



May 11, 2011

Consolidated Financial Results of Fiscal Year 2010

Company name: DISCO Corporation
 Stock code number: 6146 (Tokyo Stock Exchange 1st Section)
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(Amounts are rounded down to the nearest million yen)

1. Consolidated Results of FY2010 (April 1, 2010 though March 31, 2011)

1) Operating results (Accumulated)

	Fiscal year ended		
	March 31, 2011	March 31, 2010	YoY(%)
Net sales	99,700	61,730	61.5%
Operating income	15,915	4,667	241.0%
Ordinary income	17,190	4,560	276.9%
Net income	10,945	2,470	343.1%
Net income per share (yen)	325.59	73.51	—
Fully diluted net income per share (yen)	308.99	72.19	—

2) Financial position

	As of March 31, 2011	As of March 31, 2010
Total assets	139,240	124,313
Net assets	97,633	88,091
Equity ratio (%)	69.4%	70.3%
Net assets per share (yen)	2,869.12	2,599.69

(Reference) Equity (defined as shareholders' equity plus valuation and translation adjustments) :

96,640 million yen (as of March 31, 2011)
 87,367 million yen (as of March 31, 2010)

2. Dividends

	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2011 Forecast
1Q-end dividend per share (yen)	—	—	—
2Q-end dividend per share (yen)	25.00	10.00	37.00
3Q-end dividend per share (yen)	—	—	—
Year-end dividend per share (yen)	40.00	10.00	30.00
Annual dividend per share (yen)	65.00	20.00	67.00

Note: Revision of dividends forecast for during this period: No

3. Earnings Forecasts of FY2011

	(Millions of yen)			
	Six month ending September 30, 2011	YoY (%)	Year ending March 31, 2012	YoY (%)
Net sales	53,200	(0.4)	103,700	4.0
Operating income	9,200	(4.9)	17,200	8.1
Ordinary income	9,300	(4.9)	17,300	0.6
Net income	6,100	(4.5)	11,100	1.4
Net income per share (yen)	181.10		329.54	

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4. Others

- 1) Important changes in subsidiaries: None
- 2) Changes in principles, procedures and display of accounting method concerning consolidated statement policies.
 1. Changes in accounting policies: Yes
 2. Other changes: None
- 3) Number of shares outstanding (common stock)
 - ① Number of shares issued (include treasury stocks)

As of March 31, 2011:	34,004,418 shares
As of March 31, 2010	34,004,418 shares
 - ② Number of shares of treasury stock

As of March 31, 2011:	321,546 shares
As of March 31, 2010:	397,346 shares

Explanations on the appropriate use of earnings forecasts:

The performance forecasts and estimates stated in this Financial Review are based on certain assumptions judged to be reasonable at the present time in light of information currently available. Consequently, actual operating results may differ substantially from the projections in the Financial Review.

(Reference) Non-consolidated Earnings Forecasts of FY2011

	(Millions of yen)			
	Six month ending September 30, 2011	YoY (%)	Year ending March 31, 2012	YoY (%)
Net sales	45,000	(2.0)	87,000	2.9
Ordinary income	7,100	(4.8)	13,300	4.1
Net income	4,500	(4.2)	8,400	4.6
Net income per share (yen)	133.60		249.38	

5. Business Results

Overview

In the fiscal year ended March 31, 2011 (fiscal 2010), capital investment was extremely buoyant in the semiconductor and electronic component industries, reflecting increased demand for final goods, such as smartphones and tablet PCs, and increased production by manufacturers of DRAMs, NAND flash memory, electronic components and other items. LED manufacturers also invested aggressively in new plant and equipment in response to expanding demand for LEDs for use in TV backlight systems and lighting.

The DISCO Group adjusted its production operations to reflect this market environment and also undertook aggressive marketing activities. These efforts resulted in a new net sales record. While the gross profit ratio stagnated because of exchange rate factors and an increase in R&D expenses and other SG&A expense items, income was substantially higher year on year.

Results for fiscal 2010 include net sales of ¥99,700 million, an increase of 61.5% over the previous year's level. Operating income increased by 241.0% to ¥15,915 million, ordinary income by 276.9% to ¥17,190 million, and net income by 343.1% to ¥10,945 million.

Segment Information

A. Precision Processing Systems

Demand for dicing saws, especially for use in IC production and package singulation, was strong, and there was also a substantial increase in sales of laser saws for use in LED production and other applications. In addition, we recorded strong growth in sales of grinders, especially for use with thin products. These factors helped us to set a new record for sales in this segment in fiscal 2010.

Despite the erosion of overseas sales by the high yen, record shipments of precision processing blades and wheels lifted sales of precision processing tools to the second highest level ever. Segment net sales amounted to ¥95,404 million, while segment income reached ¥19,027 million.

B. Precision Processing Parts

In this segment, the DISCO Group manufactures and sells precision processing parts made from metals, glass, silicon and other materials for use in electronic, optical and medical products. In the core category of glass products, demand for projector-related products in the imaging equipment market surged dramatically in the second half of the year. We also recorded strong sales of heat sink products to China for use in optical communication products, while sales of products for industrial laser equipment also began to recover in the fourth quarter.

Net sales for this segment in fiscal 2010 amounted to ¥2,491 million, while segment income was ¥147 million.

C. Industrial Grinding Products

In this segment, DISCO manufactures and sells industrial diamond tools, for use in civil engineering, construction and manufacturing, as well as general-purpose grinding wheels used in the manufacture of motor vehicles and electronic parts. Demand for general-purpose grinding wheels began to increase in the first half of the year in response to trends in the motor vehicle industry, which was generally in a recovery mode. Net sales in this segment amounted to ¥1,804 million, and segment income reached ¥246 million.

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Outlook for the Year Ending March 31, 2012

Capital investment by manufacturers is expected to remain high. This is reflected in our consolidated forecasts for the year ending March 31, 2012. We are projecting that net sales will increase by 4.0% year on year to ¥103,700 million, operating income by 8.1% to ¥17,200 million, ordinary income by 0.6% to ¥17,300 million, and net income by 1.3% to ¥11,100 million.

Financial Analysis

(1) Assets, Liabilities and Net Assets

Total assets amounted to ¥139,240 million as of March 31, 2011, an increase of ¥14,826 million from the position a year earlier. Total current assets were ¥14,851 million higher at ¥77,778 million. Reasons for the higher figure include an increase in notes and accounts receivable resulting from expanding demand for products and an increase in inventories caused by a sudden surge in demand for equipment. Total fixed assets increased by ¥79 million to ¥61,444 million.

Total liabilities increased by ¥5,385 million to ¥41,606 million as of March 31, 2011. Current liabilities amounted to ¥29,355 million, an increase of ¥6,570 million. In addition to increased purchases of materials and other items, other factors contributing to the higher figure included an increase in notes and accounts payable. Total long-term liabilities were reduced by ¥1,185 million to ¥12,251 million, mainly through the retirement of long-term debt.

Net assets amounted to ¥97,633 million as of March 31, 2011, an increase of ¥9,541 million compared with the position a year earlier. As a result, the shareholders' equity ratio was 0.9% lower year on year at 69.4%.

(2) Cash Flows

Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2011 amounted to ¥19,830 million, an increase of ¥4,582 million compared with the position as of March 31, 2010. Free cash flows, which are the sum of cash from operating income activities and investing activities, amounted to an inflow of ¥7,444 million, reflecting extremely healthy product shipments. The cash flow situation in the year under review was follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥14,506 million. An outflow resulting from increases in accounts receivable and inventories was offset by other items, including net income before provision for income taxes and minority interests, which reached ¥16,569 million thanks to extremely strong product shipments, and depreciation of ¥6,066 million.

Cash Flows from Investing Activities

Net cash used for investing activities amounted to ¥5,551 million. This figure reflects expenditure of ¥7,612 million on the acquisition of tangible fixed assets, including new buildings at the Chino and Kure Plants.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥3,044 million. This consisted mainly of expenditure on debt retirement and dividends.

Basic Policy on Dividends, Dividends for the Current and Coming Years

According to its Articles of Incorporation, the Company is authorized to set an interim dividend with a record date of September 30 by resolution of the Board of Directors. Our basic policy on dividends is to distribute surpluses twice annually in the form of interim and final dividends. 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.

At a meeting held on February 17, 2006, the Board of Directors adopted a performance-linked dividend policy with the aim of giving clearer priority to shareholder returns. At its meeting on February 23, 2011, the Board of Directors adopted a dividend policy designed to provide closer real-time linkage to financial performance. This new policy will be applied from the year ending March 2012.

Hitherto, our target dividend payout ratio has been 20% of consolidated yearly net income. This target has now been changed to 20% of consolidated half-yearly income for each of the interim and final dividends.

Note: The total amount of the interim dividend will consist of 20% of consolidated net income for the first half of the year (April–September), and that of the final dividend, of 20% of consolidated net income for the second half of the year (October–March).

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.

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. The 20% payout ratio stipulated in our stable dividend policy may be reviewed if there are consolidated net losses in three consecutive years.

If the four-year cumulative consolidated ratio of ordinary income to net sales is higher than 20%, a dividend payout ratio of 24% of consolidated net income will be applied. Any difference over the interim dividend will be distributed with the final dividend.

The interim dividend for the year ended March 2011 was set at ¥25 per share. In accordance with the previous dividend policy, we plan to pay a final dividend of ¥40, bringing the annual dividend to ¥65.

Based on our financial performance forecasts and the aforementioned dividend policy, we plan to pay an interim dividend of ¥37 and a final dividend of ¥30 in the fiscal year ending March 31, 2012, making the annual dividend of ¥67.

Business Risks and Other Risk Factors

Described below are some of the risk factors that could affect the DISCO Group, including its business activities and financial situation, or influence decisions by investors.

(1) Fluctuations in the Semiconductor Market

The DISCO Group manufactures and sells products to manufacturers of semiconductors and electronic components throughout the world and is therefore affected by trends in the capital investment and production activities of its customers. The semiconductor market in particular is subject to changes in the supply-demand balance, and the business performance of semiconductor manufacturers is affected by the pattern known as the silicon cycle. The performance of the DISCO Group may be adversely affected if customers freeze capital investment, reduce production or take other actions during the downward phase of this cycle or when other unforeseen market fluctuations occur.

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(2) Emergence of New Technologies

The DISCO Group concentrates primarily on the manufacture and sale of semiconductor cutting and grinding equipment and precision tooling such as precision diamond blades and grinding wheels for use in silicon wafer processing. If a processing technology emerges to challenge precision diamond tooling in the future, the DISCO Group's business performance may be adversely affected. The DISCO Group also develops and sells laser saws, which can be used on materials that are difficult to cut with precision diamond tooling.

(3) Disasters

The corporate headquarters and R&D center of the DISCO Group are located in Ota Ward, Tokyo, and its production facilities in Hiroshima and Nagano Prefectures. We are continually enhancing our business continuity management (BCM) systems, but corporate systems and production operations could be affected by a major disaster, outbreak of a new strain of influenza or other contingencies. The Great East Japan Earthquake of March 11 had a minimal effect on the business performance of the DISCO Group.

(4) Exchange Rate Fluctuations

The DISCO Group manufactures products in Japan and exports them to manufacturers of semiconductor and electronic parts in various parts of the world. Transactions are normally denominated in yen, but transactions in some regions and with some customers need to be settled in U.S. dollars or other foreign currencies. This means that the business performance of the DISCO Group could be affected by exchange rate fluctuations.

(5) Other Risks

In addition to the risk factors listed above, the business performance of the DISCO Group could also be adversely affected by global and local economic conditions, natural disasters, war or terrorism, trends in financial and capital markets, laws and government regulations, product defects, issues relating to suppliers and problems with intellectual property rights.

6. Corporate Priorities

(1) Development of advanced cutting (Kiru), grinding (Kezuru) and polishing (Migaku) technologies and improvement of customer satisfaction

To fulfill our social mission, we must continually develop advanced cutting, grinding and polishing technologies to support technological innovation in the area of semiconductor and electronic components. To achieve this, we will focus our efforts on the creation of the financial and management structures needed to support continuous investment in development.

To improve customer satisfaction, we will optimize our resources and create systems that allow us to provide total solutions, including application technology and services, in a timely manner to meet the needs of our customers.

(2) Reinforcement of Business Continuity Management Systems

We will develop and maintain business continuity management (BCM) systems to ensure that DISCO continues to be a company with which customers and suppliers can deal and for which employees can work with confidence. Our manufacturing, research and head office functions are all based in Japan, which is an earthquake-prone country, and we are therefore introducing seismic base isolation technology at our head office, R&D center and factories. We have also drawn up business continuity plans and developed group-wide response plans to ensure the continuity of our business operations in various contingencies, such as natural disasters, fires, epidemics and system failures. We will further strengthen our ability to cope with disasters by stockpiling parts and materials for key products, building redundancy into our information systems and continually implementing training programs for our employees. As a result of the Great East Japan Earthquake, we will take additional steps to strengthen our supply chains and build robust structures that will allow us to fulfill our supply responsibilities under any circumstances.

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7. Consolidated Balance sheets

	(Millions of yen)	
	As of March 31, 2010	As of March 31, 2011
Assets		
Current assets		
Cash and deposits	18,247	20,314
Notes and accounts receivable-trade	23,087	28,322
Merchandise and finished goods	5,007	6,259
Work in process	5,920	8,487
Raw materials and supplies	7,612	9,031
Deferred tax assets	1,258	2,264
Other	1,854	3,135
Allowance for doubtful accounts	(63)	(37)
Total current assets	62,926	77,778
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	28,933	29,355
Machinery, equipment and vehicles, net	7,751	9,056
Tools, furniture and fixtures, net	714	658
Land	12,794	12,853
Construction in progress	3,484	1,587
Total property, plant and equipment	53,678	53,511
Intangible assets		
Other	756	771
Total intangible assets	756	771
Investments and other assets		
Investment securities	581	597
Deferred tax assets	464	220
Long-term time deposits	5,200	5,200
Other	722	1,203
Allowance for doubtful accounts	(38)	(60)
Total investments and other assets	6,929	7,160
Total noncurrent assets	61,364	61,444
Deferred assets		
Bond issuance cost	22	17
Total deferred assets	22	17
Total assets	124,313	139,240

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	(Millions of yen)	
	As of	As of
	March 31, 2010	March 31, 2011
Liabilities		
Current liabilities		
Notes and accounts payable-trade	12,557	13,609
Short-term loans payable	1,000	—
Current portion of long-term loans payable	—	249
Income taxes payable	403	5,286
Provision for bonuses	1,851	2,548
Provision for directors' bonuses	61	145
Provision for product warranties	197	303
Other	6,713	7,212
Total current liabilities	22,784	29,355
Noncurrent liabilities		
Convertible bond-type bonds with subscription rights to shares	10,000	10,000
Long-term loans payable	2,000	537
Provision for retirement benefits	777	1,093
Provision for directors' retirement benefits	37	48
Negative goodwill	119	29
Asset retirement obligations	—	36
Other	501	506
Total noncurrent liabilities	13,437	12,251
Total liabilities	36,221	41,606
Net assets		
Shareholders' equity		
Capital stock	14,517	14,517
Capital surplus	15,604	15,644
Retained earnings	59,141	68,988
Treasury stock	(1,065)	(862)
Total shareholders' equity	88,197	98,287
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11	6
Foreign currency translation adjustment	(841)	(1,654)
Total accumulated other comprehensive income	(829)	(1,647)
Subscription rights to shares	589	767
Minority interests	134	225
Total net assets	88,091	97,633
Total liabilities and net assets	124,313	139,240

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8. Consolidated statements of (comprehensive) income

	(Millions of yen)	
	FY2009	FY2010
Net sales	61,730	99,700
Cost of sales	33,038	52,775
Gross profit	28,691	46,925
Selling, general and administrative expenses	24,023	31,009
Operating income	4,667	15,915
Non-operating income		
Interest income	60	50
Amortization of negative goodwill	89	89
Equity in earnings of affiliates	27	117
Subsidy income	37	1,206
Other	201	150
Total non-operating income	416	1,615
Non-operating expenses		
Interest expenses	346	30
Sales discounts	15	—
Foreign exchange losses	103	161
Depreciation	—	110
Other	58	36
Total non-operating expenses	523	340
Ordinary income	4,560	17,190
Extraordinary income		
Gain on prior period adjustment	—	23
Gain on sales of noncurrent assets	2	11
Reversal of allowance for doubtful accounts	—	24
Subsidy income for furlough	248	—
Other	39	3
Total extraordinary income	290	62
Extraordinary loss		
Loss on prior period adjustment	—	28
Loss on sales and retirement of noncurrent assets	71	167
Impairment loss	—	263
Loss on valuation of investment securities	347	40
Special retirement expenses	112	80
Furlough expenses	176	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	45
Other	97	58

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Total extraordinary losses	805	683
Income before income taxes	4,046	16,569
Income taxes-current	814	6,345
Income taxes-deferred	758	(677)
Total income taxes	1,573	5,668
Income before minority interests	—	10,901
Minority interests in income (loss)	2	(44)
Net income	2,470	10,945
Minority interests in loss	—	(44)
Income before minority interests	—	10,901
Other comprehensive income		
Valuation difference on available-for-sale securities	—	(5)
Foreign currency translation adjustment	—	(816)
Total other comprehensive income	—	(821)
Comprehensive income	—	10,079
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	—	10,127
Comprehensive income attributable to minority interests	—	(48)

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9. Consolidated Statements of cash flows

	(Millions of yen)	
	FY2009	FY2010
Net cash provided by (used in) operating activities		
Income before income taxes	4,046	16,569
Depreciation and amortization	5,364	6,066
Impairment loss	—	263
Amortization of negative goodwill	(89)	(89)
Loss (gain) on valuation of investment securities	347	40
Equity in (earnings) losses of affiliates	(27)	(117)
Increase (decrease) in allowance for doubtful accounts	(1)	2
Increase (decrease) in provision for bonuses	495	645
Increase (decrease) in provision for directors' bonuses	61	145
Increase (decrease) in provision for product warranties	83	108
Increase (decrease) in provision for retirement benefits	270	315
Loss (gain) on sales of investment securities	24	12
Loss (gain) on sales and retirement of property, plant and equipment	31	109
Subsidy income	(37)	(1,206)
Interest and dividends income	(67)	(59)
Interest expenses	346	30
Decrease (increase) in notes and accounts receivable-trade	(12,276)	(5,757)
Decrease (increase) in inventories	547	(5,030)
Increase (decrease) in notes and accounts payable-trade	9,120	1,720
Increase (decrease) in accounts payable-other	2,485	758
Other, net	475	1,123
Subtotal	11,199	15,650
Interest and dividends income received	58	69
Interest expenses paid	(268)	(31)
Income taxes (paid) refund	(9)	(1,294)
Proceeds from subsidy	37	112
Net cash provided by (used in) operating activities	11,017	14,506
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(10,644)	(7,612)
Proceeds from sales of property, plant and equipment	37	20
Purchase of investment securities	(0)	(0)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	—	(32)
Net decrease (increase) in short-term loans receivable	—	(20)
Payments of long-term loans receivable	—	(235)
Collection of long-term loans receivable	—	4

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Purchase of intangible assets	(122)	(186)
Payments into time deposits	(9,400)	(587)
Proceeds from withdrawal of time deposits	6,400	3,095
Other, net	(219)	3
Net cash provided by (used in) investing activities	(13,950)	(5,551)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(73)	(1,000)
Proceeds from long-term loans payable	—	900
Repayment of long-term loans payable	(21,651)	(2,112)
Proceeds from issuance of bonds	9,976	—
Redemption of bonds	(3,000)	—
Purchase of treasury stock	(0)	(0)
Proceeds from sales of treasury stock	—	198
Cash dividends paid	(673)	(1,175)
Proceeds from stock issuance to minority shareholders	—	145
Other, net	12	—
Net cash provided by (used in) financing activities	(15,411)	(3,044)
Effect of exchange rate change on cash and cash equivalents	173	(1,328)
Net increase (decrease) in cash and cash equivalents	(18,170)	4,582
Cash and cash equivalents at beginning of period	33,418	15,247
Cash and cash equivalents at end of period	15,247	19,830