

DISCO CORPORATION

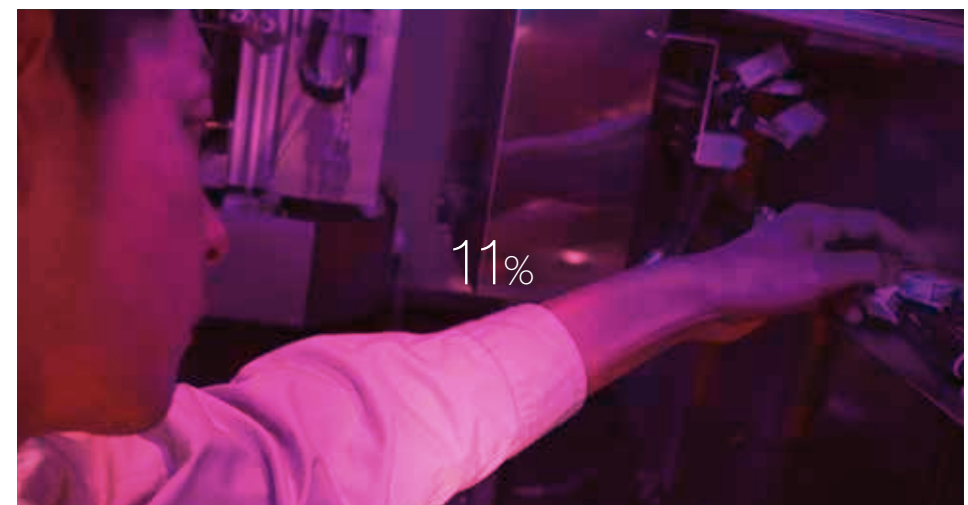
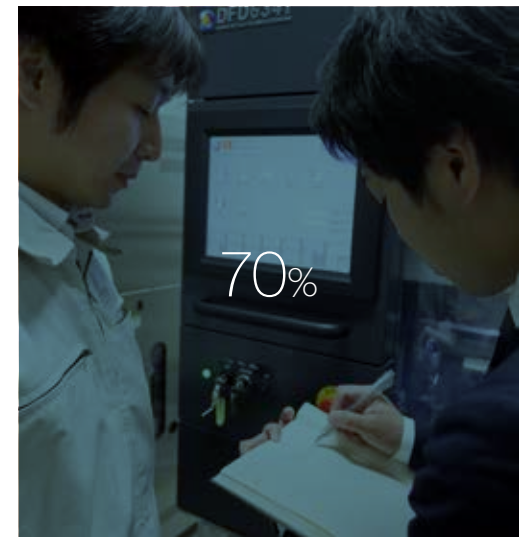
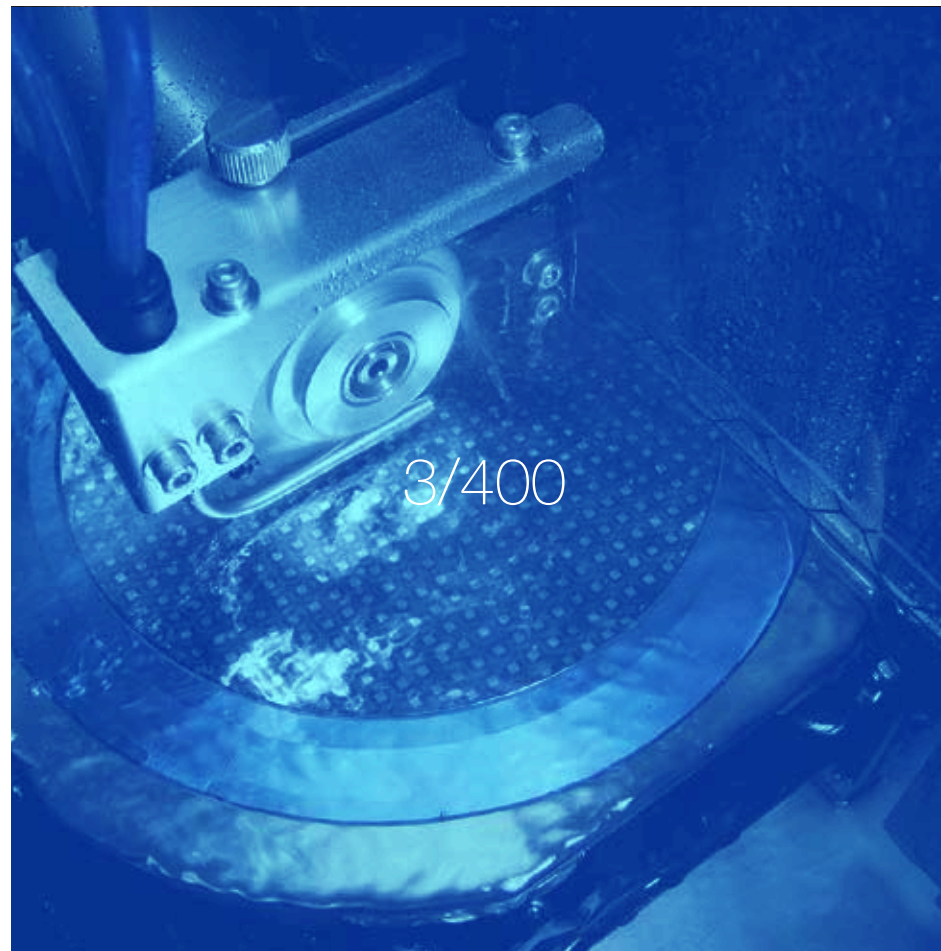
Always Integral

Annual Report 2016
For the year ended March 31, 2016



DISCO

Kiru · Kezuru · Migaku Technologies





Resolute Focus on Just Three of 400 Semiconductor Fabrication Processes

DISCO's Kiru (cutting) technology allows materials to be cut into tiny pieces with a margin of error of one micrometer (μm), or one-thousandth of a millimeter. With this level of precision, the cross-section of a single strand of hair can be divided into 35 pieces.

With our Kezuru (grinding) technology, we can



3/400 PROCESSES

Less is More

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.

achieve thicknesses that are accurate to within $5\ \mu\text{m}$ compared to the $100\ \mu\text{m}$ thickness of a piece of copy paper.

Our Migaku (polishing) technology allows us to polish materials to mirror-like perfection, thereby enhancing their resistance to cracking.

Our Share in World Semiconductor Cutting and Grinding Equipment Markets Averages 70%

DISCO values customer feedback. Feedback is shared within the company, and the relevant departments, including marketing, technical and service staff, work together to take any actions that may be required. Our efforts to offer optimized solutions begin with in-depth analyses of each customer's needs. We

70%

believe that genuine customer satisfaction is achieved through constant efforts to create win-win situations as the basis for continuing relationships based on trust.

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%.

Convergence of Technology & Service



Maintaining Competiveness through R&D

Our R&D Center is located at DISCO's corporate headquarters. Within the R&D Center, research and testing facilities are placed alongside offices, to allow the results of tests conducted by engineers to be shared quickly with those responsible for the next stage of development. Particular

11%

importance is placed on inspiration and experimentation.

On the Edge of What's Next

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 2014, 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.

Key Strategic Initiative

Test cuts are carried out in the Application Lab, a dedicated facility located within the R&D center at DISCO's corporate headquarters. Staffed by almost 50 specialized engineers, this facility has over 70 smaller labs with various types of equipment.

DISCO engineers use their accumulated expertise

3,700 TEST CUTS

Fiscal 2014

to suggest optimal combinations from among 50 models of precision processing equipment and tens of thousands of precision processing blades and wheels. They also help customers to find "processing recipes" based on the best possible combinations of parameters.



Honing Our Customer Solutions

DISCO's test cut system is an experimentation service that allows customers to submit wafers that they wish to process, then 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.



Seismic Base Isolation Structures Installed at All Facilities

In January 2015, we completed a new building at the Kuwabata Plant in Hiroshima Prefecture. We manufacture precision processing equipment, blades, and wheels at Kuwabata. The new building was designed with a seismic isolation structure to minimize the effect of earthquakes. DISCO has

PREPARED



Keeping Our Promises

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.

gained a large share of the world market for precision processing blades and wheels, and supply problems would have a major impact on world semiconductor production. By building a reliable supply structure, we aim to ensure that manufacturers will feel reassured in trading with DISCO.

EYES ON OUR MISSION

Mission:

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

cutting

grinding

polishing

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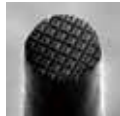
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The Reasons the world Chooses DISCO, "Kiru, Kezuru, Migaku" Technologies

Business Model

DISCO uniquely supplies both precision processing blades and wheels and precision processing equipment. We strongly believe that what our customers need is not the product itself, but the processing results that can be achieved with those products. DISCO has built its reputation as an international provider of Kiru (cutting), Kezuru (grinding) and Migaku (polishing) technologies using achieved processing results as a stepping stone to gather advanced expertise and to fulfill ever-more advanced needs.



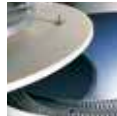
Kiru
1/30

This is precision to the point of being able to groove a human hair cross-wise 30 times.



Kezuru
5μm

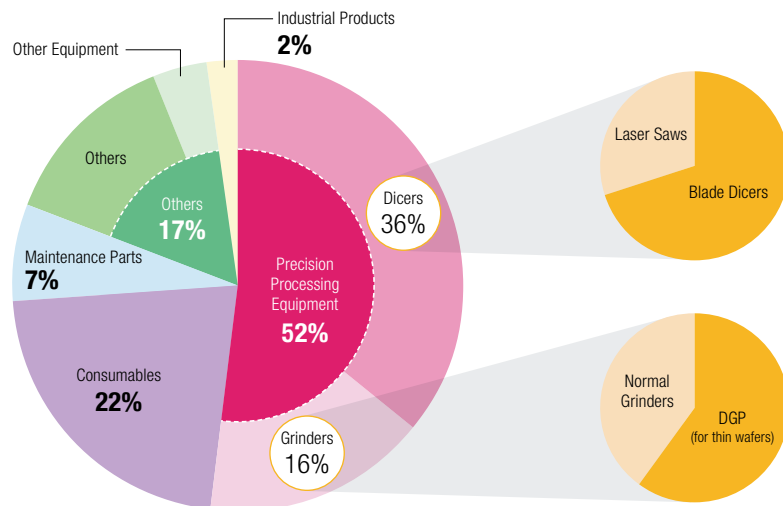
We are able to thinly grind material to 5 micrometers (copy paper is 100 micrometers thick).



Migaku
MORE STRONG

A mirror polish greatly improves the strength of the material.

Product Sales Breakdown



Closer to Customers

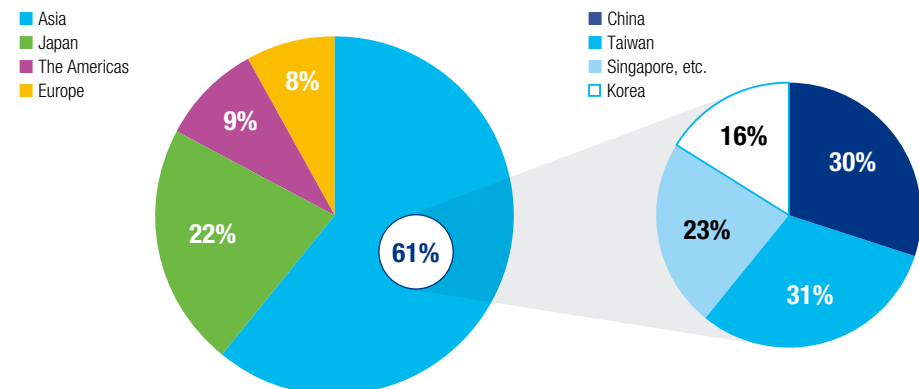
The task of our Application Laboratories is to carry out test cuts to verify whether or not the results sought by our customers can actually be achieved. We have established Application Laboratories not only in Japan but also in the United States, Germany, Singapore and Shanghai, China as part of our continuing efforts to bring the best application technology to our customers.

Application Laboratories

8 countries



Regional Sales Breakdown

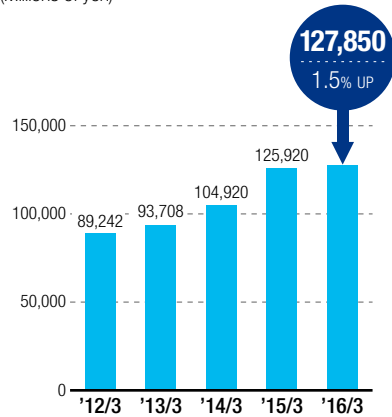


Financial Highlights

DISCO Corporation Annual Report 2016

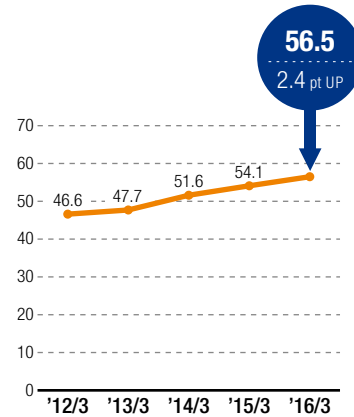
Net Sales

(Millions of yen)



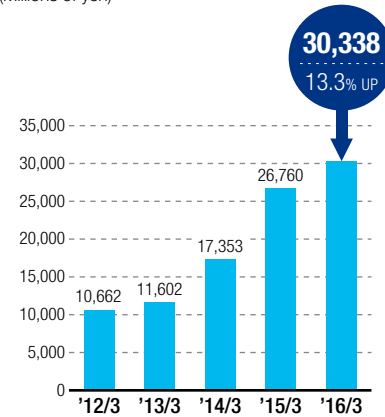
Gross Profit Margin

(%)



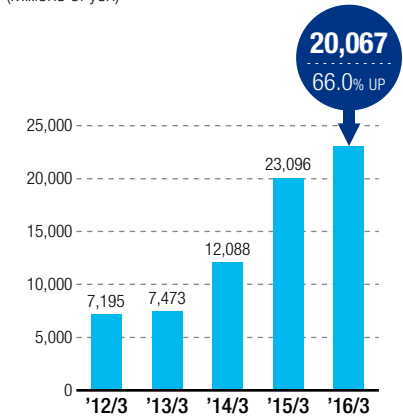
Operating Income

(Millions of yen)



Net Income

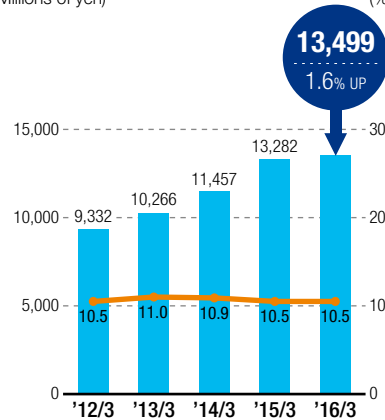
(Millions of yen)



R&D Expenses R&D Expense to Net Sales Ratio

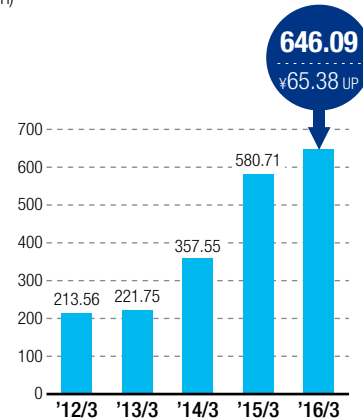
(Millions of yen)

(%)



Basic Net Income per Share

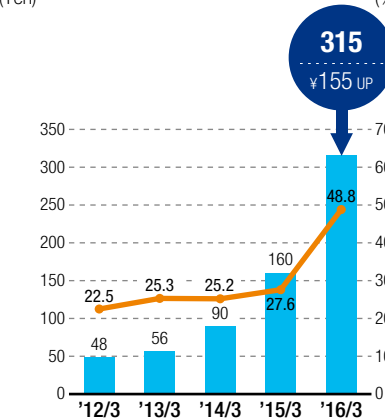
(Yen)



Cash Dividends per Share Dividend Payout Ratio

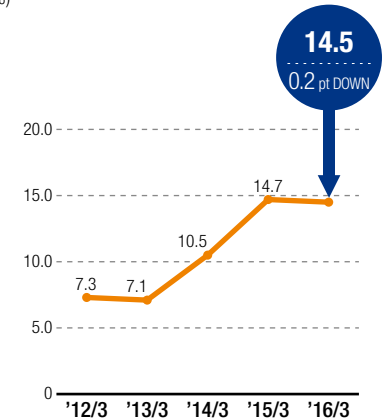
(Yen)

(%)



ROE

(%)



Our ability to develop effective technological solutions will be the key to our continued growth, which we measure, ultimately, as how well we are appreciated by customers and society.



Looking back at the year ended March 2016, how would you assess the business environment and the financial results?



There was some concern about the growth outlook for the semiconductor market because of slower growth in the smartphone market. However, global semiconductor production expanded steadily. Manufacturing technologies for logic integrated circuits (ICs), flash memory, image sensors, and other semiconductors have continued to evolve, in turn leading to increasing complexity and sophistication in manufacturing processes. Advanced processing technology is also needed for electronic components, such as capacitors and high-frequency devices. These trends are expanding the scope of DISCO's Kiru (cutting), Kezuru (grinding) and Migaku (polishing) technologies.

DISCO is able to offer consultations when customers develop new devices. Because we can provide solutions that meet customers' expectations, those customers come back to us with new inquiries. I attribute our record-breaking net sales and income results to the efficient functioning of this cycle.

Kazuma Sekiya,
President and COO




What steps are you taking in response to the present business environment?



People will continue to use technology to improve their living environments. This trend will be accompanied by ongoing diversification in the range of uses for semiconductors. There will be continued growth in the number of end products that use semiconductors and electronic components, including equipment for data centers that handle vast quantities of data, devices connected to the Internet of Things (IoT), and high-performance processors and highly reliable electronic components for self-driving cars.

The technologies used to manufacture semiconductors and electronic components also continue to evolve, generating a need for ever-higher standards of processing precision and quality. We have expanded our Kuwabata Plant in Hiroshima and are actively investing in R&D to ensure our ongoing ability to respond effectively to continued growth in the needs of our customers from the medium-to-long term perspective.

What is your approach to the medium-to-long-term improvement of corporate value?


 Our corporate philosophy, the DISCO Values, includes the following statement: DISCO's growth is defined as the increase in Mission-achievability. DISCO does not think of growth in terms of the expansion of sales, market share, or scale. In other words, how much we are appreciated by society testifies to our growth. We also believe that medium-to-long-term growth in corporate value results from "the increase in Value-exchangeability" with all the company's stakeholders, such as shareholders, customers, employees, and suppliers.

We believe that it is vital to strengthen our company through the use of Performance Innovation Management (PIM)¹ activities to drive evolution and improvement, primarily through the optimization of our corporate culture through the DISCO Values. We have also introduced a concept known as Will Accounting² to encourage spontaneous initiatives.

¹ Performance Innovation Management (PIM): This management system is used throughout the entire DISCO Group to maintain continuous evolution.

² Will Accounting: This management accounting method was developed by DISCO as a tool for monitoring and improving the profitability of the organization's activities at a small group level, such as in teams.

What are your thoughts on the capital policy?

 In an industry subject to rapid technological changes, developing technologies is the key to growth. That is why we give first priority to R&D in decisions about the use of funds. We have consistently applied a policy of actively returning income to shareholders. We define the level of funds needed to conduct business, including facility expansion and the acquisition of technology resources (e.g. M&A). One-third of that surplus is added to dividends.

The dividend for the year ended March 2016 increased substantially to ¥315 per share, consisting of a performance-linked dividend of ¥163 and a supplementary dividend of ¥152. This is the highest dividend that we have ever paid.

We will continue to improve our corporate value and shareholder returns through an active commitment to developing technologies.

Performance-linked

The interim and final dividends are linked to financial performance through our policy of allocating 25% of consolidated net income in the first and second halves of each fiscal year to dividends.

Stable

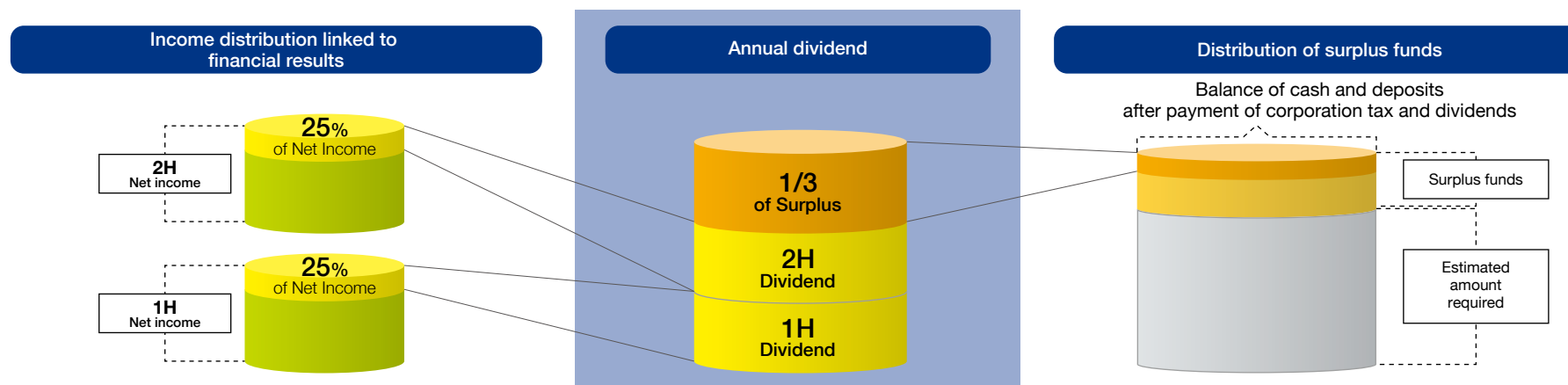
Our policy also calls for dividend reliability, and we pay minimum half-yearly dividends of ¥10, or ¥20 per annum, irrespective of trends in our financial

performance. However, this policy may be reviewed if there is a consolidated net loss in three successive fiscal years.

Distributed Surpluses

Except when there is a deficit at the end of the fiscal year, our policy is to distribute an additional dividend equivalent to one-third of any surplus funds remaining in excess of our estimated requirements, after payment of dividends and corporation taxes.

Income Distribution



Use of Surplus Funds for Income Distribution

If cash and deposits at the end of the fiscal year are in excess of the estimated amount required, our income distribution policy in the event that there are surplus funds provides for the distribution of one-third of the surplus as an additional dividend (except when there is a loss).

Our estimated funding requirements consist of funds to purchase technology licenses and other items, facility expansion funds, funds for use in the repayment of interest-bearing debt, final dividends, corporation taxes, and operating funds for two months.

¥152 Supplementary Dividend

Surplus funds at the end of fiscal 2015 amounted to ¥67.1 billion. After the deduction of our estimated funding requirements of ¥50.8 billion, there was a surplus of ¥16.3 billion, of which one-third will be distributed to shareholders at the rate of ¥152 per share.

Overview

In fiscal 2015 (the year ended March 31, 2016), expanding demand for smartphones and other mobile devices was reflected in investment intentions in the semiconductor and electronic component industries, which are the main focus of DISCO's business activities. This resulted in aggressive capital investment by manufacturers of these products.

We responded to this environment by dynamically manufacturing and marketing precision processing equipment and precision processing blades and wheels for use in manufacturing industries, especially in Japanese and overseas manufacturers of semiconductors and electronic components.

DISCO manufactures precision dicing saws and grinders in the precision processing equipment category. Demand for

dicing saws was substantially lower than in fiscal 2014, when we recorded strong sales in systems for manufacturers of logic ICs, LED packages, and other products. However, blade dicing saw sales were only 20% lower YoY thanks to increased demand from manufacturers of semiconductor devices, such as flash memories and image sensors, as well as electronic components, including SAW devices and capacitors. Laser saw sales were up by approximately 10% YoY, but total dicing saw sales declined by approximately 10% compared to fiscal 2014. Grinder sales were approximately 30% higher YoY. This strong result reflects increased demand from manufacturers of a wide range of applications for devices, including flash memories, electronic components, and image sensors.

Sales of precision processing blades and wheels (which are

supplied as consumables) set a new record for four consecutive years. This resulted from shipment growth driven by a volume increase in the global production of semiconductors, expanding demand for electronic components, and the effect of exchange rate trends.

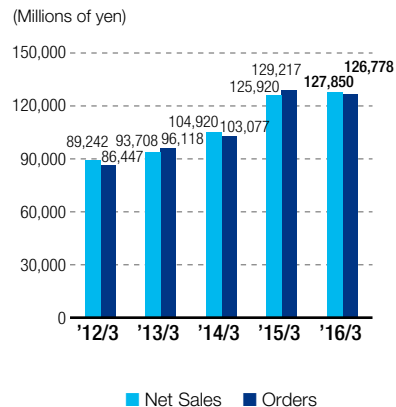
As a result of these trends, consolidated net sales set a new record for the third consecutive year.

Orders Received and Net Sales

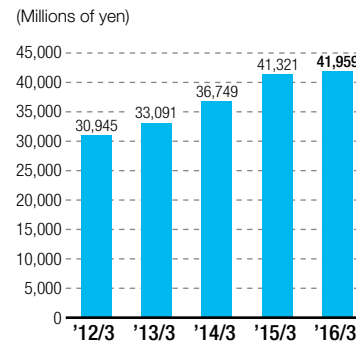
DISCO's business activities focus on the final assembly stage of semiconductor manufacturing, and urgent inquiries account for a high percentage of orders. This is reflected in essentially synchronous trends in orders and sales.

An analysis of net sales and orders over the past three

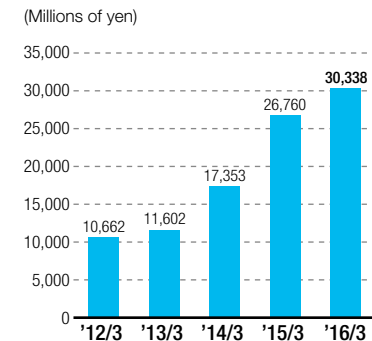
Net Sales Orders



SG&A Expenses



Operating Income



years shows that our customers tend to concentrate their capital investment in the first half of the year in preparation for the year-end sales season. This is followed by an adjustment phase in the third quarter and a recovery phase in the fourth. Over the year, this results in a wave pattern of alternating strong and weak phases.

This pattern of alternating strong and weak sales was again evident in fiscal 2015. However, orders remained generally strong due to the release of multiple applications for semiconductor devices, such as flash memories. As a result, orders declined by 1.9% YoY to ¥126,778 million in fiscal 2015, while net sales increased by 1.5% to ¥127,850 million and set a new record for the third consecutive year.

Effect of Exchange Rate Trends

We estimate our sensitivity to exchange rate movements at just under ¥500 million for every one-yen change in the yen-US dollar exchange rate. Both net sales and income are affected. Approximately 50% of our sales are denominated in yen and 50% in US dollars. Since our manufacturing facilities and most of our suppliers are located in Japan, costs are almost entirely denominated in yen. The effective US dollar exchange rate in fiscal 2015 was ¥120.8.

Yen-U.S. Dollar Exchange Rate

FY11	FY12	FY13	FY14	FY15	FY16 (Estimated)
¥79.1	¥82.1	¥99.7	¥109.1	¥120.8	¥105.0

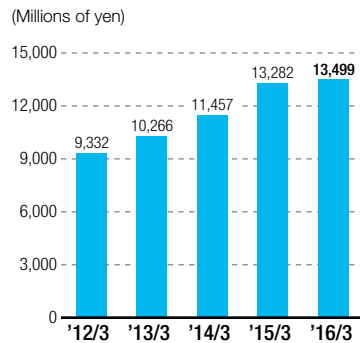
Costs and Profits

Sales costs were 4.0% lower YoY at ¥55,552 million due to an increase in net sales resulting from exchange rate movements. The gross profit ratio improved by 2.4 points to 56.5%, mainly as a result of exchange rate factors and changes in the product range.

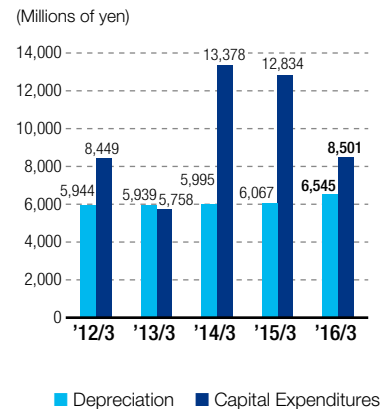
Sales expenses, general expenses, and administrative expenses increased by 1.5% YoY to ¥41,959 million. This increase occurred despite a reduction in commissions paid to selling agents and resulted mainly from higher labor costs.

R&D expenditure amounted to ¥13,499 million with a YoY increase of 1.6%. Our R&D activities are focused on the technical development of laser applications in particular, but also other various applications such as grinders and blade

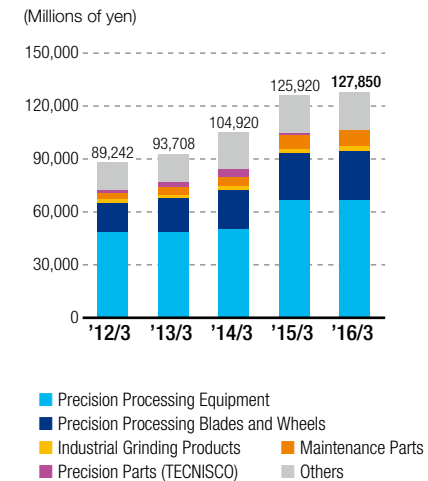
R&D Expenses



Depreciation Capital Expenditures



Sales Breakdown by Product



dicing saws. The ratio of R&D expenditure to sales rose by 0.1 points to 10.6%.

These factors were reflected in the operating income, which increased by 13.4% YoY to ¥30,338 million. The operating margin was 2.4 points higher at 23.7%.

Capital investments included investing in rationalization measures and the purchasing of R&D equipment. There was a pause in investments into major facilities, resulting in capital investments being ¥4,333 million lower YoY at ¥8,501 million. Depreciation increased by ¥478 million to ¥6,545 million due to the completion of a new building at Kuwabata Plant.

Geographical Segment Information

Sales in Japan, North America, and Europe remained strong in

fiscal 2015 thanks to active capital investment by semiconductor and electronic component manufacturers in those regions. This offset a decline in sales in Asia.

The sales contribution from Asia, which is a mass-production base for semiconductor products, declined by 7.9 points year on year to 60.8%. Taiwan was our biggest source of sales in Asia, followed by China and South Korea.

An analysis of our overseas sales shows that sales in Asia were 10.1% lower YoY at ¥77,699 million, while sales in North America increased by 35.1% to ¥11,867 million, and sales in Europe by 21.9% to ¥10,587 million. Although sales in North America and Europe are smaller than the figure for Asia, we regard them as important markets because of the large number of facilities engaged in advanced research and development

relating to semiconductors and electronic components. Japan is also a key market because of the potential for active investment by manufacturers of optical semiconductors, electronic components, and other products.

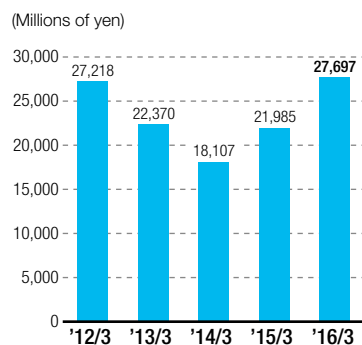
In fiscal 2015, the contribution from overseas sales to total consolidated net sales was 78.3%, with a YoY decline of 4.2 points.

Note: Net sales are classified into countries or regions based on the locations of customers.

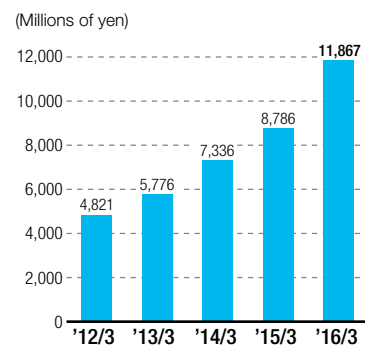
Other Income and Expenses

Other income amounted to ¥725 million with a YoY decline of ¥1,189 million. The lower figure reflects the fact that last year's total included proceeds from the sales of an affiliated company,

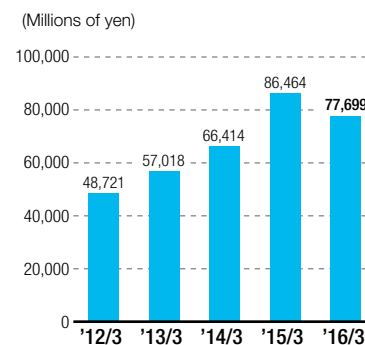
Japan



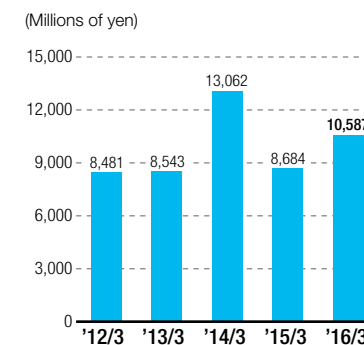
North America



Asia



Europe



which was not a factor in the current fiscal year. Other expenses were ¥730 million lower at ¥451 million because there were no exchange losses, which affected the results in fiscal 2014.

Income Before Income Tax and Net Income

After adjusting for these factors, income before income tax was 11.3% higher YoY at ¥30,612 million. Income tax increased by 1.5% to ¥7,519 million, but the effective tax rate was lower at 24.6% after applying tax effect accounting. The main reason for this was an increase in deductible expenses resulting from active R&D.

Net income increased by 15.1% YoY to a new record of ¥23,096 million. The ratio of net income to net sales was 2.2 points higher at 18.1%. Net income per share was ¥646.09 in

contrast to ¥580.71 in the previous fiscal year. ROE declined by 0.2 points to 14.5%.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥29,316 million: an increase of 16.4% over the previous fiscal year. The main factors were increased inflows, including net income before income taxes and minority interests of ¥30,612 million, a reduction in inventory assets, and reduced outflows resulting from a decrease in accounts payable and the payment of income taxes.

Cash Flows from Investing Activities

Net cash used for investment activities increased by 82.2% YoY

to ¥7,174 million. This increase resulted mainly from the acquisition of tangible fixed assets.

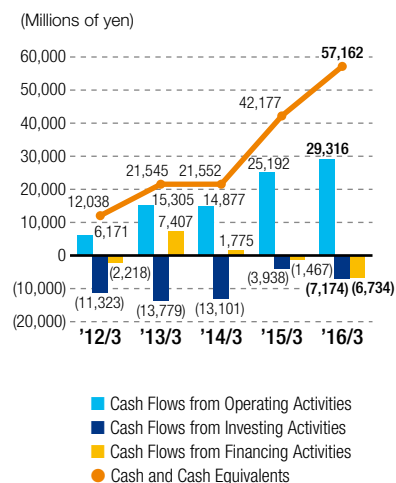
Cash Flows from Financing Activities

Net cash used for financing activities was 358.8% higher YoY at ¥6,734 million. The main factor was expenditure on dividend payments.

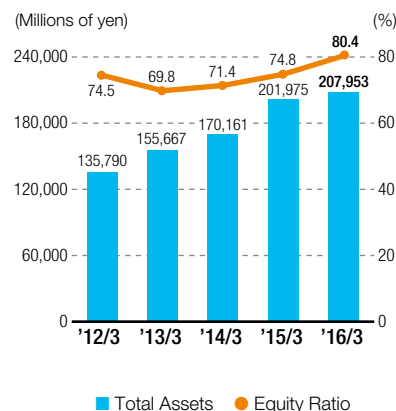
Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2016 totaled ¥57,162 million: a YoY increase of ¥14,984 million. Free cash flows (which are the sum of net cash provided by operating activities and net cash from investing activities) amounted to ¥22,142 million.

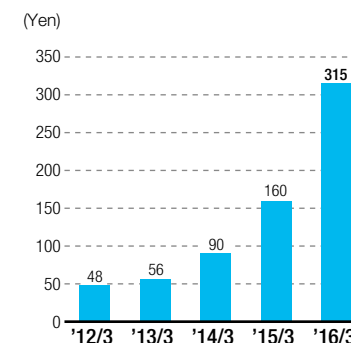
Cash Flows, and Cash and Cash Equivalents



Total Assets and Equity Ratio



Cash Dividends



Financial Position

Assets

Total assets as of March 31, 2016 amounted to ¥207,953 million: an increase of ¥5,978 million from the position at the end of the previous fiscal year. This resulted mainly from a decrease in inventory assets and fixed assets, and a substantial increase in cash and deposits.

Liabilities

Liabilities as of March 31, 2016 amounted to ¥39,917 million: a decrease of ¥10,138 million from the position at the end of the previous fiscal year. This resulted mainly from a decrease in accounts payable and interest-bearing debts.

Net Assets

Net assets as of March 31, 2016 totaled ¥168,035 million: an increase of ¥16,116 million compared with the position a year earlier. As a result, the shareholders' equity ratio rose by 5.6 points to 80.4%.

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 company group is influenced by environmental laws and regulations for CO₂ emissions, water quality, chemicals, waste, and other various environmental issues. These environmental regulations are becoming increasingly strict every year. The company endeavors not just to uphold those laws, but also strives to reduce the risk that business activities have on the environment by meeting the mid-term environmental goals defined under our "Environmental Vision 2020". In order to respond to these stricter environmental laws, as well as any addi-

tional responsibilities, there is a risk of increased costs, which may affect the company group financial situation.

(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 (March 31, 2016 and 2015)

DISCO Corporation Annual Report 2016

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 57,162	¥ 42,177	\$ 507,297
Notes and accounts receivable—trade:			
Trade	33,409	35,079	296,499
Unconsolidated subsidiaries and associated companies	56	35	497
Allowance for doubtful receivables	(208)	(220)	(1,846)
Inventories	30,692	33,495	272,387
Deferred tax assets	3,806	3,875	33,785
Prepaid expenses and other current assets	13,414	15,179	119,046
Total current assets	138,333	129,622	1,227,667
PROPERTY, PLANT AND EQUIPMENT:			
Land	13,815	13,136	122,610
Buildings and structures	56,002	54,632	497,001
Machinery and equipment	37,259	36,834	330,665
Tools, furniture and fixtures	5,465	5,264	48,507
Construction in progress	3,034	3,252	26,927
Total	115,577	113,119	1,025,712
Accumulated depreciation	(50,743)	(46,925)	(450,328)
Net property, plant and equipment	64,834	66,194	575,383
INVESTMENTS AND OTHER ASSETS:			
Investment securities	335	316	2,978
Investments in unconsolidated subsidiaries and associated companies	1,883	1,993	16,713
Long-term deposits	—	1,200	—
Deferred tax assets	91	110	811
Other	2,522	2,578	22,385
Allowance for doubtful receivables	(47)	(42)	(419)
Total investments and other assets	4,785	6,157	42,469
TOTAL	¥ 207,953	¥ 201,975	\$ 1,845,520

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Notes and accounts payable—trade	¥ 13,295	¥ 20,103	\$ 117,993
Current portion of long-term debt	1,676	1,816	14,876
Accrued expenses	6,296	5,649	55,875
Accrued income taxes	4,272	4,789	37,913
Other current liabilities	4,706	6,633	41,766
Total current liabilities	30,246	38,992	268,425
LONG-TERM LIABILITIES:			
Long-term debt	8,583	9,416	76,172
Other long-term liabilities	1,088	1,647	9,660
Total long-term liabilities	9,671	11,063	85,832
CONTINGENT LIABILITIES			
NET ASSETS :			
SHAREHOLDERS' EQUITY:			
Common stock, authorized 72,000,000 shares; number of shares issued, 35,789,271 shares in 2016 and 35,704,271 shares in 2015.	20,063	19,785	178,056
Additional paid-in capital	22,051	21,773	195,697
Retained earnings	123,245	106,329	1,093,763
Treasury stock—at cost, 4,273 shares in 2016 and 3,823 shares in 2015.	(15)	(10)	(134)
Total shareholders' equity	165,344	147,877	1,467,383
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Other securities valuation difference	14	—	127
Translation adjustments	1,847	3,240	16,399
Remeasurements of defined benefit plans	16	(57)	145
Total accumulated other comprehensive income	1,878	3,182	16,672
SHARE SUBSCRIPTION RIGHTS	755	795	6,704
NON-CONTROLLING INTERESTS	56	63	501
Total net assets	168,035	151,918	1,491,261
TOTAL	¥ 207,953	¥ 201,975	\$ 1,845,520

Consolidated Statements of Income (Years Ended March 31, 2016 and 2015)

DISCO Corporation Annual Report 2016

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
NET SALES	¥ 127,850	¥ 125,920	\$ 1,134,635
COST OF SALES	55,552	57,839	493,012
Gross profit	72,298	68,081	641,623
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	41,959	41,321	372,376
Operating income	30,338	26,760	269,246
OTHER INCOME (EXPENSES):			
Interest and dividend income	59	77	532
Interest expense	(52)	(49)	(468)
Foreign exchange gain (loss)	79	(604)	708
Equity in earnings gain (loss) of associated companies	(12)	(34)	(111)
Rent income	84	54	746
Subsidy income	211	244	1,874
Loss(gain) on sale or disposal of property, plant and equipment	(44)	4	(398)
Devaluation loss on investment securities	—	(21)	—
Impairment loss on property, plant and equipment	(56)	(125)	(502)
Special retirement expenses	(46)	(42)	(411)
Gain on sale on investment securities	—	51	—
Gain on sales of shares of subsidiaries and associates	—	658	—
Gain on reversal of subscription rights to shares	22	153	196
Insurance income	117	—	1,039
Compensation income	—	415	—
Compensation expenses	—	(86)	—
Demolition cost	(53)	—	(474)
Provision of reserve for demolition cost	(15)	—	(141)
Other, net	(18)	42	(159)
	273	737	2,429
INCOME BEFORE INCOME TAXES	30,612	27,497	271,675
INCOME TAXES			
Income taxes—Current	8,145	7,777	72,286
Income taxes—Deferred	(625)	(368)	(5,550)
	7,519	7,409	66,736
NET INCOME (LOSS)	¥ 23,092	¥ 20,087	\$ 204,939
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	¥ 23,096	¥ 20,067	\$ 204,973
NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	¥ (3)	¥ 19	\$ (34)

	Yen		U.S. dollars
	2016	2015	2016
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY			
Basic	¥ 646.09	¥ 580.71	\$ 5.73
Diluted	642.24	561.50	5.70
Cash dividends applicable to the year	315.00	160.00	2.80

Consolidated Statements of Changes in Net Assets (Years Ended March 31, 2016 and 2015)

DISCO Corporation Annual Report 2016

Millions of yen											
	Number of shares of common stock	Shareholders' equity				Accumulated other comprehensive income			Share subscription rights	Non-controlling interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other securities valuation difference	Translation adjustments	Remeasurements of defined benefit plans			
BALANCE at MARCH 31, 2014	34,004,418	¥ 14,517	¥ 16,190	¥ 89,203	¥ (235)	¥ 17	¥ 1,864	¥ (142)	¥ 1,219	¥ 821	¥ 123,456
Cumulative effects of changes in accounting policies				983						17	1,000
Restated balance		14,517	16,190	90,187	(235)	17	1,864	(142)	1,219	839	124,457
Changes of items during period											
Increase due to issuance of common stock	1,699,853	5,267	5,267								10,535
Cash dividend paid				(3,809)							(3,809)
Net income (loss) attributable to owners of the parent company				20,067							20,067
Purchases of treasury stock					(1)						(1)
Disposal of treasury stock			315		226						541
Change of scope of consolidation				(116)							(116)
Other increase or decrease					(17)	1,376	84	(423)	(775)		243
BALANCE at MARCH 31, 2015	35,704,271	¥ 19,785	¥ 21,773	¥ 106,329	¥ (10)	¥ —	¥ 3,240	¥ (57)	¥ 795	¥ 63	¥ 151,918
Cumulative effects of changes in accounting policies											—
Restated balance		19,785	21,773	106,329	(10)	—	3,240	(57)	795	63	151,918
Changes of items during period											
Increase due to issuance of common stock	85,000	277	277								555
Cash dividend paid				(6,180)							(6,180)
Net income (loss) attributable to owners of the parent company				23,096							23,096
Purchases of treasury stock					(4)						(4)
Disposal of treasury stock											—
Change of scope of consolidation											—
Other increase or decrease						14	(1,392)	74	(39)	(7)	(1,350)
BALANCE at MARCH 31, 2016	35,789,271	¥ 20,063	¥ 22,051	¥ 123,245	¥ (15)	¥ 14	¥ 1,847	¥ 16	¥ 755	¥ 56	¥ 168,035

Thousands of U.S. dollars											
	Number of shares of common stock	Shareholders' equity				Accumulated other comprehensive income			Share subscription rights	Non-controlling interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other securities valuation difference	Translation adjustments	Remeasurements of defined benefit plans			
BALANCE at MARCH 31, 2015	35,704,271	\$ 175,588	\$ 193,230	\$ 943,637	\$ (92)	\$ —	\$ 28,756	\$ (512)	\$ 7,058	\$ 565	\$ 1,348,232
Cumulative effects of changes in accounting policies											—
Restated balance		175,588	193,230	943,637	(92)	—	28,756	(512)	7,058	565	1,348,232
Changes of items during period											
Increase due to issuance of common stock	85,000	2,467	2,467								4,934
Cash dividend paid				(54,847)							(54,847)
Net income (loss) attributable to owners of the parent company				204,973							204,973
Purchases of treasury stock					(42)						(42)
Disposal of treasury stock											—
Change of scope of consolidation											—
Other increase or decrease						127	(12,356)	658	(353)	(63)	(11,988)
BALANCE at MARCH 31, 2016	35,789,271	\$ 178,056	\$ 195,697	\$ 1,093,763	\$ (134)	\$ 127	\$ 16,399	\$ 145	\$ 6,704	\$ 501	\$ 1,491,261

Consolidated Statements of Cash Flows (Years Ended March 31, 2016 and 2015)

DISCO Corporation Annual Report 2016

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
OPERATING ACTIVITIES:			
Net income	¥ 23,092	¥ 20,087	\$ 204,939
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,545	6,067	58,086
Loss on sale or disposal of property, plant and equipment	44	(4)	398
Devaluation loss (gain) on investment securities	—	21	—
Impairment of fixed assets	56	125	502
Equity in earnings (losses) of associated companies	12	34	111
Loss (gain) on sales of shares of subsidiaries and associates	—	(658)	—
Decrease (Increase) in notes and accounts receivable—trade	347	(1,227)	3,080
Decrease (Increase) in inventories	3,456	(5,724)	30,674
Increase (Decrease) in notes and accounts payable—trade	(6,764)	8,023	(60,031)
Increase (Decrease) in accrued income taxes	(1,205)	1,256	(10,694)
Increase (Decrease) in accrued bonus	648	771	5,757
Increase (Decrease) in allowance for doubtful receivables	8	(5)	77
Increase (Decrease) in allowance for warranty cost	10	95	96
Increase (Decrease) in net defined benefit asset and liability	(219)	(2,169)	(1,952)
Increase (Decrease) in accounts payable—non trade	(1,075)	(595)	(9,544)
Other, net	4,358	(904)	38,676
Net cash provided by operating activities	¥ 29,316	¥ 25,192	\$ 260,179

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	¥ (8,380)	¥ (10,644)	\$ (74,377)
Proceeds from sales of property, plant and equipment	38	308	340
Net decrease (increase) in short-term loans receivable	(37)	(2)	(332)
Payments of long-term loans receivable	(195)	(0)	(1,730)
Collection of long-term loans receivable	328	—	2,918
Payments into time deposits	(10,000)	—	(88,746)
Proceeds from withdrawal of time deposits	11,201	4,000	99,410
Purchase of investment securities	(19)	(15)	(176)
Proceeds from sales of investment securities	0	85	1
Payments for investments in capital of subsidiaries and associates	—	(26)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	2,398	—
Purchase of intangible assets	(116)	(94)	(1,032)
Other	6	54	56
Net cash used in investing activities	(7,174)	(3,938)	(63,669)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	1,227	2,190	10,895
Repayment of long-term debt	(2,175)	(660)	(19,304)
Cash dividends paid	(6,179)	(3,809)	(54,838)
Proceeds from sales of treasury stock	—	424	—
Issuance of common stock	396	388	3,519
Other	(4)	(1)	(42)
Net cash used in financing activities	(6,734)	(1,467)	(59,769)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(423)	509	(3,758)
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,984	20,295	132,981
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	42,177	21,552	374,316
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION	—	329	—
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 57,162	¥ 42,177	\$ 507,297