DISCO IS INDISPENSABLE

Annual Report 2013

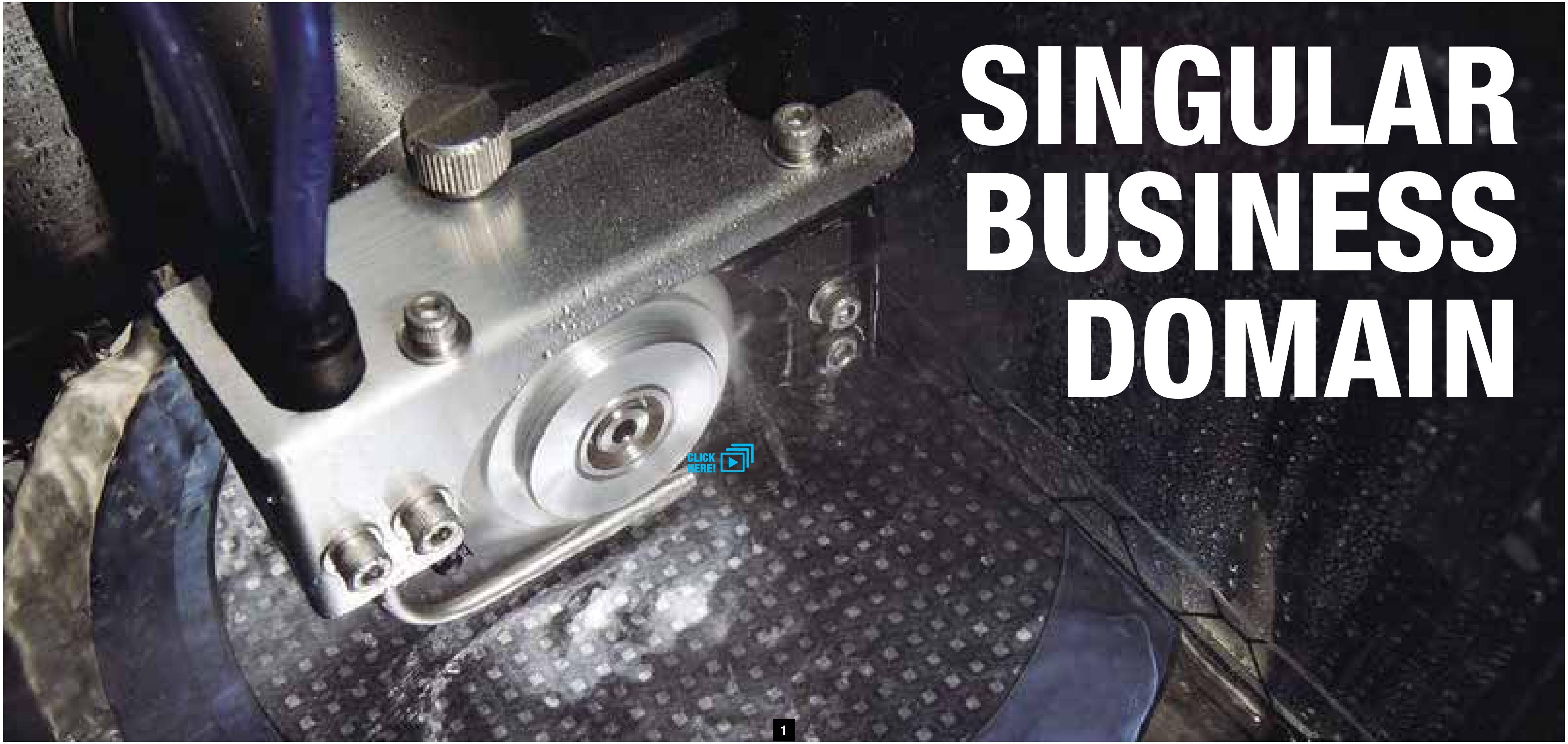
For the year ended March 31, 2013

DISCO CORPORATION

Specializing in Just Three of 400 Semiconductor Fabrication Processes

Semiconductor fabrication is divided into 400 different processes, of which DISCO handles just three—*Kiru* (cutting), *Kezuru* (grinding) and *Migaku* (polishing). DISCO will continue to contribute to society by specializing in just these three areas, and by developing the most advanced technologies for each of these processes.

3/400 processes



STACKING UP RELIABILITY

70% Average Share of the World Market for Semiconductor Cutting and Grinding Equipment

DISCO aims not simply to sell products, but to be a total solutions provider capable of providing customers with the processing results that they need. Our unmatched success in turning this concept into reality has allowed us to maintain our share of the markets in which DISCO products are sold at an average of 70%.

70%

Maintaining Competitiveness through R&D

11%

We actively invest in research and development, which we regard as essential to future growth. The speed of the development cycle is a particular priority because of its importance to our ability to respond quickly and flexibly to customer needs. In fiscal 2012, the ratio of R&D expenses to net sales was 11%. Our future business development will continue to be guided by our commitment to leadership in research and development.

EXPANDING OUR LEADERSHIP

KEY STRATEGIC INITIATIVE

4,500
test cuts

4,500 Test Cuts in Fiscal 2012

DISCO's test cut system is an experimentation service that allows customers to submit wafers that they wish to process and work together with DISCO's engineers through a process of trial and error until the desired results are achieved. Although the test cutting service is provided entirely free of charge, it has become an important part of our business strategy because of the potential to create new technologies and products through this process of finding solutions.

PREPARING FOR DISASTER

ALL Facilities

Seismic Base Isolation Structures Installed at the Head Office and All Plants

We are determined to ensure that DISCO products can be supplied reliably to our customers in the semiconductor fabrication industry. We installed seismic base isolation systems in Building A of the R&D Center at our corporate headquarters, which was completed in 2004. We have since installed these systems in all of our facilities, including Building B of the R&D Center, the Kuwabata Plant, where precision processing equipment is manufactured, and the Kure Plant, where we produce precision processing blades and wheels. We have also established systems to ensure an early resumption of operations in the event of emergencies.

Mission:

Bringing science to comfortable living through advanced *Kiru*, *Kezuru*, *Migaku* technologies.

cutting grinding polishing

TOWARD THE REALIZATION OF THE MISSION

Contents

The Year at a Glance

Net Sales
¥93,708 million

UP

5.0%

Gross Profit Margin
47.7%

UP

1.1 point

Operating Income
¥11,601 million

UP

8.8%

Net Income
¥7,473 million

UP

3.9%

R&D Expenses
¥10,266 million

UP

10.0%

Basic Net Income per Share
¥221.75

UP

¥8.19

Cash Dividends per Share
¥56

UP

¥8

ROE
7.1%

DOWN

0.2 point

President's Message

Demand for semiconductors has increased in step with the growing demand for smartphones and tablets. We will continue to expand our market presence by improving our cost control and enhancing our organizational strengths.

Kazuma Sekiya, President and COO

Business Environment and Financial Results

Trends in the semiconductor market in the first half of the fiscal year ended March 31, 2013 were characterized by aggressive capital investment in response to expanding production of smartphones and tablets. Semiconductor manufacturers cut production in the third quarter, but the market shifted to a recovery trend toward the end of the fiscal year as the supply-demand balance returned to normal. Our dynamic marketing activities in this business environment were reflected in year on year growth in net sales, which reached the second highest level ever.

In the area of precision processing equipment, there was growth in sales of high-value-added products for use in mass-production operations, such as laser saws and high-specification grinders. Sales of precision processing blades and wheels also increased in step with an uptrend in customers' capacity utilization ratios, and both net sales and shipments reached record highs.

The gross profit ratio rose due to a year on year increase in selling and factors that included an improved product mix and the correction of the overvalued yen despite an increase in general and administrative expenses, including record R&D expenditure. This resulted in an 8.8% increase in operating income.

Initiatives and Outlook

Smartphones and tablets are currently providing the main impetus for the semiconductor market, and we expect this pattern to continue in the fiscal year ending March 2014. We are anticipating a strong trend in shipments to IC manufacturers, especially outsourced semiconductor assembly and test (OSAT) companies in Asia. Trends in recent years have been characterized by strong customer inquiries in the first half of the year, followed by a decline in demand starting in early autumn. We will therefore need to monitor market trends in the second half of the year very closely.

From an income perspective, because our production facilities are located in Japan, our earning performance can be expected to benefit from progress toward the correction of the overvalued yen. We also anticipate dramatic change in the market environment, including escalating cost competition. Competition is likely to be especially intense in Asia. We will respond to this challenge by taking steps to curb cost increases, including the elimination of excessive quality and excessive procedure. At the same time, we will work to maintain our technological advantage through a continuing emphasis on R&D.

We will also work to enhance our organizational strength. We will actively implement measures to develop an organizational structure in which individual employees can actively apply their own judgment to the performance of tasks.

We look forward to the continued support of our shareholders.

Basic Policy on Income Distribution

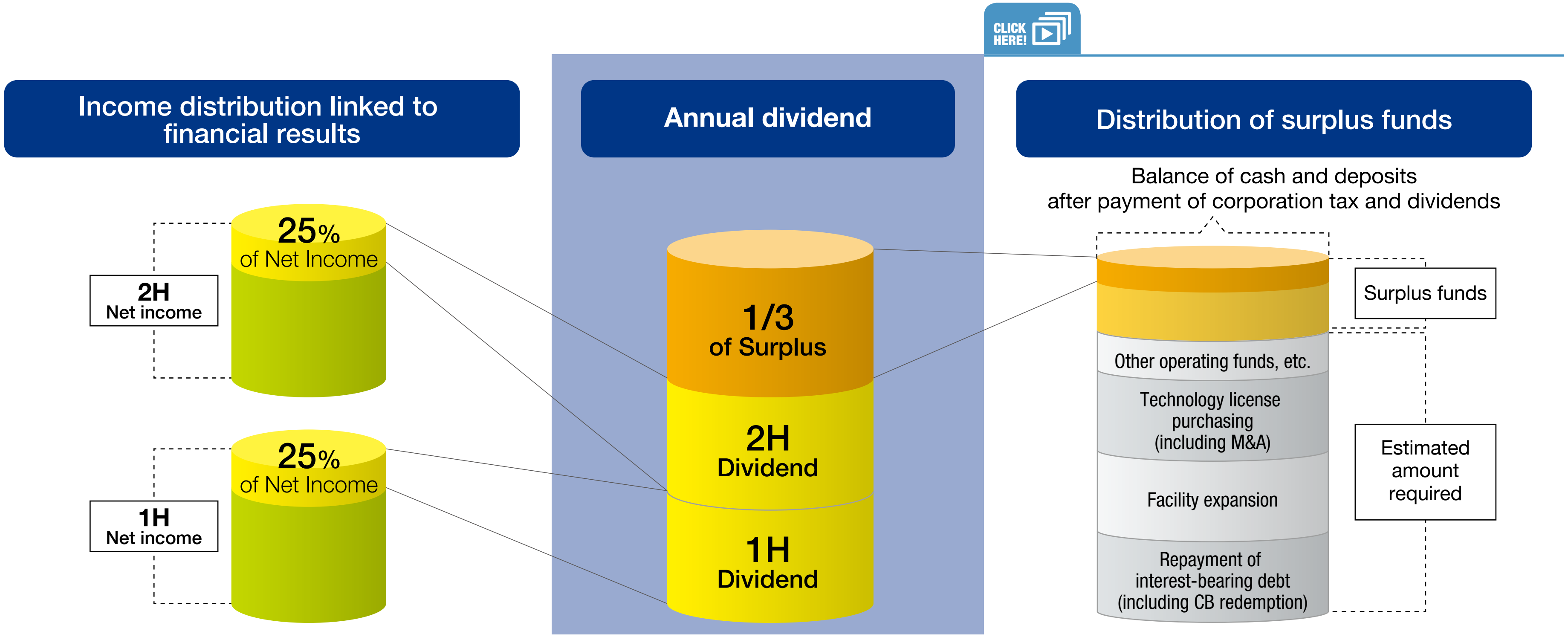
Income distribution by DISCO is based on the payment of an interim and final dividend each year.

Linkage of Income Distribution to Financial Results

Under our dividend policy, dividends are linked to financial results on the basis of 25% of consolidated net income. In recent years, the semiconductor and electronic component industry has gone through boom-and-bust cycles within single years. For this reason, income distribution is based on financial results for the first and second halves of the year. However, regardless of the level of income, our policy is to provide a reliable dividend consisting of half-yearly dividends of ¥10 (¥20 per annum)[1].

Notes
1. The aforementioned reliable dividend policy may be reviewed if there is a consolidated net loss in three successive fiscal years.

Income Distribution



Achieving Sustainable Competitiveness

SWOT Analysis

Internal

Strengths

- Market cyclicality offset by stability of consumables business and an income structure that covers part of fixed costs
- High added value achieved by offering customers packages consisting of multiple products
- Competitiveness based on the ability to take the initiative with new technology thanks to the strong trust of our customers
- Ability to stimulate long-term demand and create growth drivers through an active commitment to R&D activities
- Company-wide assimilation of a corporate philosophy based on creation of long-term corporate value

Weaknesses

- Earthquake risk due to location of headquarters and manufacturing facilities in Japan
- Growth of selling, general and administrative expenses due to business expansion
- Cost increases resulting from excessive quality and excessive procedures

Positive trend

Negative trend

Opportunities

- Trend toward lower value for the yen
- Exclusive focus on business areas based on *kiru* (cutting), *kezuru* (grinding) and *migaku* (polishing) technologies
- Emergence and growing sophistication of new applications, such as smartphones and tablets
- Rising labor costs in the Chinese market

Threats

- Price competition resulting from improvement in technology of Asian manufacturers
- Peaking of demand for smartphones and tablets
- Lack of killer applications other than smartphones and tablets

External

The structure of the semiconductor industry has changed over the past few years, in part because of the shift to outsourcing of production processes. Another factor driving continual change in the business environment is the emergence of Asian manufacturers of smartphones and other products.

Only through effective strategic planning can we adapt flexibly to these changes and maintain our competitive advantage. We use SWOT analysis to identify our strengths, weaknesses and opportunities along with the threats that we face. Based on these analyses, we aim to build a robust business structure by developing medium-term management policies designed to maximize our strengths and opportunities while exploring specific measures to deal with our weaknesses and threats.

Achieving Sustainable Competitiveness

In recent years consumers have tended to move away from traditional PCs in favor of cheaper smartphones and tablets. The significance of this change in terms of market trends has been a shift from high unit prices and high quality toward reasonable prices and rapid commercialization.

Manufacturers are responding to this trend by reducing production costs and accelerating their development cycles. Industry structures are also changing as manufacturers outsource the mass-production of semiconductor components to contract manufactures in Asia.

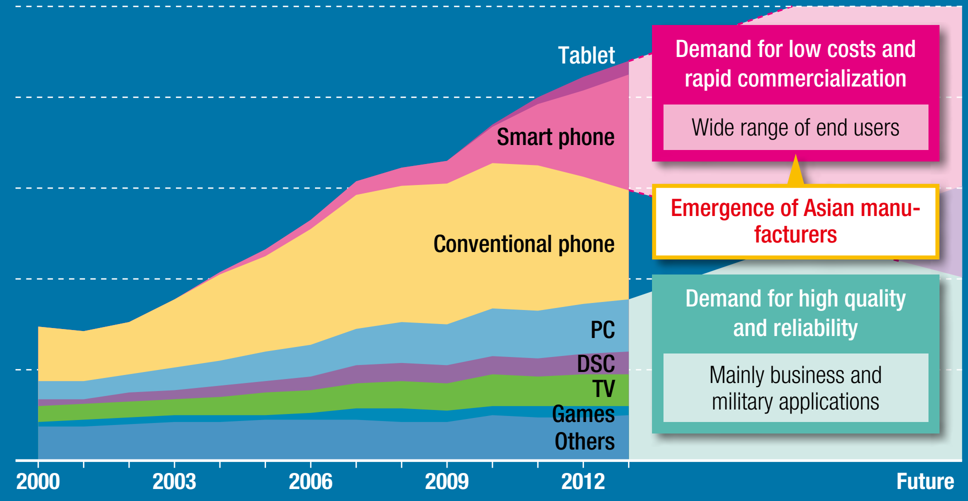
For DISCO, these trends have resulted in increased inquiries about low-end precision processing equipment in addition to our traditional high-specification equipment. In some areas, we are now exposed to fierce price competition.

We believe that our competitors in Asia will eventually face the need to curb their production costs as labor costs rise. Until then, we will employ a variety of measures to overcome this challenging situation.

Our number one priority is the development of the organizational strength required to adapt quickly to changing market conditions. We will also work to minimize production costs by eliminating issues resulting from the fact that our production facilities are located in Japan, including excessive quality and excessive procedures. In addition, we will create and nurture high-added-value business models and diversify our applications in new fields of technology and business.

Through initiatives such as these, we aim to eliminate medium-term risks and achieve sustainable competitiveness.

Worldwide Electronic Device Shipments



Ten-Year Summary

	Millions of yen										Thousands of U.S. dollars[1]
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2013
For the Period:											
Net sales	¥ **93,708**	¥ 89,241	¥ 99,701	¥ 61,730	¥ 53,108	¥ 91,618	¥ 86,161	¥ 68,885	¥ 60,321	¥ 48,243	$ **993,364**
Precision processing systems	**89,248**	85,672	95,405	58,198							**948,942**
Industrial grinding products	**1,692**	1,676	1,804	1,462							**17,990**
Precision processing parts	**2,767**	1,893	2,492	2,069							**29,421**
Operating income	**11,602**	10,662	15,915	4,668	76	19,334	19,524	13,949	9,869	5,625	**123,360**
Income before income taxes and minority interests	**10,826**	11,103	16,569	4,046	770	18,452	17,716	13,385	9,081	5,286	**115,109**
Net income	**7,473**	7,195	10,945	2,470	251	11,112	10,936	8,230	5,301	3,095	**79,458**
Capital expenditures	**5,758**	8,448	7,311	11,626	13,497	10,038	6,554	3,288	11,815	3,299	**61,212**
Depreciation and amortization	**5,939**	5,944	6,067	5,364	4,657	3,652	2,964	2,762	2,439	2,108	**63,147**
Research and development expenses	**10,266**	9,331	9,771	7,767	8,532	8,332	6,415	6,353	6,256	2,653	**109,154**
At Year-End:											
Total assets	¥ **155,667**	¥ 135,790	¥ 139,240	¥ 124,313	¥ 123,925	¥ 118,603	¥ 113,791	¥ 99,319	¥ 84,839	¥ 80,353	$ **1,655,151**
Interest-bearing debt	**10,600**	720	788	3,000	27,723	783	1,128	3,291	12,044	13,311	**11,270**
Total net assets	**110,556**	102,537	97,633	88,092	86,329	89,665	81,824	70,277	55,727	51,002	**1,175,502**
Number of shares issued and outstanding	**34,004,418**	34,004,418	34,004,418	34,004,418	34,004,418	33,995,418	33,982,518	33,562,718	32,180,240	32,130,711	
Share price (Yen)	**5,320**	4,575	5,680	5,750	2,435	4,290	7,200	7,740	4,600	5,550	
Number of shareholders	**11,665**	13,393	12,843	14,456	13,661	13,480	13,293	12,828	15,636	16,572	
Number of employees	**2,909**	2,745	2,565	2,465	2,438	2,260	2,012	1,721	1,678	1,670	
Per Share of Common Stock (Yen and U.S. Dollars):											
Basic net income	¥ **221.75**	¥ 213.56	¥ 325.59	¥ 73.51	¥ 7.41	¥ 327.07	¥ 322.32	¥ 252.82	¥ 162.57	¥ 94.72	$ **2.36**
Cash dividends	**56.00**	48.00	65.00	20.00	20.00	79.00	75.00	50.00	40.00	30.00	**0.60**
Shareholders' equity	**3,222**	3,004	2,869	2,600	2,553	2,621	2,393	2,092	1,730	1,586	**34.25**
Ratios:											
Gross profit margin (%)	**47.7**	46.6	47.1	46.5	47.2	51.1	51.1	52.5	50.7	47.7	
Operating income margin	**12.4**	11.9	16.0	7.6	0.1	21.1	22.7	20.2	16.4	11.7	
Income before income taxes and minority interests margin	**11.6**	12.4	16.6	6.6	1.5	20.1	20.6	19.4	15.0	10.9	
Net income margin	**8.0**	8.1	11.0	4.0	0.5	12.1	12.7	11.9	8.8	6.4	
Return on assets (ROA)[2]	**8.0**	7.8	12.1	3.8	0.2	16.9	18.5	15.2	12.0	8.0	
Return on equity (ROE)[3]	**7.1**	7.3	11.9	2.9	0.3	13.1	14.4	13.1	9.9	6.2	
Price-earning ratio	**24.0**	21.4	17.4	78.2	328.6	13.1	22.3	30.6	28.3	58.6	
Equity ratio	**69.8**	74.5	69.4	70.3	69.2	75.0	71.5	70.8	65.7	63.5	
Interest coverage ratio[4]	**239.5**	397.8	517.4	13.7	4.2	805.1	436.5	479.0	252.8	193.3	

Notes: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥94.05=US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2013.
(2) ROA = (Operating income + Interest and dividend income) ÷ Average total assets × 100
(3) ROE = Net income ÷ Average shareholders' equity × 100
(4) Interest coverage ratio = (Operating income + Interest and dividend income) ÷ Interest expense

Management Discussion & Analysis

Overview

DISCO's activities center on the semiconductor and electronic component industries. In fiscal 2012 (the year ended March 31, 2013) manufacturers of semiconductors and electronic components invested aggressively in plant and facilities in response to substantial growth in shipments of smartphones, tablets and other devices in which these products are used.

In the area of precision processing equipment, this situation was reflected in strong trends in DISCO's shipments of both precision cutting systems and precision grinders, especially for IC applications. Particularly significant was the expansion of sales of high-added-value products, such as laser saws in the precision cutting equipment category, and high-specification grinders (precision grinders), for use in the production of the miniaturized, high-performance semiconductor and electronic parts required for mobile devices. Shipments of precision processing blades and wheels, which are consumables, also reached record levels in step with rising capacity utilization ratios in customers' factories.

These trends resulted in year on year growth in both revenues and income, with net sales reaching the second highest level ever.

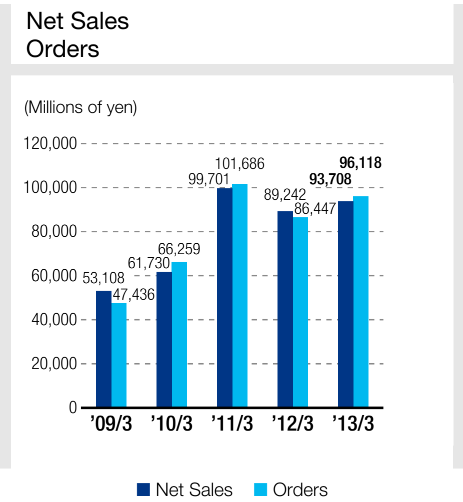
Orders Received and Net Sales

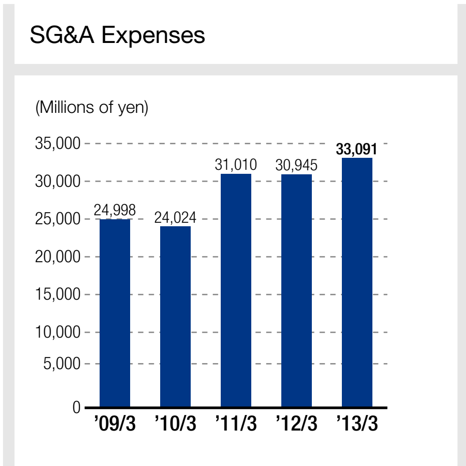
There were numerous urgent inquiries about products used in semiconductor manufacturing final assembly processes, which are the main focus of DISCO's business activities, with the result that trends in net sales basically followed the same pattern as orders received. An analysis of net sales and orders over the past three years shows that there has been a conspicuous tendency for customers to concentrate their capital investment in the first half of the year in preparation for the year-end selling season, followed by a correction in the third quarter and a shift to a recovery trend in the fourth quarter. This pattern has created a one-year boom-and-bust cycle.

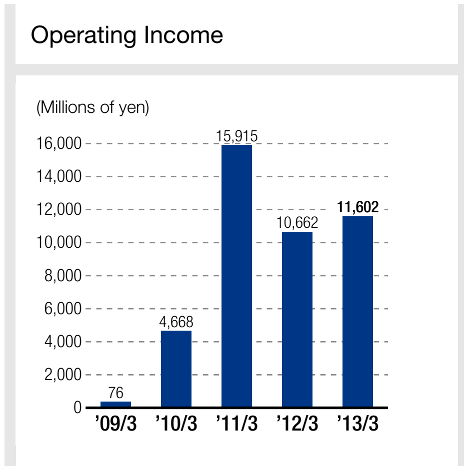
In the year ended March 2013, orders increased by 11.2% year on year to ¥96,118 million, and net sales by 5.0% to ¥93,708 million.

The Impact of the Exchange Rate

Every one-yen movement in the yen-dollar exchange rate affects our sales and income by almost ¥400 million. Around 60% of our







sales are denominated in yen, and the remaining 40% in U.S. dollars. Since our production facilities and most of our suppliers are located in Japan, almost all costs are incurred in yen.

After remaining strong over the past 2–3 years, an accelerating downward correction of the yen began in December 2012, taking the effective yen-dollar rate for the year ended March 2013 down to ¥82.

Trends in U.S. Dollar Exchange Rate

FY08	FY09	FY10	FY11	FY12	**FY13 (estimated)**
¥102.7	¥92.7	¥86.0	¥79.1	¥82.1	**¥96.0**

Costs and Profits

Higher net sales resulted in a 2.9% year on year increase in the cost of sales, which reached ¥49,015 million. The gross profit ratio rose by 1.1 points to 47.7%. This was the result of an improvement in the product mix thanks to a firm trend in shipments of high-added-value systems and precision processing blades and wheels.

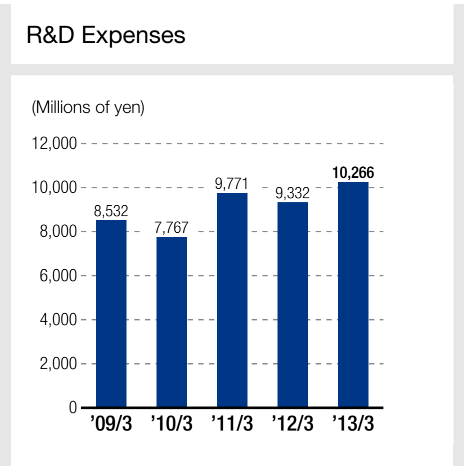
Selling, general and administrative expenses were 6.9% higher year on year at ¥33,091 million. The main reasons for this were higher labor costs resulting from the expansion of overseas offices, an increase in variable costs resulting from the growth of net sales, and increased R&D expenditure.

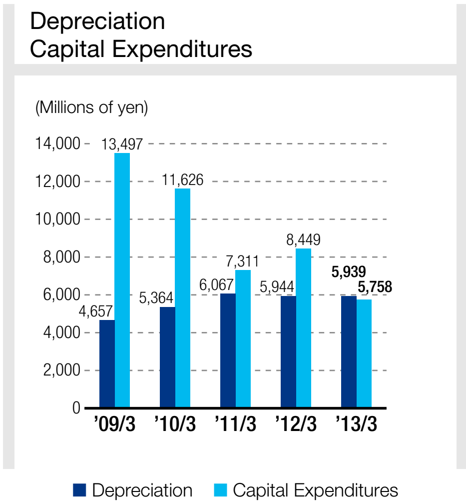
R&D expenditure was 10.0% higher year on year at ¥10,266 million. Our main R&D themes were the development of through-silicon via technology and laser applications, and support for 450 mm wafers. The ratio of R&D expenditure to net sales rose by 0.5 points to 11.0%.

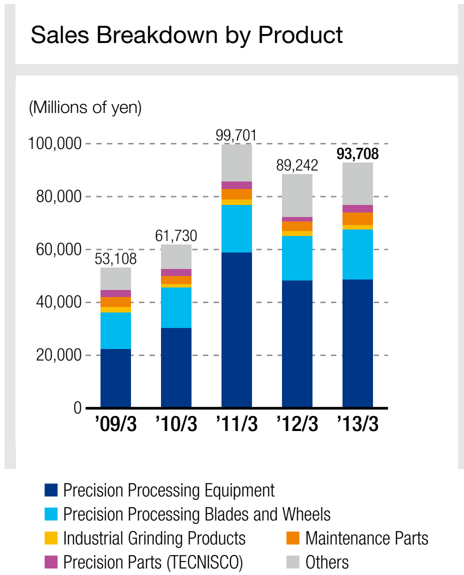
On this basis, operating income increased by 8.8% year on year to ¥11,602 million, and the operating margin was 0.5 points higher at 12.4%.

Capital investment in the year ended March 2013 amounted to ¥5,758 million, a year on year decline of 31.9%. The lower figure resulted from investment in rationalization measures, the purchase of R&D equipment, and the improvement of our overseas network including the construction of a new office in Singapore and the expansion of offices in Europe.

Depreciation was similar to the previous year's figure at ¥5,939 million.







Segment Information

Precision Processing Systems

DISCO's business in this segment centers on the supply of precision processing equipment and precision blades and wheels and the provision of services primarily to manufacturers of semiconductors, electronic parts and other items. In the year ended March 2013, there was a healthy trend in shipments of both precision cutting and grinding equipment, especially for IC applications. Particularly significant was the growth in sales of high-added-value products, such as laser saws (precision cutting equipment) and high-specification grinders. This resulted from the need for increasingly miniaturized and sophisticated semiconductor and electronic components for use in mobile devices. High capacity utilization rates in our customers' factories were paralleled by demand for precision blades and wheels, which are supplied as consumables, and both sales and shipments set new records.

Net sales for this segment increased by 4.2% year on year to ¥89,248 million in the year ended March 2013. Segment income was 12.0% higher at ¥15,943 million.

Industrial Grinding Products

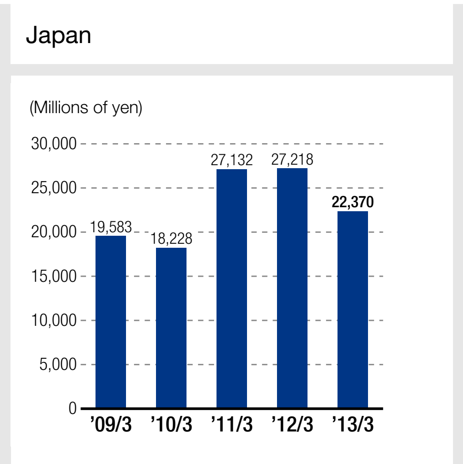
In this segment, DISCO manufactures and sells industrial diamond tools for use in civil engineering and manufacturing, and general-purpose grinding wheels used by manufacturers of motor vehicles and electronic components.

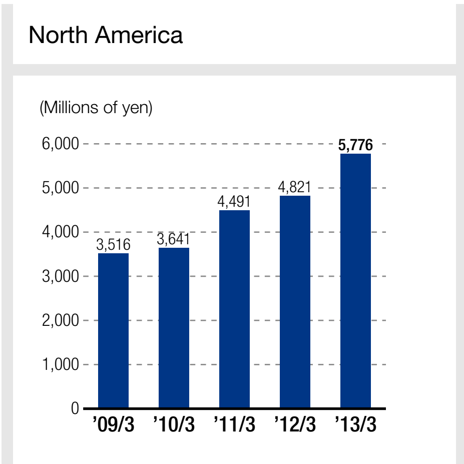
In the year ended March 2013, segment net sales increased by 1.0% year on year to ¥1,692 million, while segment income was 11.0% higher at ¥214 million.

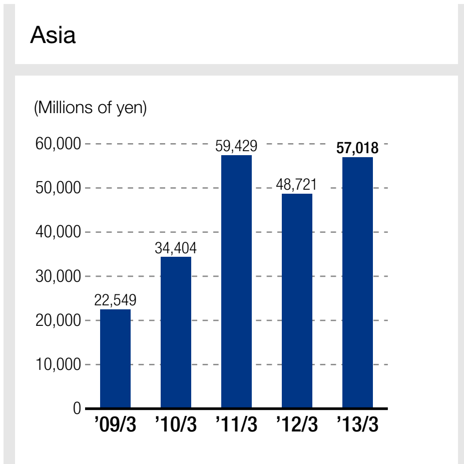
Precision Processing Parts

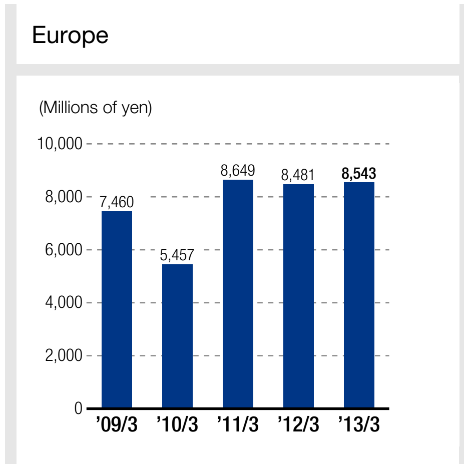
In this segment, DISCO manufactures and sells precision processing parts made from metals, glass, silicon and other materials for use in electronic, optical and medical products. Sales were significantly above the previous year's level because of a recovery in sales of glass products for use in imaging equipment, combined with the expansion of the new glass processing business. Earnings were affected by initial costs relating to the start-up of the new business, with the result that a loss was recorded in this segment.

Segment net sales in the year ended March 2013 increased by 46.2% year on year to ¥2,767 million, but there was a segment loss of ¥205 million, compared with a loss of ¥320 million in the previous fiscal year.









Geographical Segment Information

Asia has become the center of semiconductor mass-production, and in the year ended March 2013 the region's contribution to net sales* rose by 6.2 points to 60.8%. Within Asia, Taiwan has the highest sales total, followed by China and South Korea. Sales to China have also increased dramatically over the past 2–3 years.

An analysis of overseas sales shows that sales in Asia increased by 17.0% year on year to ¥57,018 million, while the total for North America was 19.8% higher at ¥5,776 million. Sales in Europe rose by 0.7% year to ¥8,543 million. While sales in North America and Europe are small compared with sales in Asia, we regard these regions as important markets because of the many R&D facilities specializing in advanced semiconductor and electronic technology.

The contribution of overseas sales to consolidated net sales in the year ended March 2013 was 6.6 points higher year on year at 76.1%.

* Net sales are divided into national and regional totals according to the countries in which customers are based.

Other Income and Expenses

Other income totaled ¥855 million in the year ended March 2013. This includes returns on equity method investments and a subsidy relating to the Kuwabata Plant and the Kure Plant. Other expenses were substantially higher year on year at ¥1,632 million because of exchange losses and the depreciation of fixed assets relating to the old building at the Kuwabata Plant following the construction of the new building.

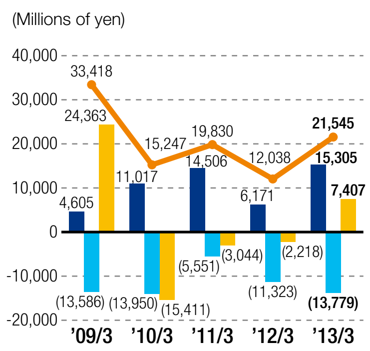
Income before Income Tax and Net Income

Income before income taxes and minority interests was 2.5% below the previous year's level at ¥10,826 million. Income taxes were 14.6% lower at ¥3,358 million, and the effective tax rate fell to 31.0% after the adoption of tax effect accounting. The main reasons for this were a reduction in the statutory effective tax rate and an increase in deductible expenses resulting from aggressive R&D activities.

Minority interests included a ¥5 million minority shareholder loss relating to our minority interest in Tecnisco, Ltd., a consolidated subsidiary.

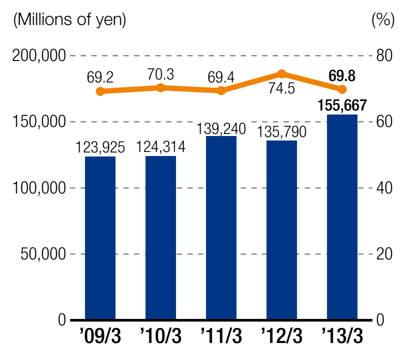
Net income increased by 3.9% year on year to ¥7,473 million. The ratio of net income to net sales was 0.1 points lower at 8.0%. Net income per share amounted to ¥221.75,

Cash Flows, and Cash and Cash Equivalents



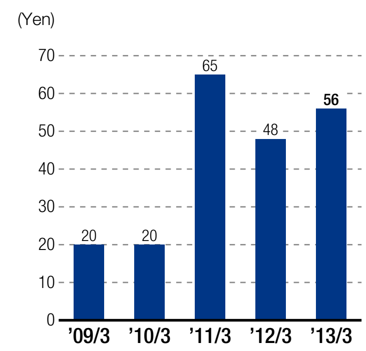
Cash Flows from Operating Activities
Cash Flows from Investing Activities
Cash Flows from Financing Activities
Cash and Cash Equivalents

Total Assets
Equity Ratio



Total Assets
Equity Ratio

Cash Dividends



compared with ¥213.56 in the previous year. ROE was 0.2 points lower year on year at 7.1% because of an increase in shareholders' equity resulting from retained earnings.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities increased by 148.0% year on year to an all-time high of ¥15,305 million. This figure reflects increased inflows resulting from a reduction in trade accounts receivable and an increase in trade accounts payable, as well as a year on year reduction in cash used for corporation tax payments.

Cash Flows from Investing Activities

Net cash used for investing activities increased by 21.7% year on year to ¥13,779 million. The reasons for this increase were the acquisition of tangible fixed assets, including the construction of an office building in Singapore, and the temporary investment of factory construction funds borrowed from banks in term deposits.

Cash Flows from Financing Activities

Net cash provided by financing activities was significantly higher year on year at ¥7,407 million, compared with net cash used of ¥2,218 million in the previous year. A cash outflow resulting from dividend payments was offset by the raising of ¥10,000 million in bank loans for use in the construction of new manufacturing facilities.

Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2013 amounted to ¥21,545 million, an increase of ¥9,507 million compared with the position as of March 31, 2012. Free cash flows, which consist of net cash provided by operating activities and net cash provided by investing activities, were ¥1,526 million higher.

Financial Position

Assets

Total assets amounted to ¥155,667 million as of March 31, 2013, an increase of ¥19,877 million compared with the position at the end of the previous fiscal year. This resulted from an increase in cash and deposits because of factors that included the recovery of trade accounts receivable and the procurement of bank loans to finance factory construction, as well as increases in inventories, fixed assets and other items.

Liabilities

Despite the partial early redemption of convertible bonds with subscription, liabilities increased by ¥11,858 million year on year to ¥45,111 million as of March 31, 2013. This resulted from an increase in borrowing.

Net Assets

Net assets amounted to ¥110,556 million as of March 31, 2013, an increase of ¥8,020 million compared with the position a year earlier. As a result, the shareholders' equity ratio declined by 4.7 points from the level at the end of the previous year to 69.8%, in part because of a rise in the debt ratio.

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 reduce the burden on the environment. 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.

(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.

Disclaimer regarding forward-looking statements

Any plans, predictions, strategies and beliefs in this annual report, other than those of historical fact, are forward-looking statements about the future performance of DISCO Corporation based upon management’s assumptions and beliefs in light of information currently available. Actual results may differ substantially from those anticipated in these statements. Potential uncertainties include, but are not limited to, the cyclical nature of the semiconductor market; the increasingly horizontal international division of labor in the semiconductor manufacturing process; the concentration of the Company’s business among certain customers; the emergence of new technologies; the Company’s product development capabilities; the Company’s ability to acquire and cultivate key human resources; exchange rate fluctuations; and other factors.

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 21,545	¥ 12,038	$ 229,080
Notes and accounts receivable—trade:			
Trade	25,234	27,016	268,304
Unconsolidated subsidiaries and associated companies	39	59	415
Allowance for doubtful receivables	(48)	(25)	(510)
Inventories	28,475	25,764	302,764
Deferred tax assets	1,927	1,431	20,489
Prepaid expenses and other current assets	12,384	5,552	131,675
Total current assets	89,556	71,835	952,217
PROPERTY, PLANT AND EQUIPMENT:			
Land	13,021	12,968	138,448
Buildings and structures	45,222	42,676	480,829
Machinery and equipment	31,710	27,768	337,161
Tools, furniture and fixtures	5,069	4,884	53,897
Construction in progress	2,736	3,611	29,091
Total	97,758	91,907	1,039,426
Accumulated depreciation	(42,243)	(36,717)	(449,155)
Net property, plant and equipment	55,515	55,190	590,271
INVESTMENTS AND OTHER ASSETS:			
Investment securities	591	330	6,283
Investments in unconsolidated subsidiaries and associated companies	1,568	1,019	16,672
Leasehold land	215	215	2,286
Long-term deposits	5,200	5,200	55,290
Deferred tax assets	409	322	4,349
Bond issuance cost	8	13	85
Other	2,672	1,870	28,410
Allowance for doubtful receivables	(67)	(204)	(712)
Total investments and other assets	10,596	8,765	112,663
TOTAL	¥ 155,667	¥ 135,790	$ 1,655,151

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Notes and accounts payable—trade	¥ 12,691	¥ 10,781	$ 134,939
Short-term bank loans	250	183	2,658
Current portion of long-term debt	676	250	7,188
Accrued expenses	3,286	3,101	34,939
Accrued income taxes	2,125	522	22,594
Other current liabilities	4,869	5,955	51,770
Total current liabilities	23,897	20,792	254,088
LONG-TERM LIABILITIES:			
Long-term debt	18,759	10,288	199,458
Accrued retirement benefits	1,800	1,560	19,139
Other long-term liabilities	655	613	6,964
Total long-term liabilities	21,214	12,461	225,561
CONTINGENT LIABILITIES			
NET ASSETS :			
SHAREHOLDERS' EQUITY:			
Common stock, authorized 72,000,000 shares; number of shares issued, 34,004,418 shares in 2013 and 34,004,418 shares in 2012.	14,517	14,517	154,354
Additional paid-in capital	15,654	15,652	166,443
Retained earnings	79,344	73,859	843,636
Treasury stock—at cost, 297,543 shares in 2013 and 306,896 shares in 2012.	(799)	(823)	(8,495)
Total shareholders' equity	108,716	103,205	1,155,938
VALUATION AND TRANSLATION ADJUSTMENTS:			
Other securities valuation difference	13	6	138
Translation adjustments	(129)	(1,980)	(1,371)
Total valuation and translation adjustments	(116)	(1,974)	(1,233)
SHARE SUBSCRIPTION RIGHTS	1,224	981	13,014
MINORITY INTERESTS	732	325	7,783
Total net assets	110,556	102,537	1,175,502
TOTAL	¥ 155,667	¥ 135,790	$ 1,655,151

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
NET SALES	**¥ 93,708**	¥ 89,241	**$ 996,364**
COST OF SALES	**49,015**	47,635	**521,159**
Gross profit	**44,693**	41,606	**475,205**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**33,091**	30,944	**351,845**
Operating income	**11,602**	10,662	**123,360**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**49**	58	**520**
Interest expense	**(49)**	(27)	**(521)**
Foreign exchange gain (loss)	**(547)**	208	**(5,816)**
Equity in earnings gain of associated companies	**216**	133	**2,297**
Amortization of negative goodwill	**—**	29	**—**
Subsidy income	**170**	66	**1,808**
Loss on sale or disposal of property, plant and equipment	**(131)**	(14)	**(1,393)**
Devaluation loss on investment securities	**(50)**	(13)	**(532)**
Impairment loss on property, plant and equipment	**(599)**	—	**(6,369)**
Special retirement expenses	**(40)**	(53)	**(425)**
Factory transfer expenses	**—**	(74)	**—**
Provision of reserve for demolition cost	**(98)**	—	**(1,042)**
Gain on sale on investment securities	**146**	—	**1,552**
Gain on reversal of subscription rights to shares	**12**	6	**128**
Difference of in charge of retirement	**—**	14	**—**
Other, net	**145**	108	**1,542**
	(776)	441	**(8,251)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**10,826**	11,103	**115,109**
INCOME TAXES			
Income taxes—Current	**3,892**	3,227	**41,382**
Income taxes—Deferred	**(534)**	703	**(5,678)**
	3,358	3,930	**35,704**
INCOME BEFORE MINORITY INTERESTS	**7,468**	7,173	**79,405**
MINORITY INTERESTS	**5**	22	**53**
NET INCOME	**¥ 7,473**	¥ 7,195	**$ 79,458**

	Yen		U.S. dollars
	2013	2012	**2013**
AMOUNT PER SHARE OF COMMON STOCK:			
Net income			
Basic	**¥ 221.75**	¥ 213.56	**$ 2.36**
Diluted	**210.85**	202.99	**2.24**
Cash dividends applicable to the year	**56.00**	48.00	**0.60**

Consolidated Statements of Changes in Net Assets

Millions of yen

	Number of shares of common stock	Shareholders' equity				Valuation and translation adjustments		Share subscription rights	Minority interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other securities valuation difference	Translation adjustments			
BALANCE at MARCH 31, 2011	34,004,418	¥ 14,517	¥ 15,645	¥ 68,988	¥ (862)	¥ 6	¥ (1,654)	¥ 767	¥ 226	¥ 97,633
Increase due to issuance of common stock										—
Cash dividend paid				(2,324)						(2,324)
Net income				7,195						7,195
Purchases of treasury stock					(0)					(0)
Disposal of treasury stock			7		39					46
Other										—
Net increase (decrease) during the year						(0)	(326)	214	99	(13)
BALANCE at MARCH 31, 2012	34,004,418	¥ 14,517	¥ 15,652	¥ 73,859	¥ (823)	¥ 6	¥ (1,980)	¥ 981	¥ 325	¥ 102,537
Increase due to issuance of common stock										**—**
Cash dividend paid				**(1,988)**						**(1,988)**
Net income				**7,473**						**7,473**
Purchases of treasury stock					**(1)**					**(1)**
Disposal of treasury stock			**2**		**26**					**28**
Other										**—**
Net increase (decrease) during the year						**6**	**1,851**	**243**	**407**	**2,507**
BALANCE at MARCH 31, 2013	**34,004,418**	**¥ 14,517**	**¥ 15,654**	**¥ 79,344**	**¥ (798)**	**¥ 12**	**¥ (129)**	**¥ 1,224**	**¥ 732**	**¥ 110,556**

Thousands of U.S. dollars

	Number of shares of common stock	Shareholders' equity				Valuation and translation adjustments		Share subscription rights	Minority interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other securities valuation difference	Translation adjustments			
BALANCE at MARCH 31, 2012	34,004,418	$ 154,359	$ 166,421	$ 785,315	$ (8,756)	$ 62	$ (21,054)	$ 10,430	$ 3,456	$ 1,090,233
Increase due to issuance of common stock										**—**
Cash dividend paid				**(21,141)**						**(21,141)**
Net income				**79,459**						**79,459**
Purchases of treasury stock					**(13)**					**(13)**
Disposal of treasury stock			**26**		**274**					**300**
Other										**—**
Net increase (decrease) during the year						**73**	**19,682**	**2,583**	**4,326**	**26,664**
BALANCE at MARCH 31, 2013	**34,004,418**	**$ 154,359**	**$ 166,447**	**$ 843,633**	**$ (8,495)**	**$ 135**	**$ (1,372)**	**$ 13,013**	**$ 7,782**	**$ 1,175,502**

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
OPERATING ACTIVITIES:			
Net income	¥ 7,473	¥ 7,195	$ 79,458
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,939	5,944	63,147
Loss on sale or disposal of property, plant and equipment	131	14	1,393
Amortization of negative goodwill	—	(30)	—
Devaluation loss (gain) on investment securities	50	13	532
Impairment of fixed assets	599	—	6,369
Equity in earnings (losses) of associated companies	(216)	(132)	(2,297)
Decrease (Increase) in notes and accounts receivable—trade	3,155	993	33,546
Decrease (Increase) in inventories	(2,811)	(1,693)	(29,888)
Increase (Decrease) in notes and accounts payable—trade	1,856	(2,792)	19,734
Increase (Decrease) in accrued income taxes	1,121	(4,434)	11,919
Increase (Decrease) in accrued bonus	86	(612)	914
Increase (Decrease) in allowance for doubtful receivables	(123)	136	(1,308)
Increase (Decrease) in allowance for warranty cost	12	(59)	128
Increase (Decrease) in accrued retirement benefits	240	467	2,552
Increase (Decrease) in accounts payable-non trade	(1,394)	(537)	(14,822)
Other, net	(813)	1,698	(8,644)
Net cash provided by operating activities	15,305	6,171	162,733
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(5,433)	(7,899)	(57,767)
Proceeds from sales of property, plant and equipment	44	110	468
Collection of long-term loans receivable	(858)	—	(9,123)
Payments into time deposits	(10,000)	(3,000)	(106,326)
Proceeds from withdrawal of time deposits	3,000	340	31,898
Purchase of investment securities	(446)	(804)	(4,742)
Proceeds from sales of investment securities	197	—	2,095
Purchase of intangible assets	(252)	—	(2,679)
Other	(31)	(70)	(330)
Net cash used in investing activities	¥ (13,779)	¥ (11,323)	$ (146,506)

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
FINANCING ACTIVITIES:			
Short-term bank loans, net	¥ 67	¥ 183	$ 712
Proceeds from long-term debt	10,080	—	107,177
Repayment of long-term debt	(1,183)	(250)	(12,578)
Cash dividends paid	(1,987)	(2,321)	(21,127)
Proceeds from stock issuance to minority shareholders	409	—	4,349
Proceeds from sales of treasury stock	24	26	255
Other	(3)	144	(32)
Net cash used in financing activities	7,407	(2,218)	78,756
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	574	(422)	6,102
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,507	(7,792)	101,085
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,038	19,830	127,995
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 21,545	¥ 12,038	$ 229,080