Unaudited translation, provided for reference only

May 9, 2013

Consolidated Financial Results of Fiscal Year 2012

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 FY2012 (April 1, 2012 though March 31, 2013)

1) Operating results (Accumulated)

	Fiscal year ended		
	March 31, 2012	March 31, 2013	YoY(%)
Net sales	89,241	93,707	5.0
Operating income	10,661	11,601	8.8
Ordinary income	11,237	11,586	3.1
Net income	7,195	7,473	3.9
Net income per share (yen)	213.56	221.75	–
Fully diluted net income per share (yen)	202.99	210.85	–

2) Financial position

	As of March 31, 2012	As of March 31, 2013
Total assets	135,789	155,667
Net assets	102,536	110,556
Equity ratio (%)	74.5%	69.8%
Net assets per share (yen)	3,004.10	3,221.91

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

108,600 million yen (as of March 31, 2013)
101,230 million yen (as of March 31, 2012)

2. Dividends

(yen)

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013 Forecast
1Q-end dividend per share (yen)	—	—	—
2Q-end dividend per share (yen)	29.00	40.00	42.00
3Q-end dividend per share (yen)	—	—	—
Year-end dividend per share (yen)	19.00	16.00	28.00
Annual dividend per share (yen)	48.00	56.00	70.00

3. Earnings Forecasts of FY2013

(Millions of yen)

	Six month ending September 30, 2013	YoY (%)	Year ending March 31, 2014	YoY (%)
Net sales	51,700	0.6	97,500	4.0
Operating income	8,300	10.8	13,800	18.9
Ordinary income	8,300	6.2	14,200	22.6
Net income	5,600	4.5	9,300	24.4
Net income per share (yen)	166.14	—	275.91	—

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, 2013: 34,004,418 shares
As of March 31, 2012: 34,004,418 shares

② Number of shares of treasury stock

As of March 31, 2013: 297,543 shares
As of March 31, 2012: 306,896 shares

③ Average number of shares

As of March 31, 2013: 33,701,418 shares
As of March 31, 2012: 33,692,327 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 FY2013

(Millions of yen)

	Six month ending September 30, 2013	YoY (%)	Year ending March 31, 2014	YoY (%)
Net sales	42,800	(3.7)	81,000	3.2
Operating income	5,200	(2.1)	9,000	24.6
Ordinary income	7,500	21.7	11,600	25.3
Net income	5,500	30.4	7,900	26.3
Net income per share (yen)	163.17	—	234.37	—

5. Business Results

Overview

The fiscal year ending March 31, 2013 (hereafter fiscal 2012) saw the resurgence in capital investment by some semiconductor and electronic components manufacturers, driven by the robust shipment of smart-phones and tablet PCs throughout the year.
Especially the demands from OSAT (Sub-contractors for the back-end process) in Asian regions contributed to the increase of sales compared to fiscal 2011.
SG&A expenses increased and especially R&D expenses reached the highest level.
However the GP ratio improved due to the mixture of products and the correction of the strong yen.
Results for fiscal 2012 included net sales of ¥93,707 million, an increase of 5.0% over the previous year's level. Year-on-year operating income increased by 8.8% to ¥11,601 million, ordinary income by 3.1% to ¥11,586 million and net income by 3.9% to ¥7,473 million.

Segment information

A. Precision Processing Systems
In this segment, the DISCO Group manufactures and sells precision processing equipment, consumables, parts and services to the semiconductor device and electronic components manufacturers.
During the fiscal year ending March 31, 2013 (hereafter fiscal 2012), both the precision cutting and grinding equipment category sales remained robust for IC related applications. We saw firm demand for high-end products such as laser saws and ultrathinning grinders, because, for the semiconductors and electronic components in mobile devices, the miniaturization and the multifunction are essential technologies.
Consumables sales, both in size and amount recorded the highest levels along with the high capacity utilization of our customers.
Net sales in this segment amounted to ¥89,248 million, a year-on-year increase of 4.2%,while segment income was ¥15,943 million, a year-on –year increase of 12.0%.

B. Industrial Grinding Products
In this segment, the DISCO Group 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.
Net sales in this segment amounted to ¥16,92 million, a year-on-year increase of 1.0% while segment income was ¥213 million, a year-on-year increase of 11.0 %

C. 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 imaging equipment recovered compared to fiscal 2011.
While recording strong sales in new glass processing products, sales of this segment increased from the previous fiscal year.
Net sales for this segment in fiscal 2012 amounted to ¥27,67 million, a year-on-year increase of 46.2%, while segment loss was ¥205 million (loss 320 million in the FY2011).

Outlook for the Year Ending March 31, 2013

We are projecting year-on-year increases in net sales by 4.0% to ¥97,500 million, operating income by 18.9% to ¥13,800 million, ordinary income by 22.6% to ¥14,200 million, and net income by 24.4% to ¥9,300million.

Financial Analysis

(1) Assets, Liabilities and Net Assets

Total assets amounted to ¥155,667 million as of March 31, 2013, an increase of ¥19,877 million from the position a year earlier. This was caused by an increase in account receivables and the long-term bank loans for the construction of building at the new Kuwabata plant, while also increasing fixed assets in inventories and capital expenditures.
Total liabilities increased by ¥11,857 million to ¥45,110 million as of March 31, 2013.
This included the partial redemption of Yen convertible bonds while increasing the long-term loans.
Net assets increased by ¥8,019 million from the position a year earlier to ¥110,556 million.
As a result of the increase in the liabilities ratio, the shareholders equity ratio decreased by 4.7 points to 69.8%.

(2) Cash Flows

Cash and cash equivalents as of March 31, 2013 amounted to ¥21,544 million, an increase of ¥9,506 million compared with the position as of March 31, 2012.
Free cash flows, which are the sum of cash from operating income activities and investing activities, amounted to an inflow of ¥1,526 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 ¥15,305 million. This total resulted from an increase in net income before income taxes and depreciation of ¥10,825 million.

Cash Flows from Investing Activities
Net cash used for investing activities amounted to ¥13,779 million. This was 21.7% increase year on year. This reflects expenditures on the acquisition of tangible fixed assets relating to the new buildings at the Singapore office, including money transferred to time deposits.

Cash Flows from Financing Activities
Net cash gained in financing activities amounted to ¥7,407 million which greatly increased compared with the position as of March 31, 2012.
This consisted mainly of payments of dividends and bank loans of ¥10,000 million made for the construction of the building at the Kuwabata Plant.

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.

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.

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

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 interim dividend for the year ending March 2013 was set at ¥40 per share. In accordance with the above dividend policy, we plan to pay a final dividend of ¥16, bringing the annual dividend to ¥56.
Based on our financial performance forecasts and the aforementioned dividend policy, we plan to pay an interim dividend of ¥42 and a final dividend of ¥28 in the fiscal year ending March 31, 2014, making the annual dividend ¥70.

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)Environmental Regulations

The DISCO Group has formulated “DISCO Environmental Vision 2020” and “Biodiversity Action Guidelines” covering various environmental issues, to decrease environmental loads. In this vision, we commit to a “25% reduction in DISCO's CO_2 emissions for business activities by FY2020 compared to FY2010 levels”. In FY2012, we achieved 0.7% reduction compared to FY2010 levels.
However, the DISCO Group could be affected by additional legal and/or social responsibilities with respect to environmental issues, regardless of negligence. In such a situation, additional expense could be incurred or our social credibility could be eroded.
(As of April 24, 2013)

(6) 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, 2012	As of March 31, 2013
Assets		
Current assets		
Cash and deposits	15,170	31,699
Notes and accounts receivable-trade	27,074	25,272
Merchandise and finished goods	6,957	7,641
Work in process	8,424	9,125
Raw materials and supplies	10,382	11,708
Deferred tax assets	1,431	1,927
Other	2,419	2,229
Allowance for doubtful accounts	(24)	(48)
Total current assets	71,834	89,556
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	29,558	29,468
Machinery, equipment and vehicles, net	8,345	9,692
Tools, furniture and fixtures, net	706	597
Land	12,968	13,021
Construction in progress	3,611	2,735
Total property, plant and equipment	55,189	55,515
Intangible assets	690	992
Investments and other assets		
Investment securities	1,331	2,141
Deferred tax assets	321	408
Long-term time deposits	5,200	5,200
Other	1,412	1,912
Allowance for doubtful accounts	(203)	(67)
Total investments and other assets	8,062	9,595
Total noncurrent assets	63,942	66,102
Deferred assets	13	8
Total assets	135,789	155,667

Liabilities		
Current liabilities		
Notes and accounts payable-trade	10,780	4,499
Electronically recorded obligations-operating	―	8,191
Short-term loans payable	183	250
Current portion of long-term loans payable	249	675
Income taxes payable	521	2,125
Provision for bonuses	1,923	2,035
Provision for directors' bonuses	150	146
Provision for product warranties	238	260
Provision for demolition cost	―	98
Other	6,745	5,614
Total current liabilities	20,792	23,896
Noncurrent liabilities		
Convertible bond-type bonds with subscription rights to shares	10,000	9,085
Long-term loans payable	287	9,674
Provision for retirement benefits	1,559	1,800
Provision for directors' retirement benefits	58	41
Asset retirement obligations	36	90
Other	518	523
Total noncurrent liabilities	12,460	21,214
Total liabilities	33,253	45,110
Net assets		
Shareholders' equity		
Capital stock	14,517	14,517
Capital surplus	15,651	15,654
Retained earnings	73,858	79,343
Treasury stock	(823)	(798)
Total shareholders' equity	103,204	108,716
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5	12
Foreign currency translation adjustment	(1,980)	(128)
Total accumulated other comprehensive income	(1,974)	(116)
Subscription rights to shares	980	1,223
Minority interests	325	731
Total net assets	102,536	110,556
Total liabilities and net assets	135,789	155,667

8. Consolidated statements of (comprehensive) income

(Millions of yen)

	FY2011	FY2012
Net sales	89,241	93,707
Cost of sales	47,635	49,014
Gross profit	41,606	44,692
Selling, general and administrative expenses	30,944	33,090
Operating income	10,661	11,601
Non-operating income		
Interest income	51	43
Amortization of negative goodwill	29	―
Equity in earnings of affiliates	132	215
Subsidy income	65	169
Foreign exchange gains	208	―
Other	238	265
Total non-operating income	726	694
Non-operating expenses		
Interest expenses	26	48
Sales discounts	24	22
Depreciation	78	68
Foreign exchange losses	―	547
Other	20	23
Total non-operating expenses	150	709
Ordinary income	11,237	11,586
Extraordinary income		
Gain on sales of noncurrent assets	17	2
Gain on sales of investment securities	―	146
Gain on reversal of subscription rights to shares	5	12
Difference of in charge of retirement	13	―
Other	0	0
Total extraordinary income	38	160
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	31	133
Impairment loss	―	598
Loss on valuation of investment securities	13	49
Special retirement expenses	52	40
Factory transfer expenses	73	―
Provision of reserve for demolition cost	―	98
Other	1	1
Total extraordinary losses	173	921
Income before income taxes and minority interests	11,102	10,825
Income taxes-current	3,227	3,892
Income taxes-deferred	703	(534)
Total income taxes	3,930	3,357
Income before minority interests	7,171	7,467
Minority interests in loss	(23)	(5)
Net income	7,195	7,473
Minority interests in loss	(23)	(5)
Income before minority interests	7,171	7,467
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	6
Foreign currency translation adjustment	(224)	1,680
Share of other comprehensive income of associates accounted for using equity method	(100)	219
Total other comprehensive income	(325)	1,906
Comprehensive income	6,846	9,373
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	6,868	9,331
Comprehensive income attributable to minority interests	(22)	42

9. Consolidated statements of cash flows

(Millions of yen)

	FY2011	FY2012
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	11,102	10,825
Depreciation and amortization	5,944	5,939
Impairment loss	—	598
Amortization of negative goodwill	(29)	—
Loss (gain) on valuation of investment securities	13	49
Equity in (earnings) losses of affiliates	(132)	(215)
Increase (decrease) in allowance for doubtful accounts	135	(122)
Increase (decrease) in provision for bonuses	(616)	90
Increase (decrease) in provision for directors' bonuses	4	(4)
Increase (decrease) in provision for product warranties	(58)	12
Increase (decrease) in provision for retirement benefits	466	240
Loss (gain) on sales of investment securities	—	(146)
Loss (gain) on sales and retirement of property, plant and	14	131
Subsidy income	(65)	(169)
Interest and dividends income	(57)	(49)
Interest expenses	26	48
Decrease (increase) in notes and accounts receivable-	993	3,154
Decrease (increase) in inventories	(1,693)	(2,810)
Increase (decrease) in notes and accounts payable-trade	(2,791)	1,856
Increase (decrease) in accounts payable-other	(536)	(1,393)
Other, net	1,649	(650)
Subtotal	14,368	17,384
Interest and dividends income received	107	42
Interest expenses paid	(6)	(54)
Income taxes (paid) refund	(8,364)	(2,236)
Proceeds from subsidy income	65	169
Net cash provided by (used in) operating activities	6,170	15,305
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(7,899)	(5,432)
Proceeds from sales of property, plant and equipment	110	43
Purchase of investment securities	(804)	(445)
Proceeds from sales of investment securities	—	197
Net decrease (increase) in short-term loans receivable	(0)	(0)
Payments of long-term loans receivable	—	(858)
Collection of long-term loans receivable	9	9
Purchase of intangible assets	(90)	(252)
Payments into time deposits	(3,000)	(10,000)
Proceeds from withdrawal of time deposits	340	3,000
Other, net	11	(40)
Net cash provided by (used in) investing activities	(11,323)	(13,779)

Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	183	66
Proceeds from long-term loans payable	ー	10,080
Repayment of long-term loans payable	(249)	(267)
Redemption of bonds	ー	(915)
Purchase of treasury stock	(0)	(1)
Proceeds from sales of treasury stock	25	23
Cash dividends paid	(2,321)	(1,987)
Proceeds from stock issuance to minority shareholders	144	409
Repayments to minority shareholders	ー	(1)
Net cash provided by (used in) financing activities	(2,218)	7,407
Effect of exchange rate change on cash and cash	(421)	573
Net increase (decrease) in cash and cash equivalents	(7,792)	9,506
Cash and cash equivalents at beginning of period	19,830	12,038
Cash and cash equivalents at end of period	12,038	21,544