	<b>△26.5</b>
<b>Gross Profit Margin</b>	<b>51.6%</b>	<b>49.3%</b>	-	-
<b>SGA</b>	<b>128</b>	<b>135</b>	<b>8</b>	<b>6.1</b>
<b>Operating Profit</b>	<b>110</b>	<b>39</b>	<b>△71</b>	<b>△64.2</b>
<b>Ordinary Profit</b>	<b>110</b>	<b>41</b>	<b>△70</b>	<b>△63.1</b>
<b>Ordinary Profit Margin</b>	<b>23.9%</b>	<b>11.5%</b>	-	-
<b>Net Income Before Tax</b>	<b>110</b>	<b>37</b>	<b>△74</b>	<b>△66.6</b>
<b>Net Income</b>	<b>62</b>	<b>27</b>	<b>△35</b>	<b>△57.1</b>
<b>EPS (Yen)</b>	<b>182.51</b>	<b>78.36</b>	<b>△104.15</b>	<b>△57.1</b>
<b>Depreciation</b>	<b>15</b>	<b>20</b>	<b>4</b>	<b>27.2</b>
<b>CAPEX</b>	<b>39</b>	<b>69</b>	<b>30</b>	<b>76.4</b>
<b>R&amp;D Expense</b>	<b>35</b>	<b>41</b>	<b>6</b>	<b>17.1</b>

FY2008 1H (August Forecast)	△	
	Amount	(%)
<b>375</b>	<b>△20</b>	<b>△5.4</b>
-	-	-
-	-	-
-	-	-
<b>45</b>	<b>△6</b>	<b>△12.2</b>
<b>46</b>	<b>△5</b>	<b>△11.6</b>
-	-	-
-	-	-
<b>23</b>	<b>4</b>	<b>15.6</b>
67.7		
-	-	-
-	-	-
-	-	-

- Gross profit margin deteriorated slightly due to the sales decrease and yen appreciation.
- SGA increased by strategic expansion of human resources and R&D activities for future growth.
- Net income increased from the previous forecast due to the reduced tax rate.

# Operating Profit Factorial Analysis

in 100 million yen (Oku yen)



- Sales decrease from the yen appreciation: Approx. 950 million yen  
 FY2007 1H Effective rate US\$:119.20 yen → FY2008 1H 106.23 yen
- Strategic expansion of R&D  
 FY2007 1H 3,525 million yen → FY2008 1H 4,129 million yen

# Balance Sheet

100 million yen (Oku yen)	FY2007	FY2008		△
	March 31, 2008	June 30, 2008	September 30, 2008	Previous year
<b>Current Assets</b>	699	614	<b>557</b>	△141
Cash and cash equivalents	191	143	<b>126</b>	△64
Notes and account receivable	271	241	<b>204</b>	△67
Inventories	199	198	<b>192</b>	△7
Others	38	27	<b>34</b>	△3
<b>Fixed Assets</b>	487	489	<b>531</b>	43
Tangible fixed assets and Non-tangible fixed assets	421	423	<b>462</b>	41
Other fixed assets	66	62	<b>68</b>	2
<b>Total Assets</b>	<b>1,186</b>	<b>1,103</b>	<b>1,088</b>	△98
<b>Current Liabilities</b>	264	180	<b>159</b>	△104
Long term Liabilities, others	26	25	<b>24</b>	△2
<b>Shareholders' Equity</b>	897	898	<b>905</b>	9
Shareholders' Equity Ratio (%)	75.0%	80.7%	<b>82.7%</b>	-
<b>Liabilities and Shareholders' Equity</b>	<b>1,186</b>	<b>1,103</b>	<b>1,088</b>	△98

- Cash and cash equivalent decreased by 6.4 billion yen due to payment of receivables, purchase of fixed assets and dividend payments.
- Current liabilities decreased 10.4 billion yen due to decreased accounts payable, thus the equity ratio rose to 82.7%

# Cash Flow

100 million yen, (Oku yen)		FY2007 1H	FY2008 1H	FY2007 2H
<b>Cash flow from operating activities</b>		33	33	93
	Net income	110	37	185
	Depreciation	15	20	37
	Trade receivables, inventories, notes and account payables	△31	9	△35
	Tax payables	△50	△19	△89
	Others	△12	△15	△5
<b>Cash flow from investing activities</b>		△61	△86	△118
	Capital Investment related	△31	△80	△94
	Others	△30	△6	△24
<b>Cash flow from financing activities</b>		△19	△15	△32
	Invest-bearing debt decrease	△3	-	△2
	Payment of dividends	△15	△15	△27
	others	△1	△0	△3
<b>Free cash flow</b>		△27	△54	△25
Change of cash and cash equivalents		△46	△64	△60
Balance of cash and cash equivalents		195	116	181

- Operating cash flow was 3.3 billion yen due to decrease in receivables although net income was lower than last fiscal year.
- Investing cash flow was 8.6 billion by payment for the Kure new plant and purchase of fixed assets.



# FY2008 Full-Year Earning Forecast

(100 million yen)

	FY2008					FY2007	△
	1Q Actual	2Q Actual	1H Actual	2H Forecast (Nov)	Full Year Forecast (Nov)		
Sales	178	177	355	300	655	916	△261
Operating Profit	19	21	40	9	48	193	△145
Ordinary Income	19	21	41	16	57	186	△129
Ordinary Income Ratio	10.8%	12.1%	11.5%	5.4%	8.7%	20.3%	△11.6pt
Net Income	13	14	27	7	32	111	△79
Depreciation			20	27	47	37	10
CAPEX			69	83	152	100	52
R&D Expense			41	52	93	83	10

- Assumed exchange rate: US\$ 95 yen, Euro: 120 yen SGP\$: 70 yen
- Effective amount by change in exchange rate (per 1 yen) (for half year): US\$ 73.7 million yen, Euro 6.8 million yen
- Assumed effective tax rate: 40%
- Equipment sales expected to drop 40% from last year.
  - Laser saw sales planned to double from last fiscal year.
  - 60% drop is expected in grinder segment.
- Consumables are expected to have very weak growth in fiscal year 2008.

# Dividend Policy and Dividend Payment

	Intermediate dividend	Year-end dividend	Annual dividend
<b>FY2007</b>	<b>35 yen</b>	<b>44 yen</b>	<b>79 yen</b>
<b>FY2008 (Forecast)</b>	<b>10 yen</b>	<b>10 yen</b>	<b>20 yen</b>

In case of 20% payout ratio applied: 19 yen per share

Therefore, the 20 yen stable base dividend will apply. (Forecast Payout: 21.2%)

## Dividend Policy

1. Payout ratio is set at 20% of the consolidated net income.
2. Maintain an annual dividend payment of not less than 20 yen per share as a stable base dividend excluding the case where a consolidated net loss is recorded in three consecutive fiscal years.
3. If the consolidated ordinary income margin exceeds 20%, averaged over four years, the dividend payout will be increased from 20% to 24%.
4. Furthermore, with the exception of fiscal years in which a net loss is recorded, in fiscal years where the Company's cash balance, after the payment of dividends and income taxes, exceeds the amount necessary for such uses as a technology acquisition reserve, including the purchase of intellectual property and investments in start-up firms, plant and equipment expansion, and planned repayment of interest-bearing debt, approximately one-third of the excess cash will be allocated as additional dividends.

# Operating Environment and Management Policy

Hitoshi Mizorogi  
President and CEO

# Operating Environment and Our Business

## ● First Half of Fiscal Year 2008

- ❑ Operating environment became increasingly severe.
- ❑ Major applications of our equipment; memory (DRAM, NAND flash memory), package singulation, and wafer manufacturing, lost sales momentum due to customers' stagnating capital investment
- ❑ Consumables business was relatively strong.
- ❑ Laser business steadily took off.
  - Laser saws for the LED application (especially to Taiwan)

—Revised our earnings forecast considering 1H business operation—

# Operating Environment and Our Business

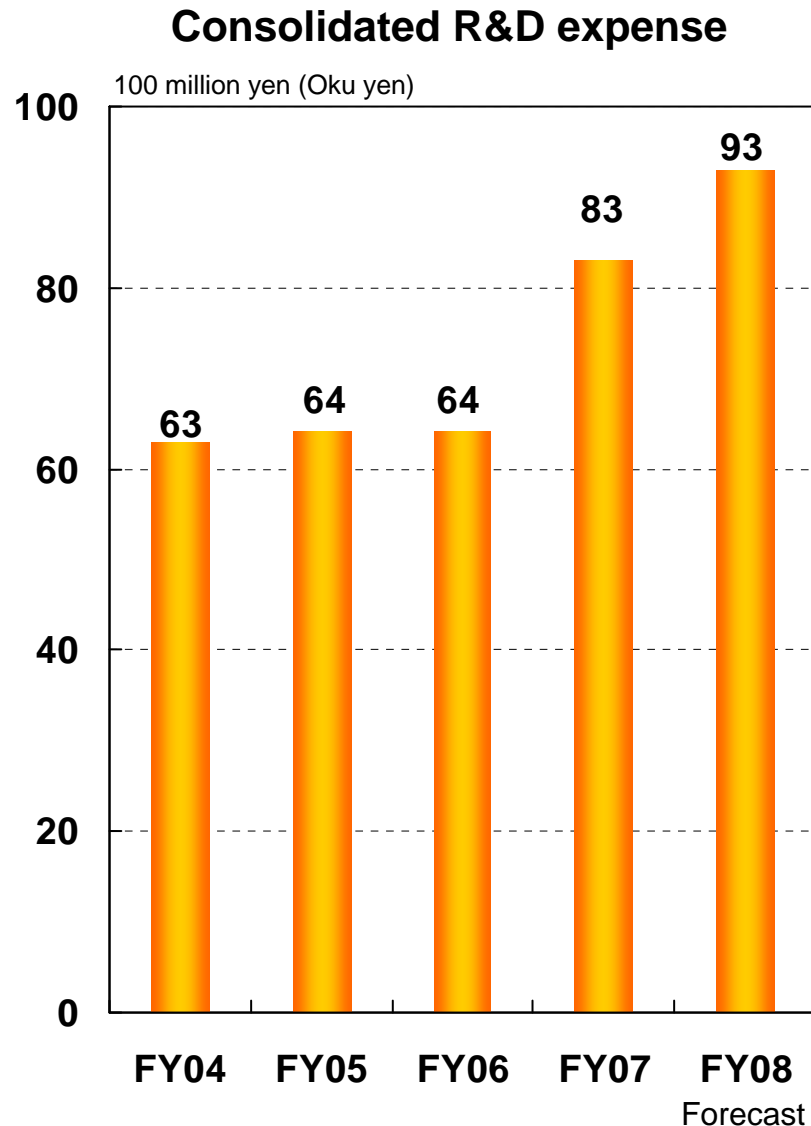
## ● Second Half of Fiscal Year 2008

- ❑ Global recession: Different from past silicon cycles and the IT bubble burst in 2001 “Sense of bottomless crisis”
- ❑ In the past, the next upturn could be foreseen during the declining period.
- ❑ Demand for end-use products barely expected (No significant leading regions or products).
- ❑ Uncertainty. Customer’s “wait-and-see” attitude will continue.
- ❑ Excess capacity problem in the semiconductor industry  
Stagnated prices and credit crunch

**Decreased investment in the semiconductor and electronic component industries will continue for the time being. → Very tough business environment for DISCO**

—Revising earning forecast for FY2008 —

# Strategic Steps for Growth ①



- Continue R&D investment even under tough period

- 3 Dimensional Integration

- Ultrathinning – Cleaning
- Laser cutting
- DAF cutting
- DBG
- TSV

- Laser Cutting

- LED
- Low-k

- TAIKO Process

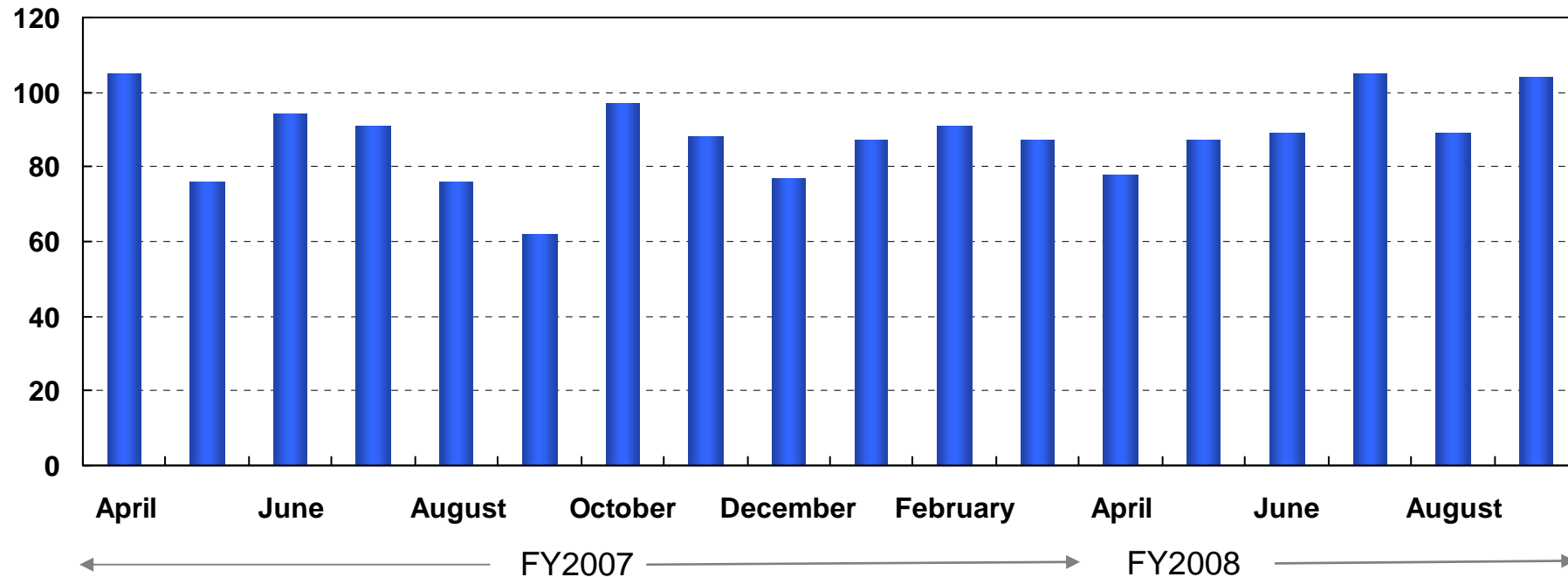
- IGBT (Automotive power device)

- ••••

- ••••

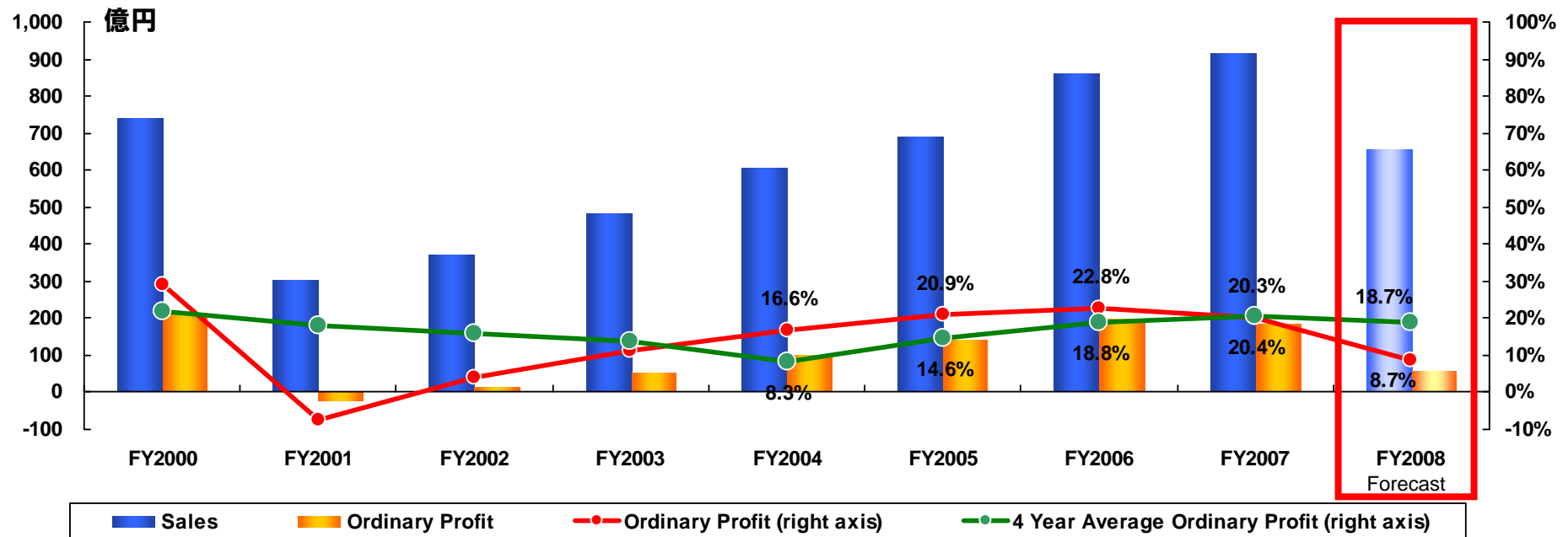
# Strategic Steps for Growth ②

Monthly Number of Test Cuts  
(Test cuts conducted only at HQ application lab.)



- Current business is very weak, however.....
  - Number of test cuts remains at a high level
  - Active service demand
    - Customers' productivity improvement
    - Quality improvement
    - Improvement of utilization rate

# 2H of Fiscal Year 2008



1. Strengthen to accomplish annual management policy
2. Continue to invest in *Kiru, Kezuru, Migaku*  
Continue investment for efficiency enhancement
3. Thorough cost reduction efforts
  - Continue 5% structural cost reduction activities.
  - Cost cut in 2H budget and prioritizing of R&D theme and efficiency enhancement
  - Declare financial management level “F”.



# Conclusion

Economic recession triggered by global financial crisis significantly impacts on semiconductor and electronic components industries

Under such uncertain operating environment,

- Thorough cost reduction effort
- Streamlining of operational process
- Execution of R&D which is necessary currently and during the recovery period
- Continuous activities for anchoring DISCO Values

Dedicate all our strength to **urgent challenges** and **future agendas**

**DISCO**

Kiru・Kezuru・Migaku Technologies

