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May 10, 2012

Consolidated Financial Results of Fiscal Year 2011

Company name: DISCO Corporation
Stock code number: 6146 (Tokyo Stock Exchange 1st Section)
URL: http://www.disco.co.jp
Telephone number: 81-3-4590-1099

(Amounts are rounded down to the nearest million yen)

1. Consolidated Results of FY2011 (April 1, 2011 though March 31, 2012)

1) Operating results (Accumulated)

	Fiscal year ended		
	March 31, 2011	March 31, 2012	YoY(%)
Net sales	99,700	89,241	(10.5)
Operating income	15,915	10,661	(33.0)
Ordinary income	17,190	11,237	(34.6)
Net income	10,945	7,195	(34.3)
Net income per share (yen)	325.59	213.56	–
Fully diluted net income per share (yen)	308.99	202.99	–

2) Financial position

	As of March 31, 2011	As of March 31, 2012
Total assets	139,240	135,789
Net assets	97,633	102,536
Equity ratio (%)	69.4%	74.5%
Net assets per share (yen)	2,869.12	3,004.10

(Reference) Equity (defined as shareholders' equity plus valuation and translation adjustments) :
101,230 million yen (as of March 31, 2012)
96,640 million yen (as of March 31, 2011)

2. Dividends

(yen)

	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012 Forecast
1Q-end dividend per share (yen)	—	—	—
2Q-end dividend per share (yen)	25.00	29.00	36.00
3Q-end dividend per share (yen)	—	—	—
Year-end dividend per share (yen)	40.00	19.00	35.00
Annual dividend per share (yen)	65.00	48.00	71.00

3. Earnings Forecasts of FY2012

(Millions of yen)

	Six month ending September 30, 2012	YoY (%)	Year ending March 31, 2013	YoY (%)
Net sales	50,000	3.2	95,700	7.2
Operating income	7,200	4.3	13,600	27.6
Ordinary income	7,200	1.3	13,800	22.8
Net income	4,800	1.5	9,400	30.6
Net income per share (yen)	142.44	—	278.95	—

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, 2012: 34,004,418 shares
      As of March 31, 2011 34,004,418 shares
   ② Number of shares of treasury stock
      As of March 31, 2012: 306,896 shares
      As of March 31, 2011: 321,546 shares
   ③ Average number of shares
      As of March 31, 2012: 33,692,237 shares
      As of March 31, 2011: 33,617,432 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 FY2012

(Millions of yen)

	Six month ending September 30, 2012	YoY (%)	Year ending March 31, 2013	YoY (%)
Net sales	42,500	(7.4)	80,300	6.7
Operating income	4,900	(30.8)	8,400	22.3
Ordinary income	5,800	(22.2)	9,400	(3.6)
Net income	3,900	(17.0)	6,200	(9.9)
Net income per share (yen)	115.74	—	183.99	—

5. Business Results

Overview

During the fiscal year ended March 31, 2012 (hereafter fiscal 2011) the DISCO Group continued to control expenses while also actively pursuing R&D, reflecting the market environment and despite the negative impact of the strong yen, we achieved our 3rd highest sales record. Results for fiscal 2011 include net sales of ￥89,241 million, a decrease of 10.5% over the previous year’s level. Year-on-year operating income decreased by 33.0% to ¥10,661 million, ordinary income by 34.6% to ¥11,237 million, and net income by 34.3% to ¥7,195 million.

Segment information

A. Precision Processing Systems
Despite a fall in equipment sales compared to fiscal 2011, sales of dicers for smart phone-related devices remained firm. Laser saw sales for LED manufacturing decreased, while sales for Low-k processing increased.
Aggressive investment by some Asian manufacturers provided steady sales of high-end grinders for ultra-thinning, mainly for IC fabrication. Despite a high level of shipments for consumables, historic highs of the yen meant that sales did not increase as much as expected.
Segment net sales amounted to￥85,672 million, a year-on-year decline of 10.2% , while segment income reached ￥14,237 million, a year-on-year decline of 25.2%.

B. Precision Processing Parts
In this segment, the DISCO Group manufacturers 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 were strong during the first half of fiscal 2011, but saw a marked decline in September 2011 caused by inventory adjustment by customers. While we recorded relatively firm sales of heat sink products for industrial laser equipment, sales of products in communication decreased due to the Great East Japan Earthquake and the flooding in Thailand.
Net sales for this segment in fiscal 2011 amounted to ￥1,893 million, a year-on-year decline of 24% , while segment loss was ￥320 million (gain 147 million in the FY2010).

C. Industrial Grinding Products
In this segment, the DISCO Group manufacturers and sells industrial diamonds 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.
Demands for general-purpose grinding wheels decreased due to a marked decline in demand from the public construction industry caused by the impact of the Great East Japan Earthquake.
Net sales in this segment amounted to ¥1,676 million, a year-on-year decline of 7.1% while segment income was ¥192 million, a year-on-year decline of 22.0%.

Outlook for the Year Ending March 31, 2013

We are projecting year-on-year increases in net sales by 7.2% to ￥95,700 million, operating income by 27.6% to 13,600 million, ordinary income by 22.8% to ￥13,800 million, and net income by 30.6% to ￥9,400 million.

Financial Analysis

(1) Assets, Liabilities and Net Assets

Total assets amounted to ￥135,789 million as of March 31, 2012, a decrease of ￥3,450 million from the position a year earlier. This was caused by a reduction of cash and deposits from corporation tax payments, while also increasing fixed assets in inventories and capital expenditure.
Net assets increased by ￥4,903 million from the position a year earlier to ￥102,536 million. The shareholders equity ratio rose by 5.1 points to 74.5%.

(2) Cash Flows

Cash and cash equivalents as of March 31, 2012 amounted to ￥12,038 million, a decrease of ￥7,792 million compared with the position as of March 31, 2011. Free cash flows, which are the sum of cash from operating income activities and investing activities, amounted to an outflow of ￥5,125 million. The cash flow situation in the year under review was as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ￥6,170 million. This total, resulting from an increase in net income before income taxes and depreciation, was offset by payments of income taxes of ￥8,364 million.

Cash Flows from Investing Activities

Net cash used for investing activities amounted to ￥11,323 million. This reflects expenditure of ￥7,899 million on the acquisition of tangible fixed assets relating to the new buildings at the Kure Plant and Singapore office.

Cash Flows from Financing Activities

Net Cash used in financing activities amounted to ￥2,218 million. This consisted mainly of dividend payments.

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 May 10, 2012, the Board of Directors adopted a performance –linked dividend policy with the aim of giving clearer priority to shareholder returns, our target dividend payout ratio was raised from 20% to 25% of consolidated half-yearly net income. This new policy will be applied from the second half of the year ending March 2012.

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 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 2012 was set at ¥29 per share. In accordance with the new dividend policy, we plan to pay a final dividend of ¥19, bringing the annual dividend to ¥48.

Based on our financial performance forecasts and the aforementioned dividend policy, we plan to pay an interim dividend of ¥36 and a final dividend of ¥35 in the fiscal year ending March 31, 2013, making the annual dividend of ¥71.

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.

(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.

(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.

7. Consolidated balance sheets

(Millions of yen)

	As of March 31, 2011	As of March 31, 2012
Assets		
Current assets		
Cash and deposits	20,314	15,170
Notes and accounts receivable-trade	28,322	27,074
Merchandise and finished goods	6,259	6,957
Work in process	8,487	8,424
Raw materials and supplies	9,031	10,382
Deferred tax assets	2,264	1,431
Other	3,135	2,419
Allowance for doubtful accounts	(37)	(24)
Total current assets	77,778	71,834
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	29,355	29,558
Machinery, equipment and vehicles, net	9,056	8,345
Tools, furniture and fixtures, net	658	706
Land	12,853	12,968
Construction in progress	1,587	3,611
Total property, plant and equipment	53,511	55,189
Intangible assets	771	690
Investments and other assets		
Investment securities	597	1,331
Deferred tax assets	220	321
Long-term time deposits	5,200	5,200
Other	1,203	1,412
Allowance for doubtful accounts	(60)	(203)
Total investments and other assets	7,160	8,062
Total noncurrent assets	61,444	63,942
Deferred assets	17	13
Total assets	139,240	135,789
Liabilities		
Current liabilities		
Notes and accounts payable-trade	13,609	10,780
Short-term loans payable	－	183
Current portion of long-term loans payable	249	249
Income taxes payable	5,286	521
Provision for bonuses	2,548	1,923
Provision for directors' bonuses	145	150
Provision for product warranties	303	238
Other	7,212	6,745
Total current liabilities	29,355	20,792
Noncurrent liabilities		
Convertible bond-type bonds with subscription rights to shares	10,000	10,000
Long-term loans payable	537	287
Provision for retirement benefits	1,093	1,559
Provision for directors' retirement benefits	48	58
Negative goodwill	29	－
Asset retirement obligations	36	36
Other	506	518

Total noncurrent liabilities	12,251	12,460
Total liabilities	41,606	33,253
Net assets		
Shareholders' equity		
Capital stock	14,517	14,517
Capital surplus	15,644	15,651
Retained earnings	68,988	73,858
Treasury stock	(862)	(823)
Total shareholders' equity	98,287	103,204
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6	5
Foreign currency translation adjustment	(1,654)	(1,980)
Total accumulated other comprehensive income	(1,647)	(1,974)
Subscription rights to shares	767	980
Minority interests	225	325
Total net assets	97,633	102,536
Total liabilities and net assets	139,240	135,789

8. Consolidated statements of (comprehensive) income

(Millions of yen)

	FY2010	FY2011
Net sales	99,700	89,241
Cost of sales	52,775	47,635
Gross profit	46,925	41,606
Selling, general and administrative expenses	31,009	30,944
Operating income	15,915	10,661
Non-operating income		
Interest income	50	51
Amortization of negative goodwill	89	29
Equity in earnings of affiliates	117	132
Subsidy income	1,206	65
Foreign exchange gains	—	208
Other	150	238
Total non-operating income	1,615	726
Non-operating expenses		
Interest expenses	30	26
Sales discounts	23	24
Foreign exchange losses	161	—
Depreciation	110	78
Other	13	20
Total non-operating expenses	340	150
Ordinary income	17,190	11,237
Extraordinary income		
Gain on prior period adjustment	23	—
Gain on sales of noncurrent assets	11	17
Reversal of allowance for doubtful accounts	24	—
Gain on reversal of subscription rights to shares	1	5
Allowance of net retirement benefit obligation at transition	—	13
Other	1	0
Total extraordinary income	62	38
Extraordinary loss		
Loss on prior period adjustment	28	—
Loss on sales and retirement of noncurrent assets	167	31
Impairment loss	263	—
Loss on valuation of investment securities	40	13
Special retirement expenses	80	52
Factory transfer expenses	—	73
Loss on adjustment for changes of accounting standard for asset retirement obligations	45	—
Other	58	1
Total extraordinary losses	683	173
Income before income taxes and minority interests	16,569	11,102
Income taxes-current	6,345	3,227
Income taxes-deferred	(677)	703
Total income taxes	5,668	3,930
Income before minority interests	10,901	7,171
Minority interests in loss	(44)	(23)
Net income	10,945	7,195

Minority interests in loss	(44)	(23)
Income before minority interests	10,901	7,171
Other comprehensive income		
Valuation difference on available-for-sale securities	(5)	0
Foreign currency translation adjustment	(816)	(224)
Share of other comprehensive income of associates accounted for using equity method	−	(100)
Total other comprehensive income	(821)	(325)
Comprehensive income	10,079	6,846
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	10,127	6,868
Comprehensive income attributable to minority interests	(48)	(22)

9. Consolidated statements of cash flows

(Millions of yen)

	FY2010	FY2011
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	16,569	11,102
Depreciation and amortization	6,066	5,944
Impairment loss	263	―
Amortization of negative goodwill	(89)	(29)
Loss (gain) on valuation of investment securities	40	13
Equity in (earnings) losses of affiliates	(117)	(132)
Increase (decrease) in allowance for doubtful accounts	2	135
Increase (decrease) in provision for bonuses	645	(616)
Increase (decrease) in provision for directors' bonuses	145	4
Increase (decrease) in provision for product warranties	108	(58)
Increase (decrease) in provision for retirement benefits	315	466
Loss (gain) on sales of investment securities	12	―
Loss (gain) on sales and retirement of property, plant	109	14
Subsidy income	(1,206)	(65)
Interest and dividends income	(59)	(57)
Interest expenses	30	26
Decrease (increase) in notes and accounts receivable-	(5,757)	993
Decrease (increase) in inventories	(5,030)	(1,693)
Increase (decrease) in notes and accounts payable-	1,720	(2,791)
Increase (decrease) in accounts payable-other	758	(536)
Other, net	1,123	1,649
Subtotal	15,650	14,368
Interest and dividends income received	69	107
Interest expenses paid	(31)	(6)
Income taxes (paid) refund	(1,294)	(8,364)
Proceeds from subsidy	112	65
Net cash provided by (used in) operating activities	14,506	6,170
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(7,612)	(7,899)
Proceeds from sales of property, plant and equipment	20	110
Purchase of investment securities	0	(804)
Payments for sales of investments in subsidiaries	(32)	―
Net decrease (increase) in short-term loans receivable	(20)	0
Payments of long-term loans receivable	(235)	―
Collection of long-term loans receivable	4	9
Purchase of intangible assets	(186)	(90)
Payments into time deposits	(587)	(3,000)
Proceeds from withdrawal of time deposits	3,095	340
Other, net	3	11
Net cash provided by (used in) investing activities	(5,551)	(11,323)

Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1,000)	183
Proceeds from long-term loans payable	900	—
Repayment of long-term loans payable	(2,112)	(249)
Purchase of treasury stock	0	0
Proceeds from sales of treasury stock	198	25
Cash dividends paid	(1,175)	(2,321)
Proceeds from stock issuance to minority shareholders	145	144
Net cash provided by (used in) financing activities	(3,044)	(2,218)
Effect of exchange rate change on cash and cash equivalents	(1,328)	(421)
Net increase (decrease) in cash and cash equivalents	4,582	(7,792)
Cash and cash equivalents at beginning of period	15,247	19,830
Cash and cash equivalents at end of period	19,830	12,038