ANNUAL REPORT **2012**

For the year ended March 31, 2012

DISCO

Kiru・Kezuru・Migaku Technologies

DISCO CORPORATION

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

cutting grinding polishing

DISCO is a specialist-innovator in advanced processing technologies, bringing a 21st century perspective to technologies that predate the beginning of civilization: cutting, grinding and polishing. These still-evolving technologies underpin leading-edge processes being developed for the semiconductor and electronic components industries of tomorrow. DISCO was established in 1937 as a manufacturer of industrial abrasive wheels and has excelled by adapting to the changing needs of precision manufacturing industries over 70-plus years of service. Despite oversupply of some electronic products made by our target customers and a record-high yen exchange rate in fiscal 2011, our strong results underscored an ability to improve manufacturing efficiencies and control costs. In the year ahead, we look forward to rising demand from various customer segments and plan to match our output closely to this positive demand trend.

Contents

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 Financial Highlights

Years Ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars[1]
	2012	2011	**2012**
For the Period:			
Net sales	**¥ 89,241**	¥ 99,700	**$ 1,085,789**
Operating income	**10,662**	15,915	**129,724**
Net income	**7,195**	10,945	**87,541**
Capital expenditures	**8,448**	7,311	**102,786**
Depreciation and amortization	**5,944**	6,067	**72,320**
Research and development expenses	**9,331**	9,771	**113,530**
At Year-end:			
Total net assets	**¥ 102,537**	¥ 97,633	**$ 1,247,560**
Total assets	**¥ 135,790**	¥ 139,240	**1,652,147**
	Yen		U.S. dollars[1]
Per Share of Common Stock:			
Basic net income	**¥ 213.56**	¥ 325.59	**$ 2.60**
Cash dividends	**48.00**	65.00	**0.58**
Ratio:			
Equity ratio	**74.5%**	69.4%	
Return on equity (ROE)[2]	**7.3%**	11.9%	

Notes: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥82.19 = US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2012.

(2) ROE = Net income ÷ Average shareholders' equity × 100

DISCO provides processing solutions that optimally match the varying needs and priorities of our customers in relation to advanced *Kiru* (cutting), *Kezuru* (grinding) and *Migaku* (polishing) technologies. DISCO's greatest strength is our ability to produce total solutions based on integrated combinations of our precision processing blades and wheels, precision processing equipment, applications and service support.

Sales Composition

DISCO holds a unique position as a company that produces and sells both consumables, in the form of precision processing blades and wheels, and the precision processing equipment on which those items are used. Sales of precision processing equipment make up about half of DISCO's total net sales. However, the semiconductor market is subject to major fluctuations caused by the semiconductor business cycle. On the other hand, DISCO derives approximately 20% of our sales from precision processing blades and wheels, and even when semiconductor manufacturers are limiting their capital investment due to business fluctuations, they continue to use these blades and wheels as long as their existing production facilities remain in operation. As a result, sales tend to be more stable than is the case with precision processing equipment.

Sources of Competitiveness

DISCO uses a processing validation service known as "test cutting" to provide our customers with optimal processing solutions combining the most appropriate equipment and blades and wheels with application technology based on processing know-how accumulated over many years. DISCO is continually introducing new products with enhanced performance, while also focusing on improving our service support capabilities, including after-sales maintenance. DISCO maintains a strong competitiveness by offering high added value made possible by a unique and comprehensive product range.

Global Market Share

There is some variation in the global market shares of individual DISCO product segments, but the overall level is high, at around 60–80%. We have achieved these high market shares by building relationships of trust with our customers through the timely provision of optimal processing solutions to meet their needs. By and large, customers approach DISCO first for advice on new projects. We are also maintaining our market share by developing systems to ensure that customers never regret buying from just one company. For example, we are earthquake-proofing our factory buildings and formulating production recovery programs to prevent disruptions to our supply capabilities in the event of earthquakes, floods or other natural disasters.

Our management priorities are to accurately gauge market trends and customer needs, allowing us to respond rapidly with flexibility in our approach to business.

Business Environment and Financial Results

In the fiscal year ended March 31, 2012, there were signs of a slowing trend in the global economy, especially in developed countries. In addition to the delayed recovery in the U.S. economy, this trend was also driven by prolonged fiscal instability in Europe. Japan saw a modest economic recovery, despite reconstruction activity in the wake of the Great East Japan Earthquake. Reasons for this situation included the yen's rise to historically high levels, as well as the influence of the flooding in Thailand.

This situation had a significant effect on the semiconductor industry, which is a key market segment for the DISCO Group. Although demand for some products, notably smartphones, remained strong throughout the year, there was a general oversupply in the semiconductor market resulting from slow sales of computers, flat-screen TVs and other products. Manufacturers began to curb capital investment in the second half of the year in an effort to normalize inventory levels. However, some manufacturers in Asia began to invest heavily in advanced technology toward the end of the fiscal year.

This aided the DISCO Group to record strong shipments to manufacturers of electronic parts and smartphone-related devices, such as memory and image sensors. At ¥89,200 million, our net sales were the third highest after the results for fiscal years 2010 and 2007. Despite the yen's rise to record levels, the gross profit margin was only slightly lower year on year at 46.6%. This result is attributable to our ongoing efforts to improve manufacturing operations and control costs according to business conditions.

The Recovery of the Semiconductor Market

The outlook for economic trends globally remains uncertain. However, we predict that the semiconductor industry will continue to benefit from strong demand for smartphones and tablets in the fiscal year ending March 2013. Inventory levels for semiconductor parts have improved after a period of adjustment, with a lively capital investment activity throughout Asia, led by companies in the outsourced semiconductor assembly and test (OSAT) category. We also anticipate encouraging demand trends from manufacturers in end-product markets, reflecting the start of full-scale mass-production of general-purpose lighting LEDs together with the launch of new operating systems and ultrathin PCs. There will also be keen interest in progress toward the mass-production of products based on new technologies. These include through-silicon via (TSV) technology, which will be used increasingly in backlit CMOS image sensors and mobile DRAM.

Based on this business outlook, we are forecasting net sales of ¥95,700 million, our second highest result ever, in the fiscal year ending March 2013. We will continue our efforts to expand our production systems to keep pace with the needs of our customers. We will also maintain our active commitment to the ongoing improvement of our *Kiru* (cutting), *Kezuru* (grinding) and *Migaku* (polishing) technologies through research and development. We look forward to the continuing support of our shareholders.

Kazuma Sekiya, President and COO

DISCO is strongly committed to the maximization of income distribution.

Increase in Dividend Payout Ratio

In 2006, we introduced a performance-linked dividend policy with the aim of giving clearer priority to shareholder returns. Under that policy, we set a dividend payout ratio of 20%.

Our business environment has changed during the intervening years and while our earnings have come under pressure from the high yen, our sales have risen to a higher level than in the past. We have completed a program of large-scale capital investment relating to business continuity management and other goals. As a result, our current situation is more conducive to the generation of cash flows.

In view of this situation, and in line with our strong commitment to maximizing shareholder returns, we have raised our dividend payout ratio to 25%, effective from the final dividend for the fiscal year ended March 31, 2012.

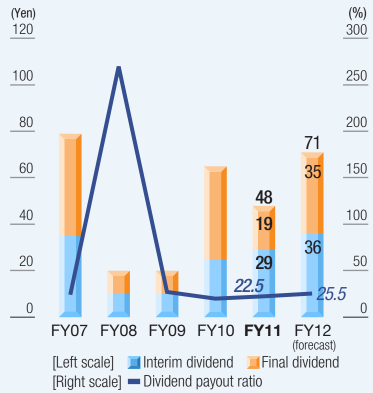
BCM: Business continuity management

Predicted Dividend Increase in the Year Ending March 2013

We set the dividend for the fiscal year ended March 2012 at ¥48 per share, consisting of an interim dividend of ¥29 and a final dividend, based on the new dividend policy, of ¥19.

Based on our financial performance forecasts, we plan to pay a total dividend of ¥71 per share in the fiscal year ending March 2013. This will consist of an interim dividend of ¥36 and a final dividend of ¥35. We remain firmly committed to the provision of the best possible returns to our shareholders.

Dividend and dividend payout ratio



Dividend Policy

1. The total amount of the interim dividend will be 25% of consolidated net income in the first half of the year (April–September). The total amount of the final dividend will consist of 25% of consolidated net income in the second half of the year (October–March).
2. Regardless of the level of income, dividend reliability will be maintained through the payment of a dividend of ¥10 per half-year. Accordingly, the minimum annual dividend will be ¥20 per share (except when there has been a consolidated net loss in three consecutive fiscal years).
3. Except when there is a deficit at the end of the fiscal year, if the amount of cash and deposits is in excess of the estimated amount required* after payment of dividends and income taxes, etc., approximately one-third of this surplus will be added to the dividend.

*Funds for the purchase of technological resources (e.g., technology license purchases, venture investments), funds for the expansion of facilities, funds for the repayment of interest-bearing debts, etc.

Additional Information

As a result of this increase in the dividend payout ratio, we have abolished the existing dividend policy, under which 24% of consolidated net income was applied to the dividend payout in the event that the ratio of consolidated ordinary income to consolidated net sales reached at least 20% on a four-year cumulative basis.

A new building has been completed at the Kure Plant, and precision processing blades and wheels are now being produced in an earthquake resistant building.

Name:	Building C, Kure Plant
Completion date:	January 27, 2012
Structural type:	Seismic base isolation
Total floor area:	Approx. 15,000 m² (seven floors)
Total investment:	Approx. ¥3,000 million

Improving BCM Systems

Precision processing blades and wheels manufactured by DISCO at the Kure Plant are essential to the day-to-day operations of many of our customers. This means that any interruption in the supply of these products would have a serious impact on customers' production activities. We have created an environment in which we can continue to supply these products reliably by minimizing the risk of damage from earthquakes and other events through the following initiatives:

- **Construction of Seismic Base Isolation Structures**
  With the completion of a new building at the Kure Plant, we are now able to manufacture all precision processing blades and wheels in a seismic base isolation structure.
- **Installation of Solar Power Equipment (Approx. 150 kW) and Cogeneration* Systems**
  These systems will provide sufficient power to meet our minimum requirements during emergencies.

***Cogeneration:** A cogeneration system supplies both electric power and heat. It ensures the efficient use of energy by utilizing various energy sources, including waste heat from power generation.

Production Capacity and Efficiency Improvements

To keep pace with anticipated growth in the demand for precision processing blades and wheels, we have expanded the production space for these products to about 1.25 times the previous area. This has allowed us to improve production efficiency by consolidating operations that were previously carried out at facilities in different locations.

New Singapore Office

Name:	DISCO Hi-Tec Singapore One-Stop Solution Center
Completion date:	July 2012
Structural type:	Reinforced concrete
Total floor area:	Approx. 10,000 m² (six floors)
Total investment:	Approx. ¥2,000 million

Strong Focus on Local Community and Customer Needs

Southeast Asian markets continue to expand, and customer needs in those markets continue to diversify. DISCO is responding to those needs by expanding our local application, R&D and training facilities, by centralizing these activities in a single location in order to quickly provide solutions that precisely match customer requirements. Recently, work began on the construction of a new six-story building as a base for these functions in Singapore. The new building will have over six times more floor space than the previous office and its completion will further enhance our service ability in Southeast Asia.

In this section, we will provide answers to questions received from investors.

How will you maintain the competitiveness of your products?

There is no secret method for improving the competitiveness of products. We believe that the only way to achieve this is by working to reduce manufacturing costs and improve productivity. We also work hard through our marketing activities to convince customers to choose our products by informing them about the long-term advantages to be gained from the reliability and performance of DISCO products, and from our ability to provide services worldwide.

What steps will you take to maintain a high market share?

First, we need to continue to demonstrate to customers that our products offer excellent added value by promptly providing total solutions consisting of precision processing equipment, blades and wheels together with processing recipes to help them achieve their desired processing results. Second, we aim to earn the total confidence of our customers so that they will consult us first when considering a new project. We must also be ready to respond reliably to customer needs relating to new processes based on advanced technology. Third, we will earthquake-proof our factory buildings and develop production recovery programs to ensure that our product supply capabilities are not disrupted by natural disasters, such as the Great East Japan Earthquake and the flooding in Thailand. Through these initiatives, we will create systems and structures that will convince our customers of the advantages of buying DISCO products.

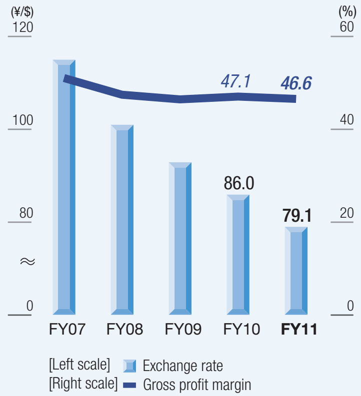
Are you considering any mergers, acquisitions or similar moves?

We have no intention of changing DISCO’s core areas of activity, which are based on our *Kiru* (cutting), *Kezuru* (grinding) and *Migaku* (polishing) technologies. We believe that our focus on these technologies is the key to our competitiveness. We therefore have no plans to pursue mergers and acquisitions in other areas as a way of expanding our market shares or increasing sales. The only exception to this process is the possibility that we may buy technology patents or invest in venture businesses with the aim of maintaining our competitiveness by keeping pace with the growing complexity of semiconductor fabrication processes and the resulting advances in related technologies.

How have you been affected by the high yen? Are you considering the relocation of your production facilities to other countries?

While we basically trade in yen, we also work in U.S. dollars when so requested by customers. For this reason, our net sales and income are affected by movements in the dollar-yen exchange rate. On an annualized basis, a one-yen movement in the exchange rate causes our sales and income to rise or fall by around ¥400 million. The effective rate in the year ended March 2012 was ¥79.1 to the dollar. At that level, the benefits from our efforts to reduce expenses and costs, which would normally have been added to our income, have instead been absorbed by the rising value of the yen. However, this also shows that we have built a business structure that allows us to generate income even when the yen is at a historically high level. If the exchange rate remains at its present level, we believe that we will be able to achieve further improvement in our earnings by continuing to implement cost-cutting measures, such as factory automation, without relocating our production operations offshore. There are many advantages to be gained by keeping our production facilities in Japan, including access to a large pool of highly skilled workers, and greater flexibility in sourcing high-quality parts. We anticipate a range of problems if we were to shift our production operations to other countries, including not only the dispersal of our human resources but also leaks of technical information. For these reasons, we intend to keep our production operations in Japan.

Gross Profit Margin and the Exchange Rate



Ten-Year Summary

	Millions of yen										Thousands of U.S. dollars[1]
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	**2012**
For the Period:											
Net sales	**¥ 89,241**	¥ 99,700	¥ 61,730	¥ 53,108	¥ 91,618	¥ 86,161	¥ 68,885	¥ 60,321	¥ 48,243	¥ 37,124	**$ 1,085,789**
Precision processing systems	**85,672**	95,405	58,198								**1,042,365**
Precision processing parts	**1,893**	2,492	2,069								**23,032**
Industrial grinding products	**1,676**	1,804	1,462								**20,392**
Operating income	**10,662**	15,915	4,668	76	19,334	19,524	13,949	9,869	5,625	1,626	**129,724**
Income before income taxes and minority interests	**11,103**	16,569	4,046	770	18,452	17,716	13,385	9,081	5,286	1,494	**135,089**
Net income	**7,195**	10,945	2,470	251	11,112	10,936	8,230	5,301	3,095	382	**87,541**
Capital expenditures	**8,448**	7,311	11,626	13,497	10,038	6,554	3,288	11,815	3,299	2,272	**102,786**
Depreciation and amortization	**5,944**	6,067	5,364	4,657	3,652	2,964	2,762	2,439	2,108	2,148	**72,320**
Research and development expenses	**9,331**	9,771	7,767	8,532	8,332	6,415	6,353	6,256	2,653	2,160	**113,530**
At Year-End:											
Total assets	**¥ 135,790**	¥ 139,240	¥ 124,313	¥ 123,925	¥ 118,603	¥ 113,791	¥ 99,319	¥ 84,839	¥ 80,353	¥ 61,909	**$ 1,652,147**
Interest-bearing debt	**720**	788	3,000	27,723	783	1,128	3,291	12,044	13,311	2,913	**8,748**
Total net assets	**102,537**	97,633	88,092	86,329	89,665	81,824	70,277	55,727	51,002	48,746	**1,247,560**
Number of shares issued and outstanding	**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	32,117,999	
Share price (Yen)	**4,575**	5,680	5,750	2,435	4,290	7,200	7,740	4,600	5,550	3,800	
Number of shareholders	**14,106**	13,545	15,168	13,661	13,480	13,293	12,828	15,636	16,572	13,611	
Number of employees	**2,745**	2,565	2,465	2,438	2,260	2,012	1,721	1,678	1,670	1,578	
Per Share of Common Stock (Yen and U.S. Dollars):											
Basic net income	**¥ 213.56**	¥ 325.59	¥ 73.51	¥ 7.41	¥ 327.07	¥ 322.32	¥ 252.82	¥ 162.57	¥ 94.72	¥ 11.80	**$ 2.60**
Cash dividends	**48.00**	65.00	20.00	20.00	79.00	75.00	50.00	40.00	30.00	20.00	**0.58**
Shareholders' equity	**3,004**	2,869	2,600	2,553	2,621	2,393	2,092	1,730	1,586	1,518	
Ratios:											
Gross profit margin (%)	**46.6**	47.1	46.5	47.2	51.1	51.1	52.5	50.7	47.7	45.2	
Operating income margin	**11.9**	16.0	7.6	0.1	21.1	22.7	20.2	16.4	11.7	4.4	
Income before income taxes and minority interests margin	**12.4**	16.6	6.6	1.5	20.1	20.6	19.4	15.0	10.9	4.0	
Net income margin	**8.1**	11.0	4.0	0.5	12.1	12.7	11.9	8.8	6.4	1.0	
Return on assets (ROA)[2]	**7.8**	12.1	3.8	0.2	16.9	18.5	15.2	12.0	8.0	2.8	
Return on equity (ROE)[3]	**7.3**	11.9	2.9	0.3	13.1	14.4	13.1	9.9	6.2	0.8	
Price-earning ratio	**21.4**	17.4	78.2	328.6	13.1	22.3	30.6	28.3	58.6	322.0	
Equity ratio	**74.5**	69.4	70.3	69.2	75.0	71.5	70.8	65.7	63.5	78.7	
Interest coverage ratio[4]	**397.8**	517.4	13.7	4.2	805.1	436.5	479.0	252.8	193.3	47.8	

Notes: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥82.19=US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2012.
(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

Orders Received and Net Sales

Orders received in fiscal 2011 (the year ended March 31, 2012) were 15.0% lower year on year at ¥86,447 million. The lower figure reflects a gradual waning of our customers' willingness to invest from the start of the fiscal year. Both net sales and orders declined in the early part of the fiscal year but bottomed out and began to recover from the third quarter onwards. Net sales in fiscal 2011 amounted to ¥89,241 million, a year-on-year decline of 10.5%.

Sales of precision processing equipment edged gradually lower between the first and third quarters of the fiscal year, while sales of laser saws for use in LED manufacturing, which were a major growth driver in fiscal 2010, fell sharply in the third quarter because of stagnating demand for end products. In contrast, shipments of smartphone-related electronic devices remained strong throughout the year, and in the fourth quarter there was also substantial growth in shipments of precision cutting equipment for non-semiconductor applications and grinder-polishers for semiconductors, reflecting the increased adoption of DBG* processes. We responded to growth in these and other areas by expanding production.

Sales of precision processing blades and wheels, which are supplied as consumables, started the fiscal year on a gradual downward trend because of production cutbacks by manufacturers following previous production increases to meet special demand after the Great East Japan Earthquake. Another factor was the high value of the yen. However, sales of grinding wheels were strong in the fourth quarter, reflecting increased shipments of grinder-polishers.

* DBG processes: DBG, or dicing before grinding, is a safe method for cutting thinly sliced wafers into high-quality chips.

Costs and Profits

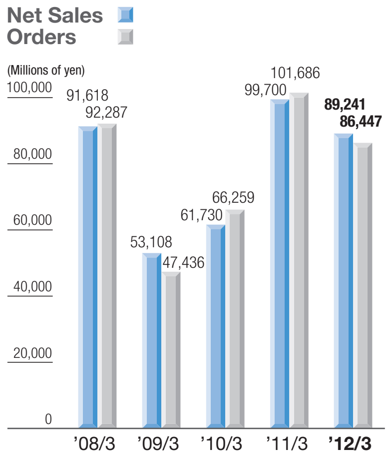
Because of the lower net sales figure, the cost of sales also declined by 9.7% year on year to ¥47,635 million. Despite process-improvement initiatives at production sites and continuing efforts to cut expenses, the ratio of costs to sales rose by 0.5 percentage points to 53.4% because of the effects of reduced net sales and the higher value of the yen. As a result, gross profit was 11.3% lower year on year at ¥41,606 million.

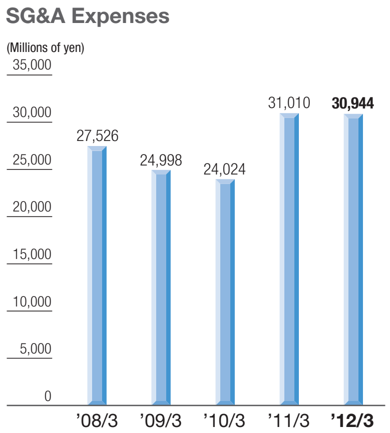
Selling, general and administrative expenses were reduced by 0.2% year on year to ¥30,944 million. Overall, while costs were reduced, there were one-off items, such as taxes and public charges, and selling, general and administrative expenses remained close to the previous year's level. Because of the lower net sales result, the ratio of selling, general and administrative expenses to net sales increased by 3.6 percentage points year on year to 34.7%.

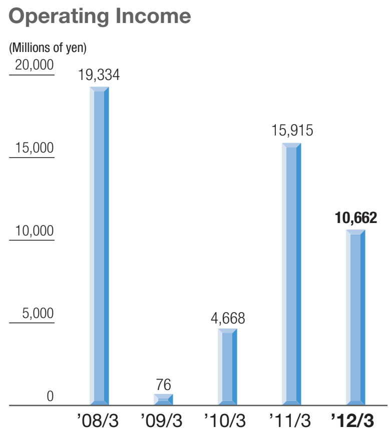
R&D expenses were 4.5% below the previous year's figure at ¥9,331 million. Key projects included the development of laser saws capable of high-quality precision cutting performance, and high-specification grinders. The ratio of R&D expenses to net sales was 0.7 percentage points higher year on year at 10.5%.

On this basis, operating income amounted to ¥10,662 million, a year-on-year decline of 33.0%. The operating margin was 4.1 percentage points lower at 11.9%.

Disco's capital investment is targeted toward product and R&D categories that offer long-term growth potential. We invest in







projects that provide wide-ranging benefits, including facility expansion and further improvements in product reliability, environmental performance and safety, as well as rationalization and the reduction of labor requirements. In fiscal 2011, we constructed a new building at the Kure Plant and a new office building in Singapore. As a result, capital investment increased by 15.6% year on year to ¥8,448 million. Depreciation was 2.0% lower year on year at ¥5,944 million.

Segment Information

Precision Processing Systems

DISCO's main activities in this business segment are the manufacture and sale of precision processing equipment and precision blades and wheels to manufacturers of semiconductor, electronic parts and other items in Japan and overseas.

Sales of precision processing equipment were lower year on year in fiscal 2011, but demand for smartphone-related devices, such as precision cutting equipment, remained strong. Sales of laser saws to LED manufacturers declined, but there were increases in other categories, such as Low-K devices. Sales of precision grinding equipment also remained firm, especially in Asia in the area of equipment for use with thin IC-related products, thanks to active capital investment by some types of manufacturers. While annual shipments of precision processing blades and wheels were high in volume terms, sales marked time because of the historically high value of the yen.

Net sales for this segment in the year ended March 2012 were 10.2% lower year on year at ¥85,672 million. Segment income declined by 25.2% to ¥14,237 million.

Precision Processing Parts

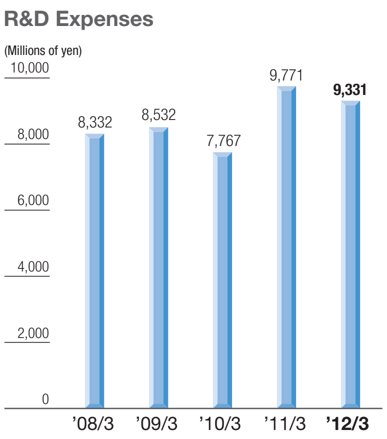
In this segment, DISCO manufactures and sells precision processing parts made from metals, glass, silicon and other materials for use in electronic, optical and medical products. The core category in this segment is glass parts for use in office projectors and other products for the imaging equipment market. Sales remained firm in the first half of the year, but demand waned rapidly after September, in part because of inventory corrections by overseas customers. Sales of heat-sink products for use in industrial lasers remained relatively firm, but demand for products used in telecommunications equipment contracted as a result of the Great East Japan Earthquake, the Thai floods and other factors.

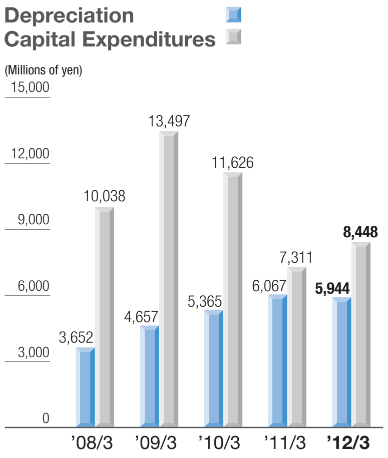
Net sales for this segment reached ¥1,893 million, a year-on-year decline of 24.0%. There was a segment loss of ¥320 million, compared with income of ¥147 million in the previous fiscal year.

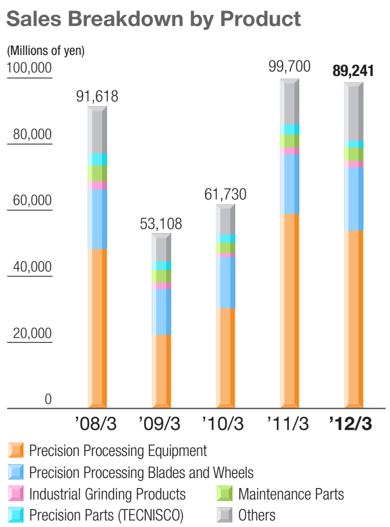
Industrial Grinding Products

In this segment, DISCO manufactures and sells industrial diamond tools, for use in civil engineering, construction and manufacturing, as well as general-purpose grinding wheels used in the manufacture of motor vehicles and electronic parts. Activity on public sector civil engineering projects declined after the Great East Japan Earthquake, resulting in a dramatic fall in demand for industrial diamond tools.

Segment sales were 7.1% lower year on year at ¥1,676 million, while segment income declined by 22.0% to ¥192 million.







Geographical Segment Information

In Asian markets, especially Taiwan, South Korea and China, capital investment intentions shrank in many application categories. As a result, Asia's contribution to total net sales fell by 5 percentage points to 55%. Overseas sales statistics show that sales in the Americas increased by 7.3% to ¥4,820 million, while sales in Asia were 18.0% lower at ¥48,721 million. Sales in Europe were also lower with a 1.9% decline to ¥8,481 million. These results were reflected in the contribution of overseas sales to total consolidated net sales, which at 69.5% was 3.3 percentage points lower than the previous fiscal year's ratio of 72.8%.

Other Income and Expenses

Other income amounted to ¥764 million in the year ended March 2012, compared with ¥1,677 million in the previous fiscal year. This reflects a substantial reduction in income from factory construction subsidies from Hiroshima Prefecture and other sources. Other expenses were reduced from ¥1,023 million in the previous fiscal year to ¥323 million, in part because of a lower figure for impairment losses and losses on sales of fixed assets. As a result, net other income totaled ¥441 million, compared with ¥654 million in the previous fiscal year.

Income Before Income Taxes and Net Income

Income before income taxes and minority interests was 33.0% lower year on year at ¥11,103 million. Income taxes were reduced by 30.7% to ¥3,930 million, and the effective tax rate was 35.4%.

Minority interests included a ¥22 million minority shareholder loss relating to our minority interest in Tecnisco, Ltd., a consolidated subsidiary.

Net income amounted to ¥7,195 million, a year-on-year decline of 34.3%, while the ratio of net income to sales was 2.9 percentage points lower at 8.1%. Net income per share in the year ended March 2012 was ¥213.56, compared with ¥325.59 in the previous fiscal year.

Cash Flows

Cash Flows from Operating Activities

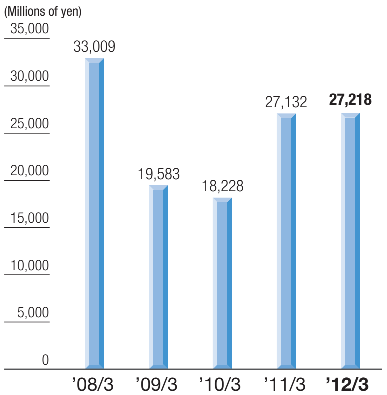
Net cash provided by operating activities amounted to ¥6,171 million. The main inflows were net income before provision for income taxes and minority interests and depreciation, while outflows included ¥8,364 million for income taxes and other items.

Cash Flows from Investing Activities

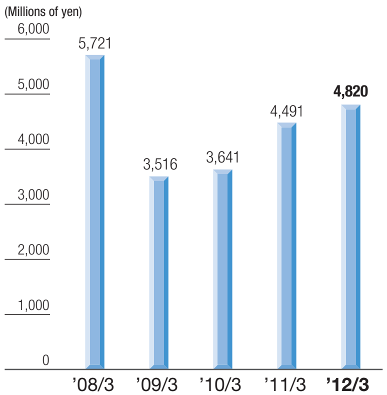
Net cash used for investing activities was higher year on year at ¥11,323 million. The main reasons for the increase were expenditure of ¥7,899 million on the acquisition of tangible fixed assets, including the construction of a new building for precision processing blades and wheels and a new office building in Singapore, and investment of ¥3,000 million in time deposits.

Free cash flows, which are the sum of cash from operating activities and investing activities, amounted to a net outflow of ¥5,152 million.

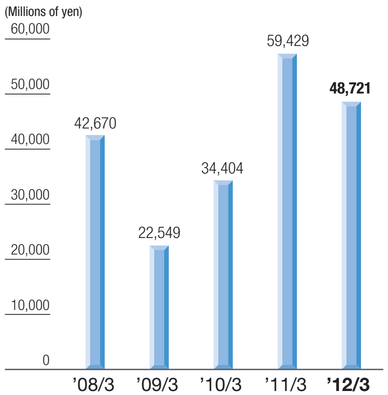
Japan



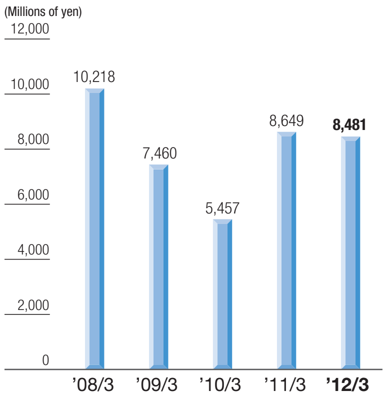
North America



Asia



Europe



Cash Flows from Financing Activities

Net cash used for financing activities amounted to ¥2,218 million. This figure consisted mainly of expenditure on dividend payments.

Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2012 amounted to ¥12,038 million, a reduction of ¥7,792 million compared with the position as of March 31, 2011.

Financial Position

Assets

Total assets amounted to ¥135,790 million as of March 31, 2012, a year-on-year reduction of ¥3,450 million. Inventories were higher, and there was also an increase in tangible fixed assets because of capital investment. The lower total resulted from a reduction in cash and deposits due to the payment of income taxes and other items.

Liabilities

Total liabilities were reduced by ¥8,353 million from the position a year earlier to ¥33,253 million as of March 31, 2012. This reflects lower totals for accounts payable, accrued income taxes and other items. Interest-bearing debt other than convertible bonds with subscription rights were reduced by ¥67 million to ¥719 million, resulting in an interest-bearing debt ratio of 0.7%.

Net Assets

Net assets as of March 31, 2012 amounted to ¥102,537 million, an increase of ¥4,904 million from the position a year earlier. As a result, the shareholders' equity ratio increased by 5.1 percentage points to 74.5%. The ratio of shareholders' equity to net income declined by 4.6 percentage points, from 11.9% in the previous fiscal year to 7.3% in the year ended March 31, 2012. This reflects a year-on-year reduction in net income and a year-on-year increase in shareholders' equity.

Risk Factors

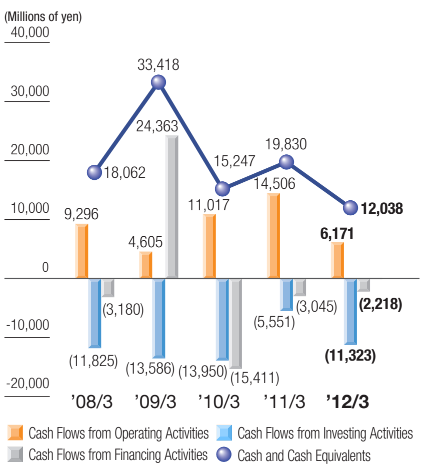
Described below are some of the risk factors that could affect DISCO, including its business activities and financial situation, or influence decisions by investors.

(1) Fluctuations in the Semiconductor Market

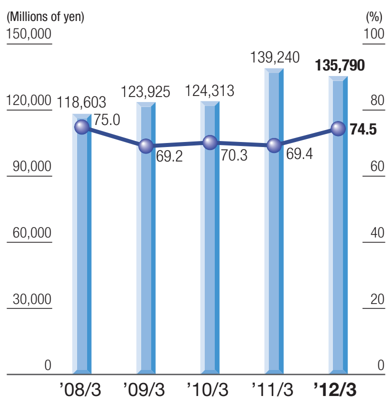
DISCO manufactures and sells products to manufacturers of semiconductors and electronic components throughout the world and is therefore affected by trends in the capital investment and production activities of its customers.

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 DISCO 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.

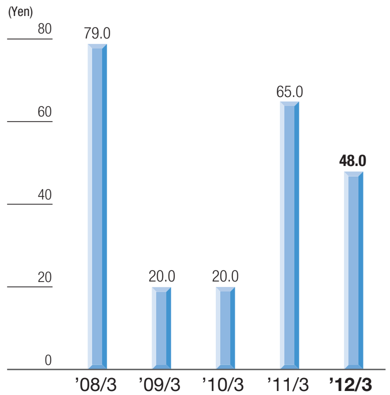
Cash Flows, and Cash and Cash Equivalents



Total Assets / Equity Ratio



Cash Dividends



(2) Emergence of New Technologies

DISCO 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, DISCO's business performance may be adversely affected. DISCO also develops and sells laser saws, which can be used on materials that are difficult to cut with precision diamond tooling.

(3) Disasters

DISCO's corporate headquarters and R&D center is 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

DISCO 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 DISCO's business performance could be affected by exchange rate fluctuations.

(5) Other Risks

In addition to the risk factors listed above, the business performance of DISCO 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.

Management Policy

(1) Basic Corporate Management Policies

Our business is based on advanced cutting (Kiru), grinding (Kezuru) and polishing (Migaku) technologies. Our social mission is to use science to enhance the richness and comfort of life while remaining focused on these three core areas of technology. Unlike many other companies, we define growth not through business indicators such as sales, market share or quantitative expansion, but rather in terms of improved achievement of our mission and greater exchange of value with all stakeholders, including customers, shareholders, suppliers and employees.

(2) Medium/Long-Term Corporate Management Policies and Target Management Indicators

The DISCO management philosophy is expressed in the “DISCO Values,” and we are continually disseminating these values to ensure that our philosophy is properly understood by every member of our organization so as to be applied consistently to our day-to-day activities. We are also working to enhance our organizational capabilities by means of a management system known as “Performance Innovation Management” (PIM), which is now used by all DISCO Group companies.

In 1997, we began initiatives targeted toward the realization of the DISCO Vision by the milestone year of 2010. We have since taken those goals to a new level in DISCO Vision 2020. DISCO Vision 2020 defines our vision for DISCO in the year 2020 from the perspective of key corporate elements and in terms of our relationships with our stakeholders.

We envision DISCO as a company with superb vitality that enables it to survive and prosper in any environment, and as an organization that provides benefits to a wide range of stakeholders.

One of our quantitative targets is to maintain a consolidated ratio of ordinary income to net sales of at least 20% on a four-year cumulative basis. As in the past, we will continue our efforts to build the economic capacity and structure needed to withstand dramatic shifts in market conditions resulting from the so-called “semiconductor cycle.”

We will set qualitative targets and milestones for each area of activity through company-wide deliberations about achievement criteria for DISCO Vision 2020, combined with regular surveys of customer satisfaction (CS), supplier satisfaction (SS) and employee satisfaction (ES).

Consolidated Balance Sheets

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 12,038	¥ 19,830	$ 146,465
Notes and accounts receivable—trade:			
Trade	27,016	28,238	328,701
Unconsolidated subsidiaries and associated companies	59	85	718
Allowance for doubtful receivables	(25)	(37)	(304)
Inventories	25,764	23,778	313,469
Deferred tax assets	1,431	2,265	17,411
Prepaid expenses and other current assets	5,552	3,619	67,551
Total current assets	71,835	77,778	874,011
PROPERTY, PLANT AND EQUIPMENT:			
Land	12,968	12,853	157,781
Buildings and structures	42,676	40,416	519,236
Machinery and equipment	27,768	26,139	337,851
Tools, furniture and fixtures	4,884	4,483	59,423
Construction in progress	3,611	1,587	43,935
Total	91,907	85,478	1,118,226
Accumulated depreciation	(36,717)	(31,967)	(446,733)
Net property, plant and equipment	55,190	53,511	671,493
INVESTMENTS AND OTHER ASSETS:			
Investment securities	330	300	4,015
Investments in unconsolidated subsidiaries and associated companies	1,019	299	12,398
Leasehold land	215	215	2,616
Long-term deposits	5,200	5,200	63,268
Deferred tax assets	322	221	3,918
Bond issuance cost	13	18	158
Other	1,870	1,759	22,752
Allowance for doubtful receivables	(204)	(61)	(2,482)
Total investments and other assets	8,765	7,951	106,643
TOTAL	¥ 135,790	¥ 139,240	$ 1,652,147

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Notes and accounts payable—trade	¥ 10,781	¥ 13,609	$ 131,172
Short-term bank loans	183	—	2,227
Current portion of long-term debt	250	250	3,042
Accrued expenses	3,101	3,842	37,730
Accrued income taxes	522	5,286	6,351
Other current liabilities	5,955	6,368	72,453
Total current liabilities	20,792	29,355	252,975
LONG-TERM LIABILITIES:			
Long-term debt	10,288	10,538	125,173
Accrued retirement benefits	1,560	1,093	18,981
Negative goodwill	—	30	—
Other long-term liabilities	613	591	7,458
Total long-term liabilities	12,461	12,252	151,612
CONTINGENT LIABILITIES			
NET ASSETS :			
SHAREHOLDERS' EQUITY:			
Common stock, authorized 72,000,000 shares; number of shares issued, 34,004,418 shares in 2012 and 34,004,418 shares in 2011.	14,517	14,517	176,627
Additional paid-in capital	15,652	15,645	190,437
Retained earnings	73,859	68,988	898,637
Treasury stock—at cost, 306,896 shares in 2012 and 321,546 shares in 2011.	(823)	(862)	(10,013)
Total shareholders' equity	103,205	98,288	1,255,688
VALUATION AND TRANSLATION ADJUSTMENTS:			
Other securities valuation difference	6	6	73
Translation adjustments	(1,980)	(1,654)	(24,091)
Total valuation and translation adjustments	(1,974)	(1,648)	(24,018)
SHARE SUBSCRIPTION RIGHTS	981	767	11,936
MINORITY INTERESTS	325	226	3,954
Total net assets	102,537	97,633	1,247,560
TOTAL	¥ 135,790	¥ 139,240	$ 1,652,147

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
NET SALES	¥ 89,241	¥ 99,700	$ 1,085,789
COST OF SALES	47,635	52,775	579,572
Gross profit	41,606	46,925	506,217
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	30,944	31,010	376,493
Operating income	10,662	15,915	129,724
OTHER INCOME (EXPENSES):			
Interest and dividend income	58	60	705
Interest expense	(27)	(31)	(329)
Foreign exchange gain (loss)	208	(162)	2,531
Equity in earnings gain of associated companies	133	117	1,618
Amortization of negative goodwill	29	90	353
Subsidy income	66	1,207	803
Loss on sale or disposal of property, plant and equipment	(14)	(155)	(170)
Devaluation loss on investment securities	(13)	(40)	(158)
Impairment loss on property, plant and equipment	—	(263)	—
Special retirement expenses	(53)	(81)	(645)
Factory transfer expenses	(74)	—	(900)
Gain on reversal of subscription rights to shares	6	2	73
Difference of in charge of retirement	14	—	170
Other, net	108	(90)	1,314
	441	654	5,365
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,103	16,569	135,089
INCOME TAXES			
Income taxes—Current	3,227	6,346	39,263
Income taxes—Deferred	703	(678)	8,553
	3,930	5,668	47,816
INCOME BEFORE MINORITY INTERESTS	7,173	10,901	87,273
MINORITY INTERESTS	22	44	268
NET INCOME	¥ 7,195	¥ 10,945	$ 87,541

	Yen		U.S. dollars
	2012	2011	2012
AMOUNT PER SHARE OF COMMON STOCK:			
Net income			
Basic	¥ 213.56	¥ 325.59	$ 2.60
Diluted	202.99	308.99	2.47
Cash dividends applicable to the year	48.00	65.00	0.58

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, 2010	34,004,418	¥ 14,517	¥ 15,605	¥ 59,141	¥ (1,065)	¥ 11	¥ (841)	¥ 589	¥ 135	¥ 88,092
Increase due to issuance of common stock										—
Cash dividend paid				(1,176)						(1,176)
Net income				10,945						10,945
Purchases of treasury stock					(1)					(1)
Disposal of treasury stock			40		204					244
Other				78						78
Net increase (decrease) during the year						(5)	(813)	178	91	(549)
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**

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, 2011	34,004,418	$ 176,633	$ 190,351	$ 839,373	$ (10,496)	$ 78	$ (20,124)	$ 9,338	$ 2,744	$ 1,187,897
Increase due to issuance of common stock										**—**
Cash dividend paid				**(28,282)**						**(28,282)**
Net income				**87,545**						**87,545**
Purchases of treasury stock					**(3)**					**(3)**
Disposal of treasury stock			**85**		**480**					**565**
Other										**—**
Net increase (decrease) during the year						**(7)**	**(3,967)**	**2,597**	**1,211**	**(166)**
BALANCE at MARCH 31, 2012	**34,004,418**	**$ 176,633**	**$ 190,436**	**$ 898,636**	**$ (10,019)**	**$ 71**	**$ (24,091)**	**$ 11,935**	**$ 3,955**	**$ 1,247,556**

Consolidated Statements of Cash Flows

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
OPERATING ACTIVITIES:			
Net income	¥ 7,195	¥ 10,945	$ 87,541
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,944	6,067	72,320
Loss on sale or disposal of property, plant and equipment	14	109	170
Amortization of negative goodwill	(30)	(90)	(365)
Devaluation loss (gain) on investment securities	13	40	158
Impairment of fixed assets	—	263	—
Equity in earnings (losses) of associated companies	(132)	(117)	(1,606)
Subsidy income	—	(1,095)	—
Decrease (Increase) in notes and accounts receivable—trade	993	(5,757)	12,082
Decrease (Increase) in inventories	(1,693)	(5,031)	(20,599)
Increase (Decrease) in notes and accounts payable—trade	(2,792)	1,721	(33,970)
Increase (Decrease) in accrued income taxes	(4,434)	4,374	(53,948)
Increase (Decrease) in accrued bonus	(612)	791	(7,446)
Increase (Decrease) in allowance for doubtful receivables	136	2	1,655
Increase (Decrease) in allowance for warranty cost	(59)	109	(718)
Increase (Decrease) in accrued retirement benefits	467	315	5,682
Increase (Decrease) in accounts payable—non trade	(537)	758	(6,534)
Other, net	1,698	1,102	20,660
Net cash provided by operating activities	6,171	14,506	75,082
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(7,899)	(7,612)	(96,106)
Proceeds from sales of property, plant and equipment	110	20	1,338
Collection of long-term loans receivable	—	(236)	—
Decrease (Increase) of time deposits over one year	(2,660)	2,508	(32,364)
Purchase of investment securities	(804)	(0)	(9,782)
Other	(70)	(231)	(852)
Net cash used in investing activities	¥ (11,323)	¥ (5,551)	$ (137,766)

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
FINANCING ACTIVITIES:			
Short-term bank loans, net	¥ 183	¥ (1,000)	$ 2,227
Proceeds from long-term debt	—	900	—
Repayment of long-term debt	(250)	(2,112)	(3,042)
Cash dividends paid	(2,321)	(1,176)	(28,239)
Proceeds from sales of treasury stock	26	198	316
Other	144	145	1,752
Net cash used in financing activities	(2,218)	(3,045)	(26,986)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(422)	(1,328)	(5,135)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,792)	4,582	(94,805)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,830	15,248	241,270
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 12,038	¥ 19,830	$ 146,465

Directors / Corporate Auditors and Operating Officers

(As of June 26, 2012)

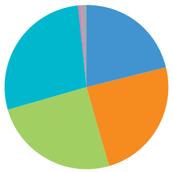
Hitoshi Mizorogi	Chairman and CEO, Representative Director
Kazuma Sekiya	President and COO, Representative Director Chief Information Officer (CIO), General Manager, Engineering R&D Division
Hideyuki Sekiya	Executive Director Chief Safety Officer (CSO), General Manager, Hiroshima Works
Takao Tamura	Executive Director Chief Financial Officer (CFO), Chief Privacy Officer (CPO) General Manager, Corporate Support Division
Keizo Sekiya	Director, Member of the Board
Tsutomu Mimata	Corporate Auditor
Tadao Takayanagi	Corporate Auditor
Tadahiko Kuronuma	Corporate Auditor
Kuniko Tanabe	Corporate Auditor
Kazuhisa Arai	Executive Operating Officer, General Manager, Sales Engineering Division General Manager, Asia Pacific Sales Division
Noboru Yoshinaga	Executive Operating Officer, General Manager, Sales Division
Naoki Abe	Operating Officer, General Manager, Manufacturing Division
Kaoru Sekiya	Operating Officer, General Manager, Purchasing Division

Shareholder Information

(As of March 31, 2012)

Shares of Common Stock Issued:	34,004,418
Number of Shareholders:	14,106
Annual Shareholders' Meeting:	June
Stock Listing:	Tokyo Stock Exchange, 1st Section (6146)

Share Ownership by Shareholder Type



Financial institutions:	21.32%
Individuals, other:	24.35%
Other Japanese corporations:	24.89%
Foreign corporations, etc:	27.81%
Financial securities traders:	0.73%
Treasury Stock:	0.90%

Corporate Data

(As of March 31, 2012)

Company Name:	DISCO CORPORATION
Registered Office:	13-11 Omori-Kita 2-chome, Ota-ku, Tokyo, Japan
Founded:	May 5, 1937
Incorporated:	March 2, 1940
Capitalization:	¥14,517,469,520 (as of end of June, 2012)
Number of Employees (Non-consolidated Basis):	1,739
Office:	Head Office/R&D Center Hiroshima Works (Kure Plant, Kuwabata Plant, Nagatani Plant), Chino Plant

Domestic Network

Sendai Branch Office
Osaka Branch Office
Kyushu Branch Office (Kumamoto)
Shinshu Regional Office (Matsumoto)
Nagoya Regional Office

Global Network

DISCO HI-TEC AMERICA, INC.
DISCO HI-TEC EUROPE GmbH
DISCO HI-TEC FRANCE SARL
DISCO HI-TEC U.K. LTD.
DISCO HI-TEC MOROCCO SARL
DISCO HI-TEC (SINGAPORE) PTE LTD
DISCO HI-TEC (MALAYSIA) SDN. BHD.
DISCO HI-TEC (THAILAND) CO., LTD.
DISCO HI-TEC (VIETNAM) CO., LTD.
DISCO HI-TEC CHINA CO., LTD.
DISCO HI-TEC TAIWAN CO., LTD.
DISCO HI-TEC PHILIPPINES, INC.

Affiliated Companies

TECNISCO, LTD.
DISCO ABRASIVE SYSTEMS K.K.
DAIICHI COMPONENTS, LTD.
DD Diamond Corporation
TECNISCO (SuZhou) Co., Ltd
DHK Solution Corporation