

FY2016 2Q Financial Results and FY2016 Forecasts

DISCO CORPORATION

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FY2016 2Q Earnings Results

Millions of Yen	FY2016 2Q	FY2016 1Q	QoQ		FY2015 2Q	YoY	
			Amount	(%)		Amount	(%)
Net Sales	33,964	31,273	2,691	8.6%	32,402	1,562	4.8%
Gross Profit	18,287	17,001	1,285	7.6%	18,517	-230	-1.2%
Gross Profit Margin	53.8%	54.4%	-0.6p	-	57.1%	-3.3p	-
SG&A	10,323	10,072	251	2.5%	10,675	-352	-3.3%
Operating Income	7,963	6,928	1,035	14.9%	7,841	122	1.6%
Ordinary Income	8,111	7,493	618	8.2%	8,064	47	0.6%
Ordinary Income Margin	23.9%	24.0%	-0.1p	-	24.9%	-1.0p	-
Income before income taxes and minority interests	8,073	7,014	1,059	15.1%	7,900	173	2.2%
Net Income	6,068	5,794	274	4.7%	5,554	514	9.3%

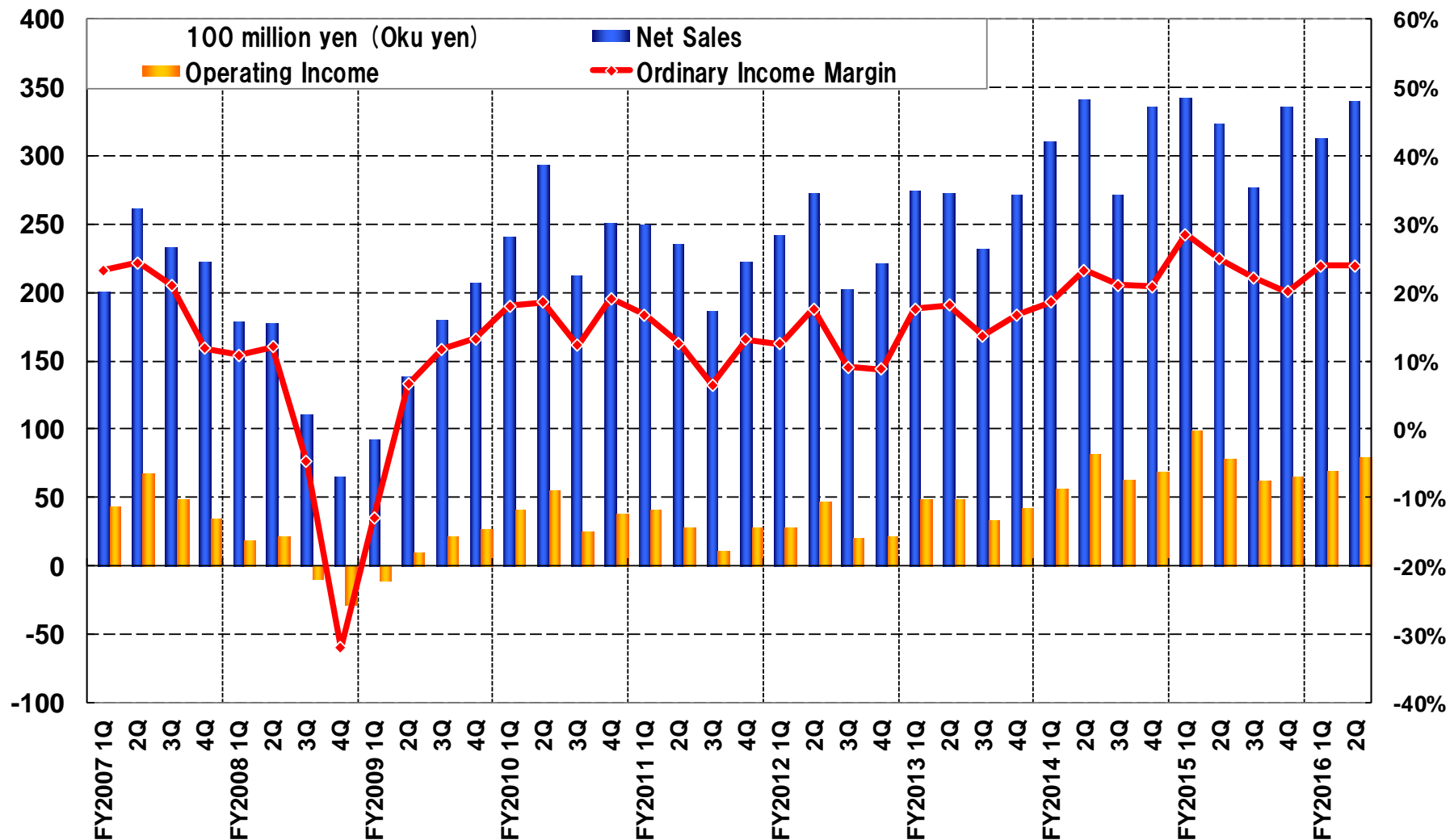
- Sales: Customers actively made capital investments for memory applications.
Consumables sales were steady and 2Q FY16 sales increased YoY and QoQ accordingly.
- GP Rate: The GP rate decreased, mainly due to fluctuations in the exchange rate (yen appreciation of approx. 7 Yen QoQ and 19 Yen YoY).
- SG&A: SG&A expenses increased QoQ due to seasonal factors, but decreased YoY where there was a large spending of R&D expenses in the last year.
- Operating income: Although the GP rate decreased, the operating income increased slightly thanks to increased sales.

FY2016 1H Earnings Results

Millions of Yen	FY2016 1H	FY2015 1H	YoY	
			Amount	(%)
Net Sales	65,238	66,600	-1,362	-2.0%
Gross Profit	35,288	38,314	-3,026	-7.9%
Gross Profit Margin	54.1%	57.5%	-3.4p	-
SG&A	20,396	20,566	-170	-0.8%
Operating Income	14,892	17,748	-2,856	-16.1%
Ordinary Income	15,605	17,818	-2,214	-12.4%
Ordinary Income Margin	23.9%	26.8%	-2.9p	-
Income before income taxes and minority interests	15,088	17,642	-2,554	-14.5%
Net Income	11,863	12,056	-193	-1.6%

- Sales in the first half of FY16 decreased slightly. While capital investments by manufacturers for some applications were active, sales showed a slight decrease due to the yen appreciation and sluggish demands from manufacturers for electronic components.
- The GP rate decreased mainly due to the appreciation of the yen (financial impact of approx. ¥3,200 million).
- SG&A expenses decreased as a whole, while R&D expenses increased.
- The operating income did not reach last year's level (which marked the highest on record) but remained at a high level.

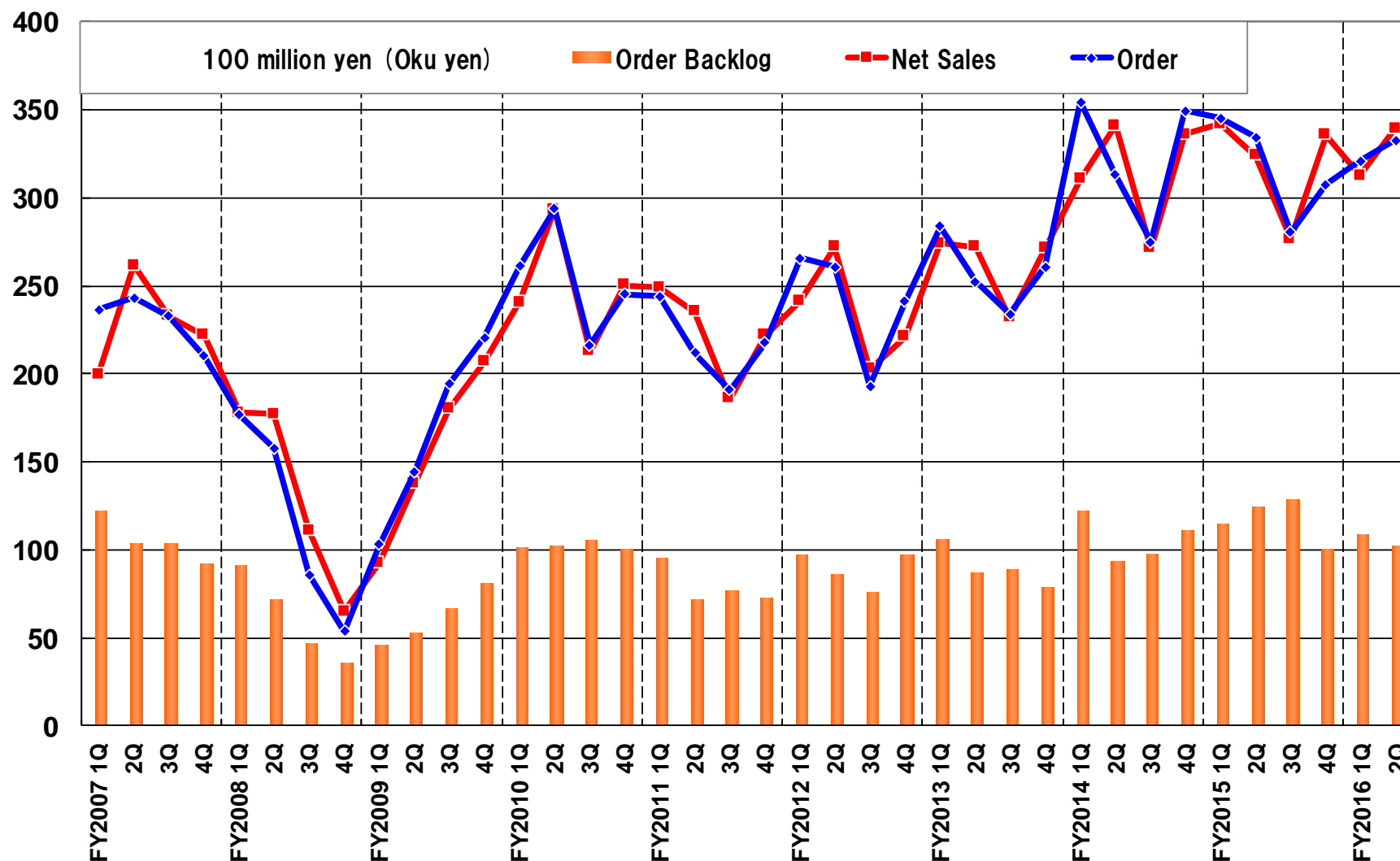
Quarterly Consolidated Financial Results



Due to the negative impact of the exchange rate, the GP rate decreased.

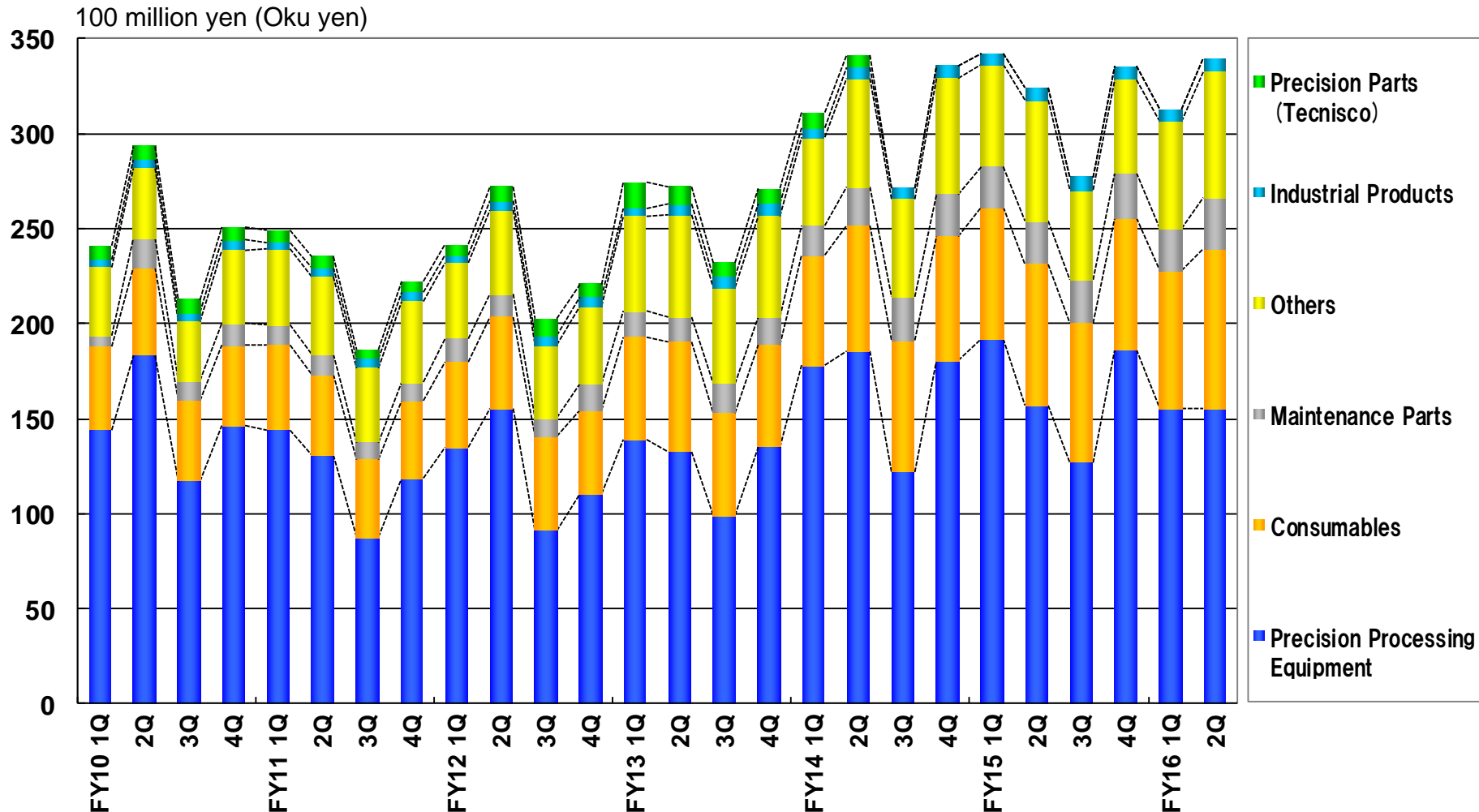
However, thanks to the high level of sales, 2Q FY16 is the ninth consecutive quarter where an ordinary income margin of 20% or higher was achieved.

Quarterly Consolidated Sales/Orders



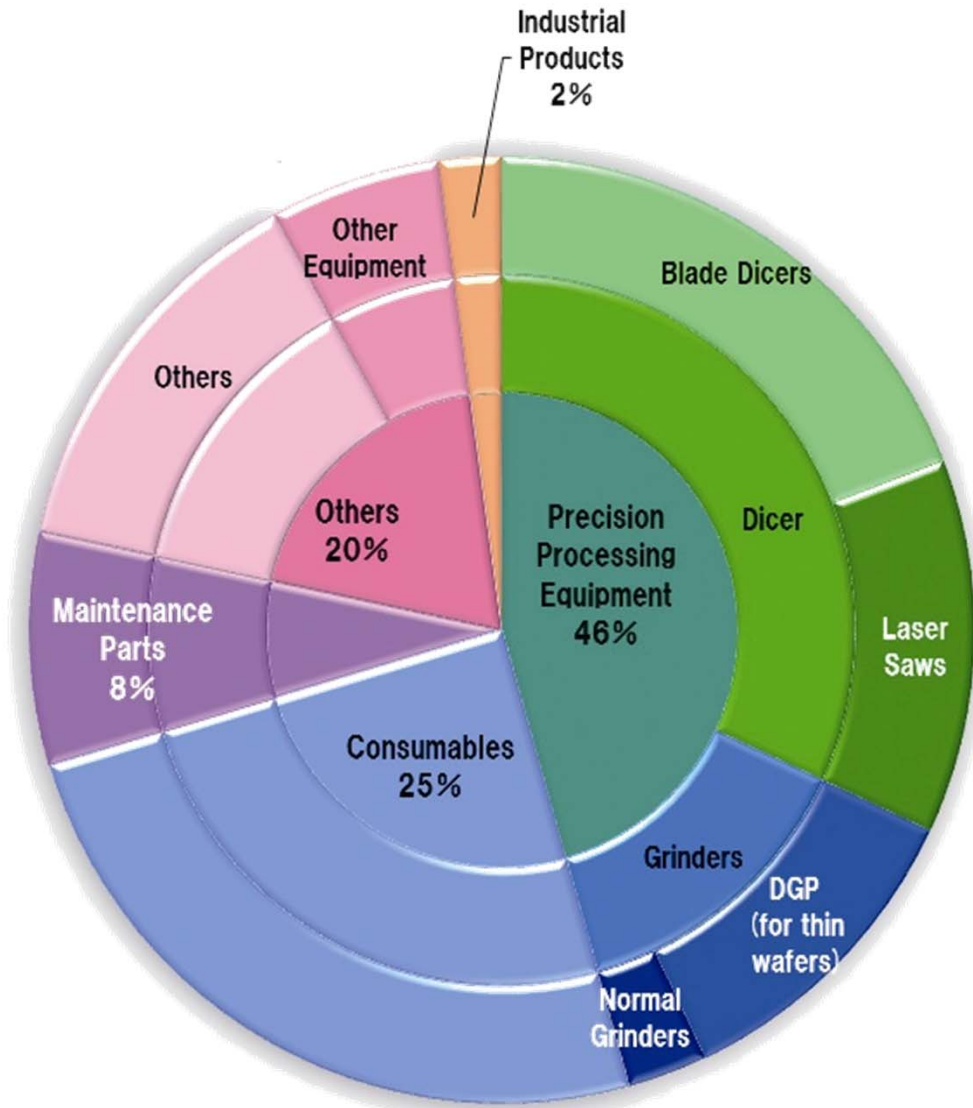
2Q FY16 sales increased due to the increasing capital investments of memory manufacturers.
 2Q orders were approx. ¥33,300 million and the order backlog amounted to ¥10,200 million.

Quarterly Consolidated Sales Breakdown by Product



- Due to increasing demands in capital investments by memory manufacturers from July, equipment sales remained at the same level as the last quarter.
- Consumables sales increased QoQ in proportion to the high capacity utilization rate by customers.

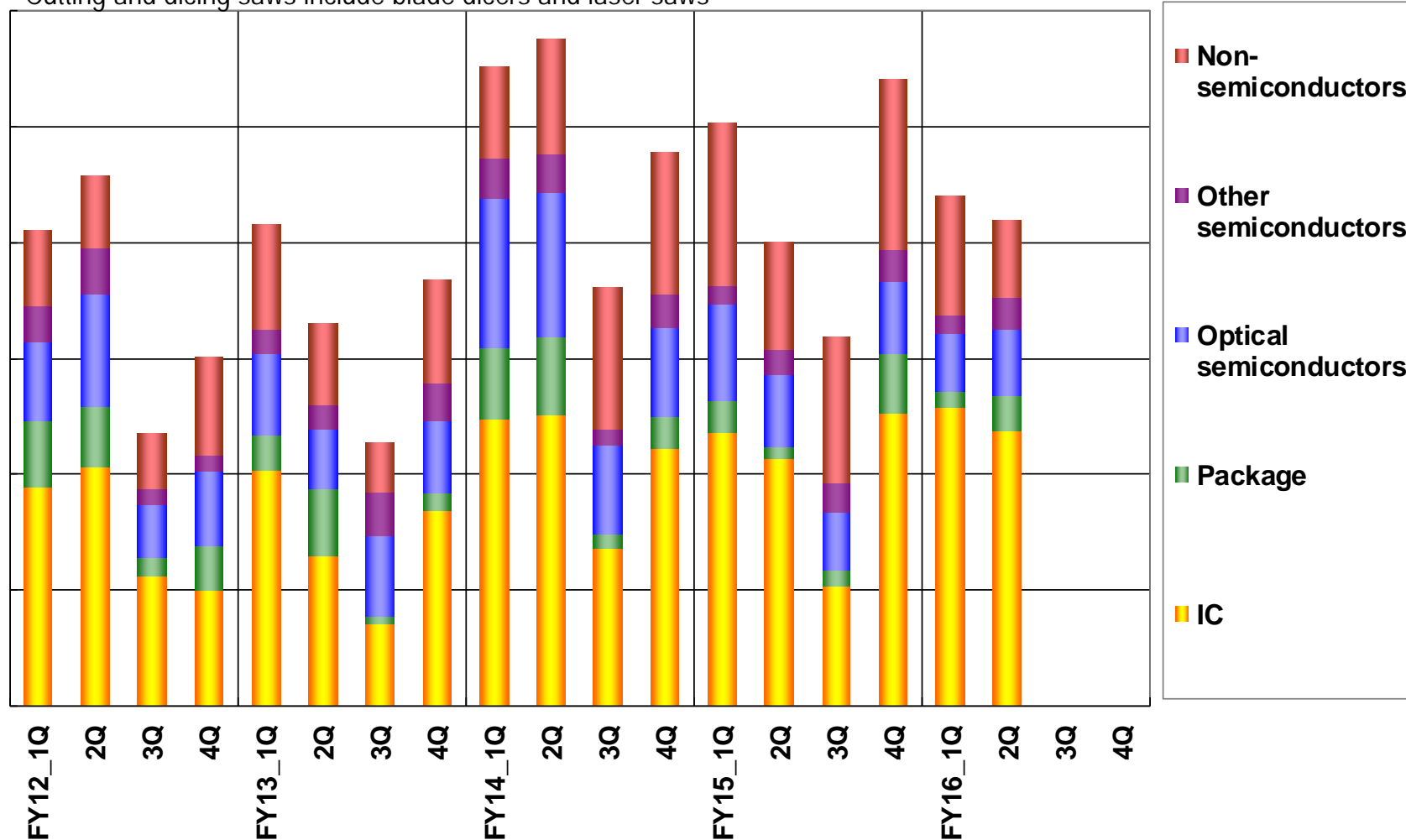
Product and Equipment Sales Breakdown



FY16_2Q	
【Product Sales Breakdown】	
Precision Processing Equipment	46%
Consumables	25%
Maintenance Parts	8%
Others	20%
Industrial Products	2%
【Precision Processing Equipment Breakdown】	
Dicing Saws	70%
Grinders	30%
【Dicing Saws Breakdown】	
Blade Dicers	60%
Laser Saws	40%
【Grinders Breakdown】	
DGP (for thin wafers)	80%
Normal Grinders	20%

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

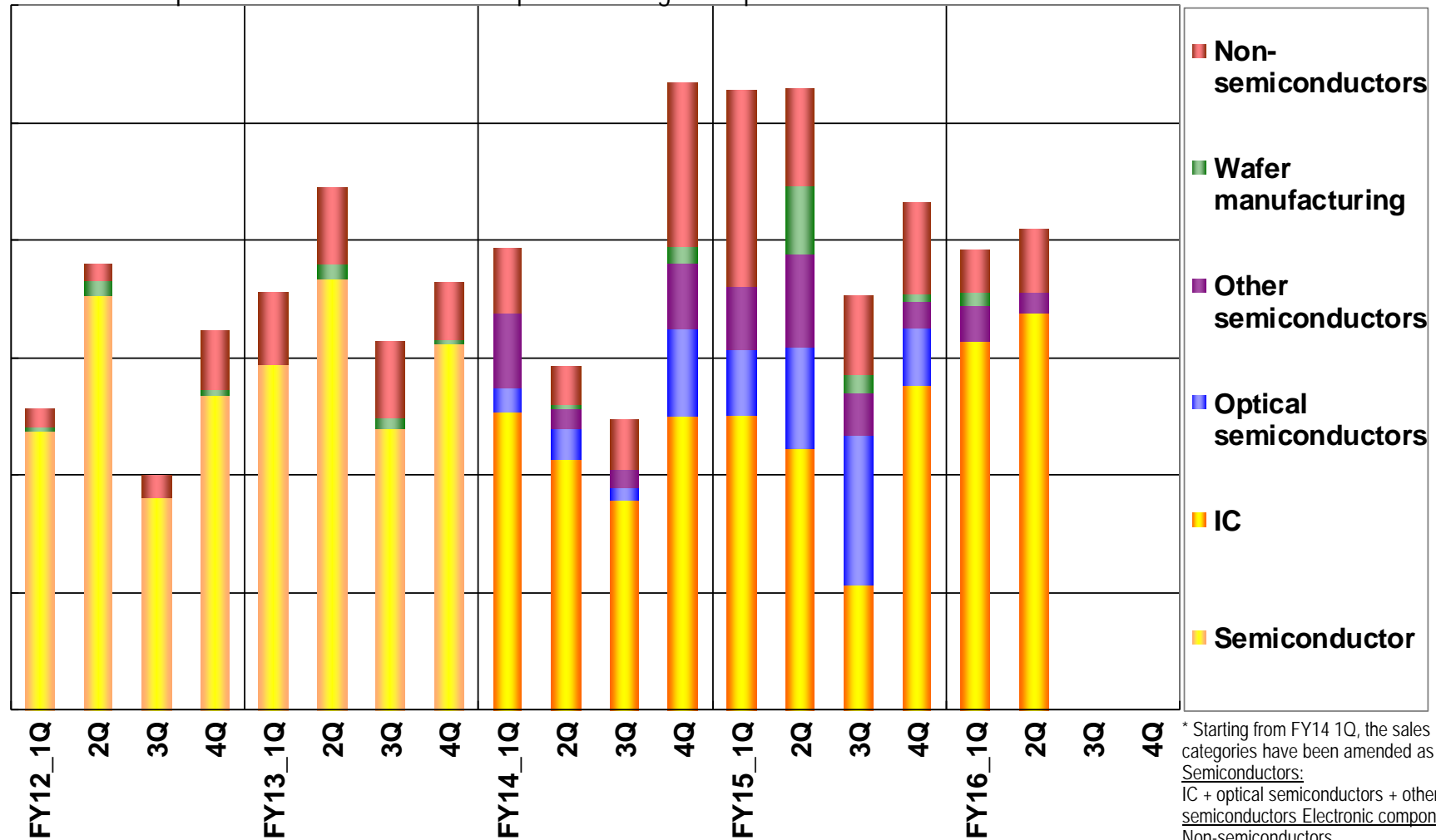
*Cutting and dicing saws include blade dicers and laser saws



- Due to the sluggish demands for dicing saws for electronic components (in non-semiconductor applications), total dicing saw sales showed a slight decline QoQ.
- While capital investments by application processor manufacturers showed a slowdown, capital investments by memory manufacturers became active. Sales for IC applications remained at a high level accordingly.

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

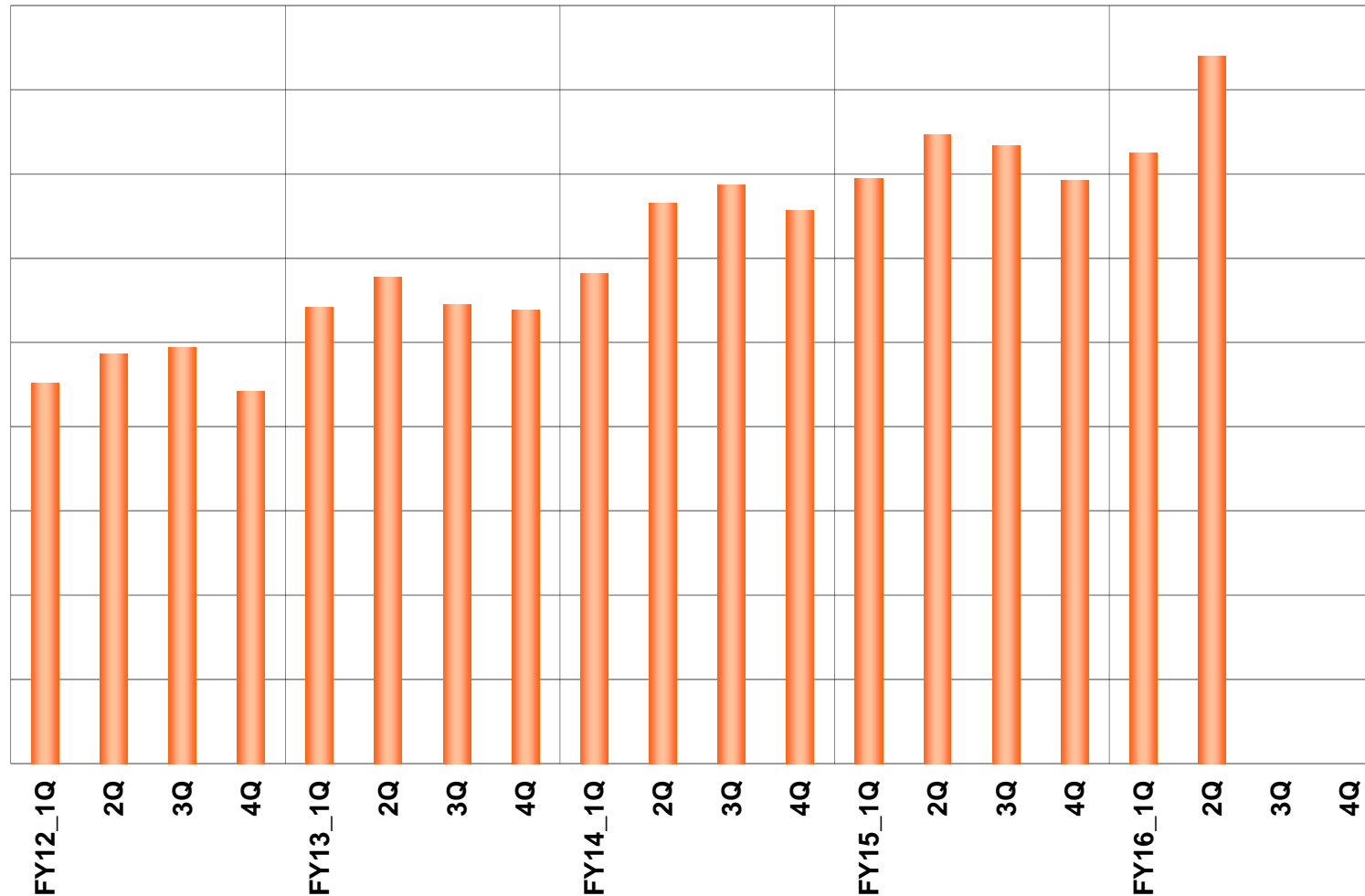
*Grinders and polishers also include surface planers and grinder/polishers



- Capital investments by manufacturers for optical semiconductors and electronic components (in non-semiconductor applications), which were active last year, remained sluggish.
- Thanks to the active capital investments of memory manufacturers, grinder sales for ICs remained at a high level.

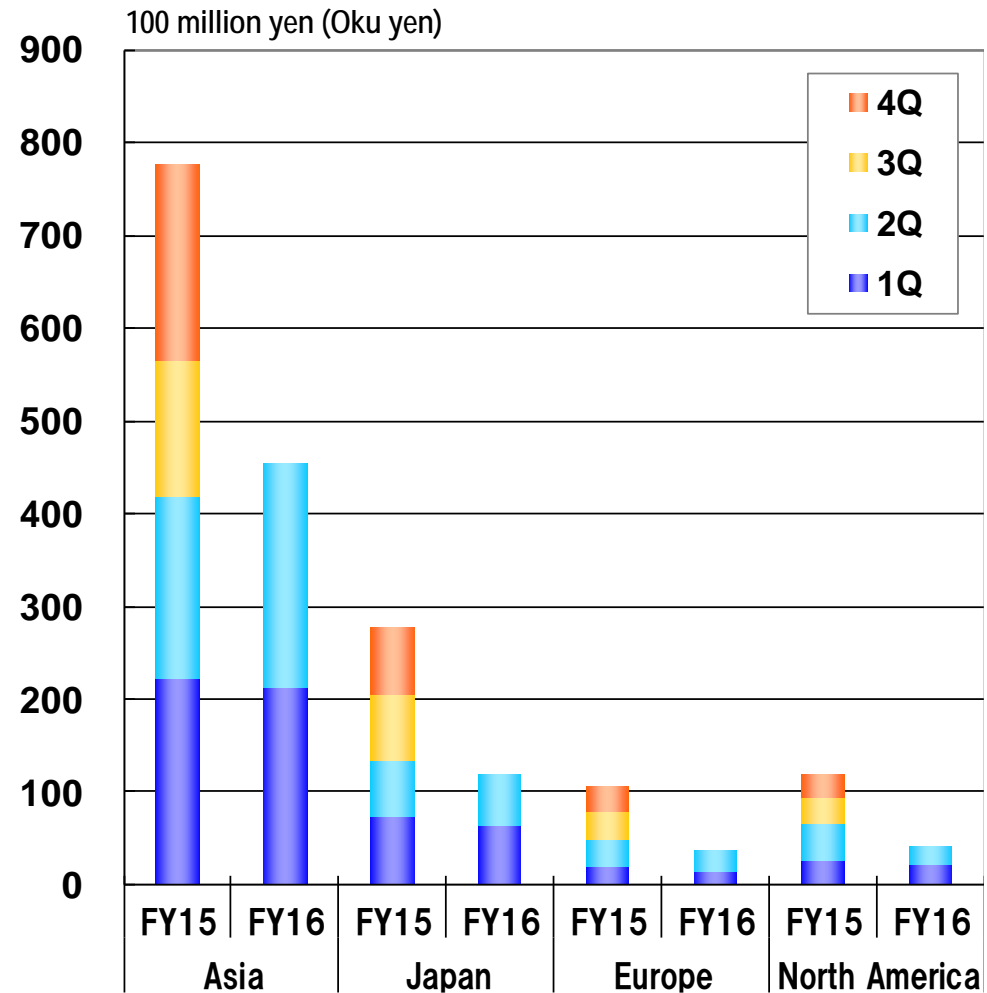
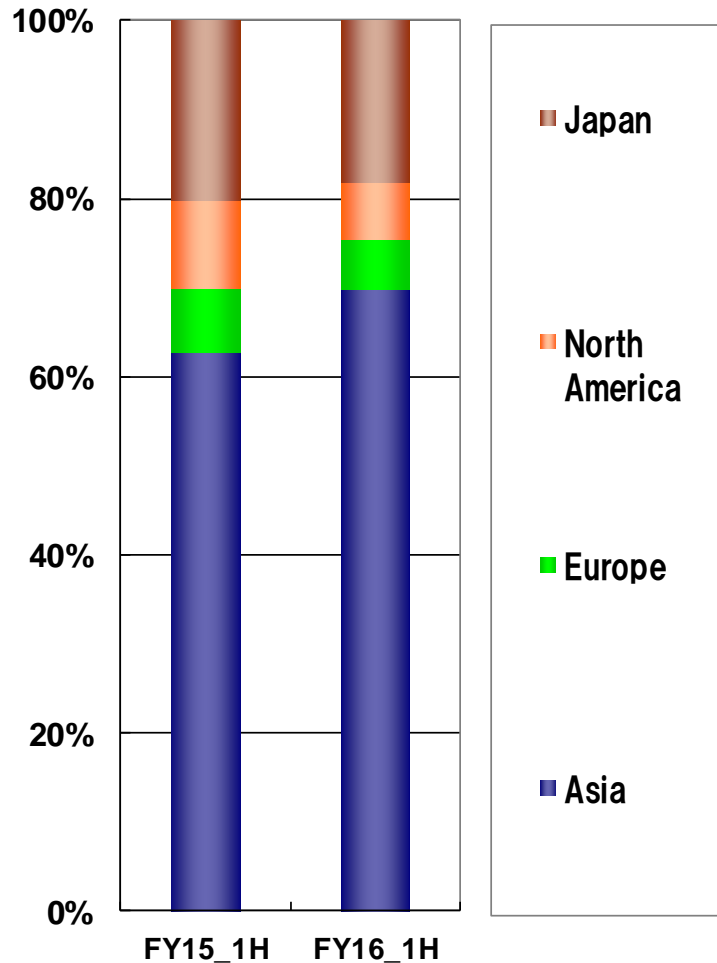
Consolidated Consumables* Sales

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



- Consumable sales are commonly affected by the fluctuation of the exchange rate. Thanks to the firm shipment of consumables, grinding wheel sales in particular increased significantly both QoQ and YoY.

Sales Breakdown by Region Consolidated



2Q: Thanks to the active capital investments of memory manufacturers in Asia, sales increased significantly, especially in Korea.

1H: Last year, Japanese, European and American manufacturers were actively investing. This year, the sales composition rate of countries in Asia increased due to active investments by customers for application processors and memory.

Balance Sheet (Summary)

Millions of Yen	FY2016 2Q	FY2016 1Q	Amount
Cash and deposits	74,567	63,676	10,891
Notes and account receivable	32,107	33,582	-1,475
Inventories	27,125	28,211	-1,086
Total current assets	139,433	130,106	9,327
Property, plant and equipment	61,840	62,894	-1,053
Total noncurrent assets	66,851	67,982	-1,131
Total assets	206,285	198,088	8,196
Current liabilities	35,934	25,727	10,207
Noncurrent liabilities	1,151	8,878	-7,727
Total liabilities	37,086	34,605	2,480
Total net assets	169,199	163,483	5,716
Total liabilities and net assets	206,285	198,088	8,196
Equity Ratio	81.6%	82.1%	-0.5p

Comparison with End of June

- Assets: Total assets increased by approx. ¥8,200 million mainly due to an increase in cash and accounts receivable, while inventory reduction and the amortization of fixed assets advanced.
- Liabilities: Increased approx. ¥2,500 million mainly due to an increase in provisions for bonuses. (Long-term debt was shifted to debt within a year and amounted to approx. ¥7,300 million.)
- Net assets: The shareholders equity rate decreased by 0.5 points to 81.6%.

Cash Flow (Summary)

Millions of Yen	FY2016 1H	FY2015 1H	Amount
Net cash provided by (used in) operating activities	20,379	10,156	10,223
Income before income taxes and minority interests	15,088	17,642	-2,554
Depreciation and amortization	2,970	3,115	-146
Decrease (increase) in notes and accounts receivable-	-483	-2,736	2,253
Decrease (increase) in inventories	3,795	-63	3,859
Increase (decrease) in notes and accounts payable-trade	789	-4,916	5,705
Income taxes (paid) refund	-4,181	-5,083	902
Others	2,400	2,197	202
Net cash provided by (used in) investing activities	-3,179	-3,458	279
Purchase of property, plant and equipment	-2,907	-4,580	1,674
Others	-272	1,122	-1,395
Free cash flow	17,199	6,698	10,502
Net cash provided by (used in) financing activities	-9,007	-3,540	-5,467
Cash dividends paid	-8,226	-3,140	-5,086
Others	-781	-400	-381
Net change in of cash and cash equivalents	7,381	3,218	4,162
Cash and cash equivalents at beginning of period	57,162	42,177	14,984
Cash and cash equivalents at end of period	64,543	45,396	19,147

Cash Flow from Operating Activities: Increased approx. ¥20,300 million.

- Income before income tax decreased compared to the first half of last year.
- Net cash showed an increasing trend due to a decrease in accounts receivable and inventory, and an increase in accounts payable.

Cash Flow from Investing Activities: Decreased by approx. ¥3,200 million.

- Net cash was expended mainly due to the acquisition of tangible fixed assets.

Cash Flow from Financial Activities:

- Decreased by approx. ¥9,000 million. This consists mainly of the payment of dividends.

For free cash flow,

- there was a net inflow of approx. ¥17,200 million.
- The balance of cash and cash equivalents as of September 30 was approx. ¥64,500 million.

FY2016 Earning Forecast

100 million yen (Oku yen)	Actual		Earning Forecast		
	1Q	2Q	3Q	4Q	Full Year
FY2016					
Net Sales	313	340	303	275	1,230
Operating Income	69	80	57	48	254
Ordinary Income	75	81	58	50	264
Net Income	58	61	42	40	201
Operating Income Margin	22.2%	23.4%	18.9%	17.5%	20.7%
Ordinary Income Margin	24.0%	23.9%	19.1%	18.2%	21.5%
Net Income Margin	18.5%	17.9%	14.0%	14.5%	16.3%

FY2015	(Reference) Previous year's results				
	1Q	2Q	3Q	4Q	Full Year
Net Sales	342	324	277	336	1,279
Operating Income	99	78	61	65	303
Ordinary Income	98	81	61	67	307
Net Income	65	56	44	66	231
Operating Income Margin	29.0%	24.2%	22.1%	19.3%	23.7%
Ordinary Income Margin	28.5%	24.9%	22.2%	20.1%	24.0%
Net Income Margin	19.0%	17.1%	15.9%	19.8%	18.1%

Predicted exchange rate US\$1 = 100 yen, 1 Euro = 110 yen

Impact of 1-yen fluctuations to the exchange rate (consolidated, annualized) US\$: Approx. 500 million yen, Euro: Approx. 30 million yen

Dividend Policy and Dividend Payment

(Yen)	FY2016		(Reference)
	Forecast	Actual	FY2015
Intermediate dividend		83	Actual
Year-end dividend	213		85
Annual dividend	296		230
			315

FY2016 Intermediate dividend ¥83

FY2016 Year-end dividend: ¥213
Breakdown

Performance-linked dividend: ¥58
(Based on dividend policy clause 1)

One -third of the surplus: ¥155
(Based on dividend policy clause 3)

Dividend Policy

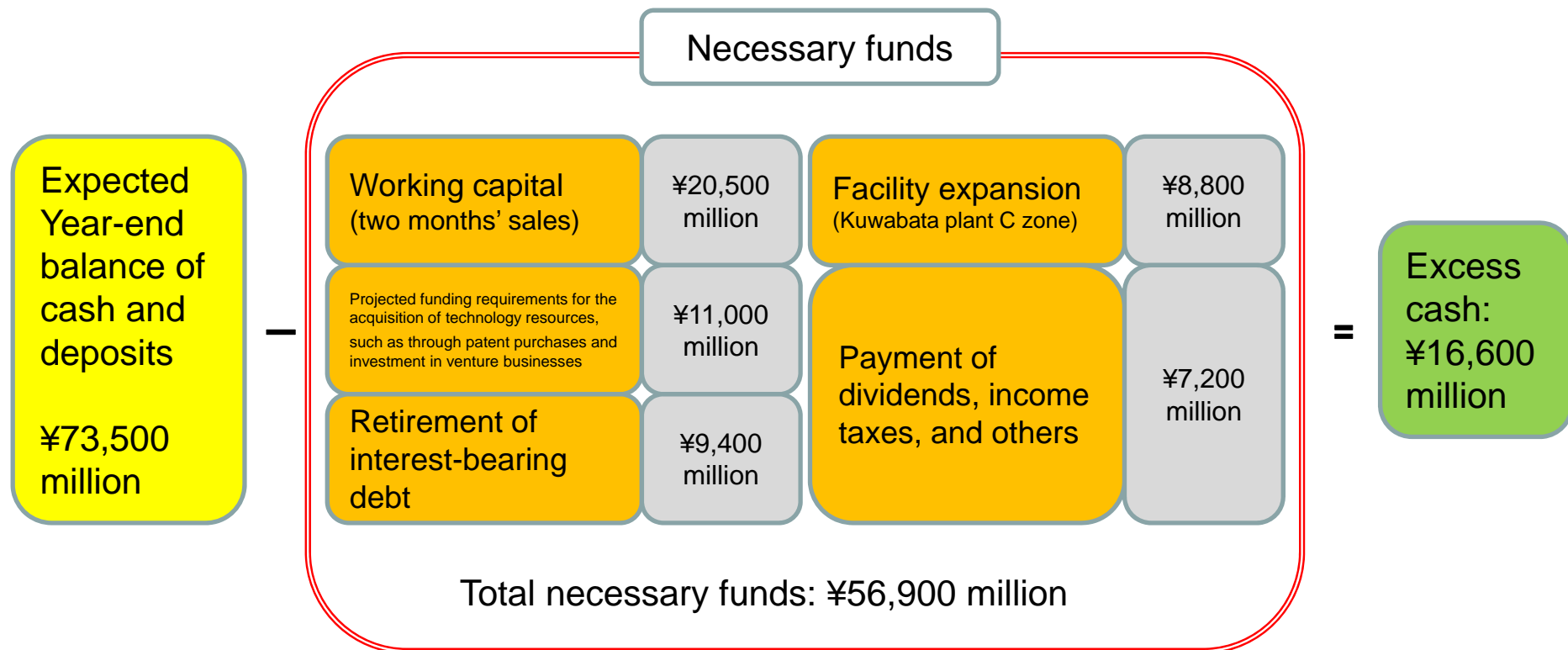
Decisions concerning the distribution of surpluses are made by the general meeting of shareholders, in the case of the final dividend, and by the Board of Directors, in the case of the interim dividend.

1. Adopting a performance-linked dividend policy and aiming at giving clearer priority to shareholder returns, our target dividend payout ratio is 25% of the consolidated half-yearly net income. There will be interim and final dividends, each of which will be equivalent to 25% of the half-yearly consolidated net income.
2. Irrespective of the level of income, we will maintain a reliable dividend of ¥10 per half-year. This means that the minimum yearly dividend will be ¥20.
3. Except when there is a loss, if the year-end balance of cash and deposits after payment of dividends and income taxes is greater than projected funding requirements for the acquisition of technology resources, such as through patent purchases and investment in venture businesses, facility expansion, the retirement of interest-bearing debt and other purposes, one-third of that surplus will be added to dividends.

[Remarks] The ¥20 payout stipulated in our stable dividend policy may be reviewed if there are consolidated net losses in three consecutive years.

[Reference] Calculation Surplus Distribution as Additional Dividends

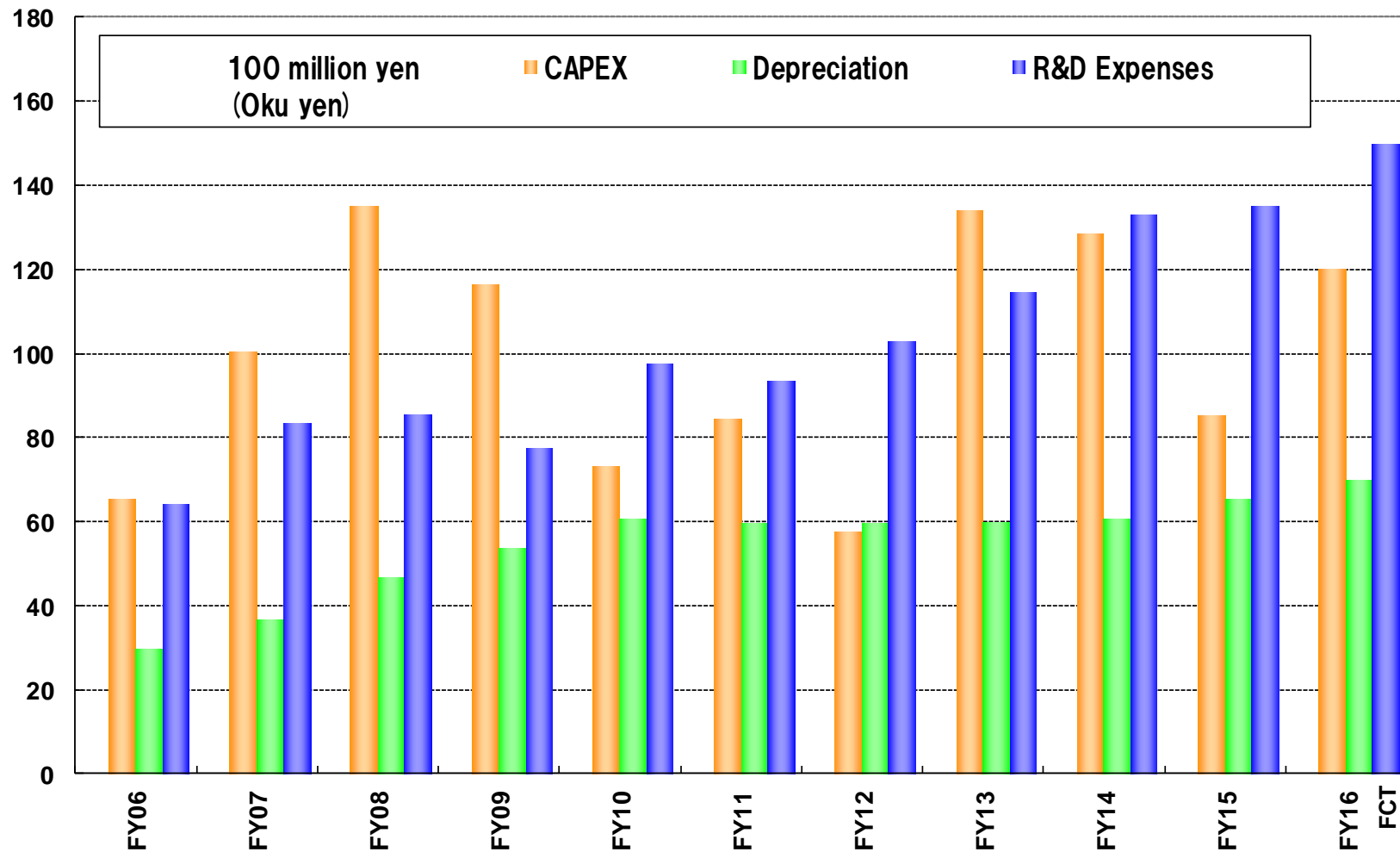
One third of the surplus will be added to the normal dividend.



Forecasted Additional Dividend Payment

Excess cash: ¥16,600 million / 3 / number of shares = ¥155 per share

Consolidated R&D/CAPEX Forecast



Same as previous forecast

R&D: We plan to invest aggressively in R&D. Expenditure will increase from ¥13,500 million in FY2015 to around ¥15,000 million.

Capital spending: We plan to invest around ¥12,000 million due to the construction of a new factory building (¥8,500 million in FY2015).

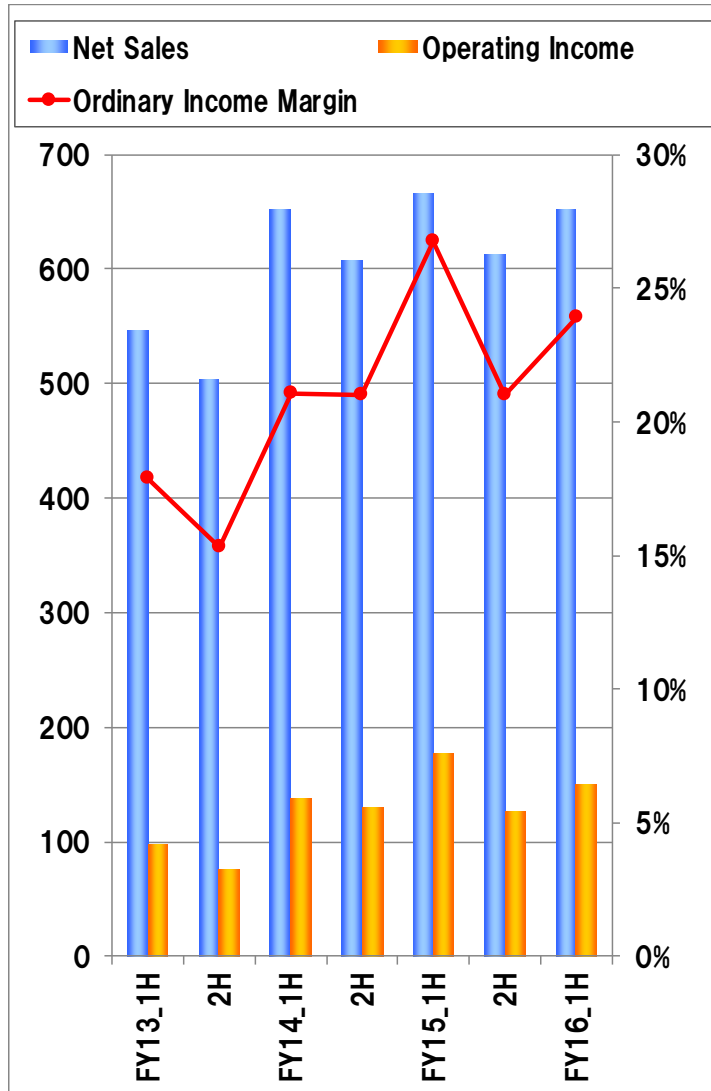
Depreciation: As in the previous year, depreciation expenses are expected to be less than ¥7,000 million (¥6,500 million in FY2015).

FY2016 Sales Forecast

	FY15 Full Year YoY	FY16 Full Year YoY
Precision Processing Equipment	-1%	-10%
Dicers	-10%	-10%
Non-laser	-20%	-10%
Laser	10%	-10%
Grinders	30%	-10%
DGP (for thin wafers)	20%	5%
Normal Grinders	60%	-40%
Precision blades and wheels	10%	10%
Other products, subsidiaries	Slight decrease	10%

Operating Environment and Our Business: FY2016 1H

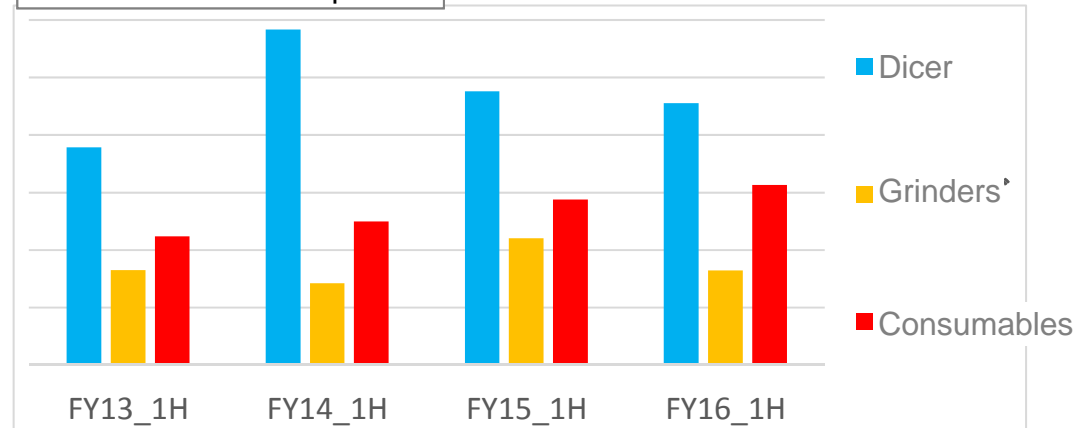
100 million yen (Oku yen)



Sales decreased 2.0% YoY while there was a negative impact of the yen exchange rate (impact of yen appreciation: approx. ¥3,000 million YoY for 15 Yen appreciation).

There were firm demands from manufacturers for new packaging technologies and flash memory) Consumables sales increased significantly.

Sales trends for each product



The half year's profits did not break the record set in the first half of last year for highest profits but remained at a high level. (Operating income: ¥14,800 million)

The interim net-income-linked dividend is ¥83.

Forecasted Operating Environment

FY16 sales are forecasted to decrease compared to the level of last year's sales.

3Q sales are expected to be more than last year due to robust demand for ultra-thinning grinders and consumables. However, the visibility of sales in 4Q is low at the moment.

From a medium- to long-term point of view, we will push forward proactively with R&D and capital expenditure.

R&D expenditure will be maintained at a high level in order to meet increasing demand for laser and other various applications. (Expenditure will be approx. ¥15,000 million)

To meet expected future increases in demand for equipment and consumables, we will construct a New Kuwabata C Zone (total investment amount is approx. ¥12,000 million) and enhance the production facilities at Kure site.

We will continue to focus on strengthening both our organizational and operational management through the Will Accounting and Performance Innovation Management (PIM) systems with DISCO VALUES as the core of our actions.

A year-end dividend for FY2016 (an additional dividend payment) is expected based on the forecasted business performance.

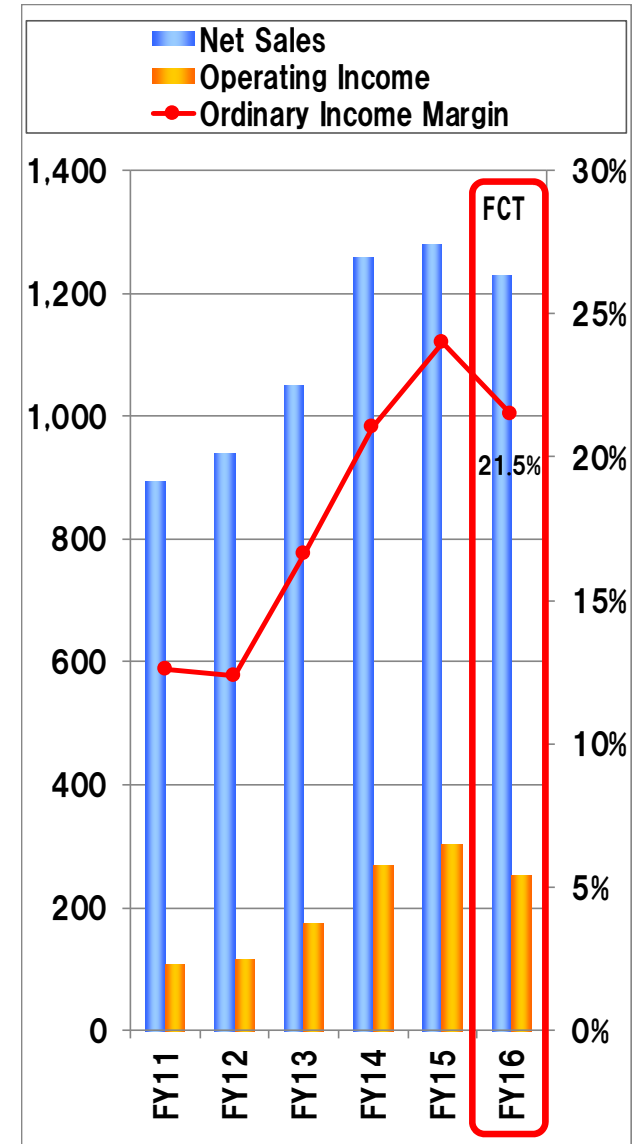
Total: ¥213

Breakdown:

Performance-linked dividend: ¥58

One-third of the surplus: ¥155

100 million yen (Oku yen)



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