FY2016 3Q Financial Results and FY2016 Forecasts

DISCO CORPORATION

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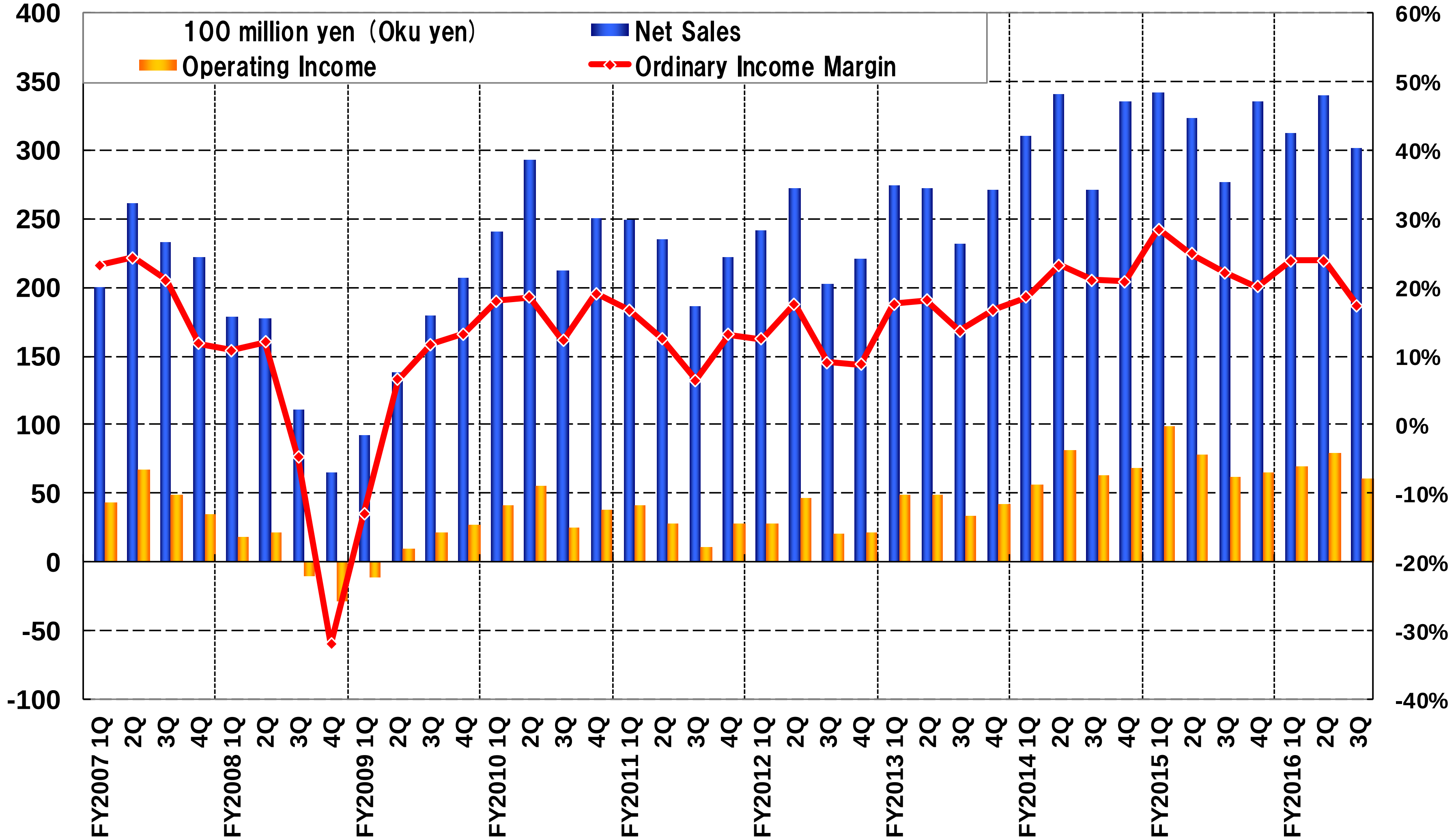
FY2016 3Q Earnings Results

Millions of Yen	FY2016 3Q	FY2016 2Q	QoQ Amount	QoQ (%)	FY2015 3Q	YoY Amount	YoY (%)
Net Sales	30,198	33,964	-3,766	-11.1%	27,692	2,506	9.1%
Gross Profit	17,121	18,287	-1,166	-6.4%	15,971	1,149	7.2%
Gross Profit Margin	56.7%	53.8%	2.9p	-	57.7%	-1.0p	-
SG&A	11,012	10,323	689	6.7%	9,850	1,162	11.8%
Operating Income	6,108	7,963	-1,856	-23.3%	6,121	-13	-0.2%
Ordinary Income	5,261	8,111	-2,850	-35.1%	6,138	-876	-14.3%
Ordinary Income Margin	17.4%	23.9%	-6.5p	-	22.2%	-4.8p	-
Income before income taxes and minority interests	5,069	8,073	-3,004	-37.2%	6,258	-1,190	-19.0%
Net Income	3,610	6,068	-2,457	-40.5%	4,403	-792	-18.0%

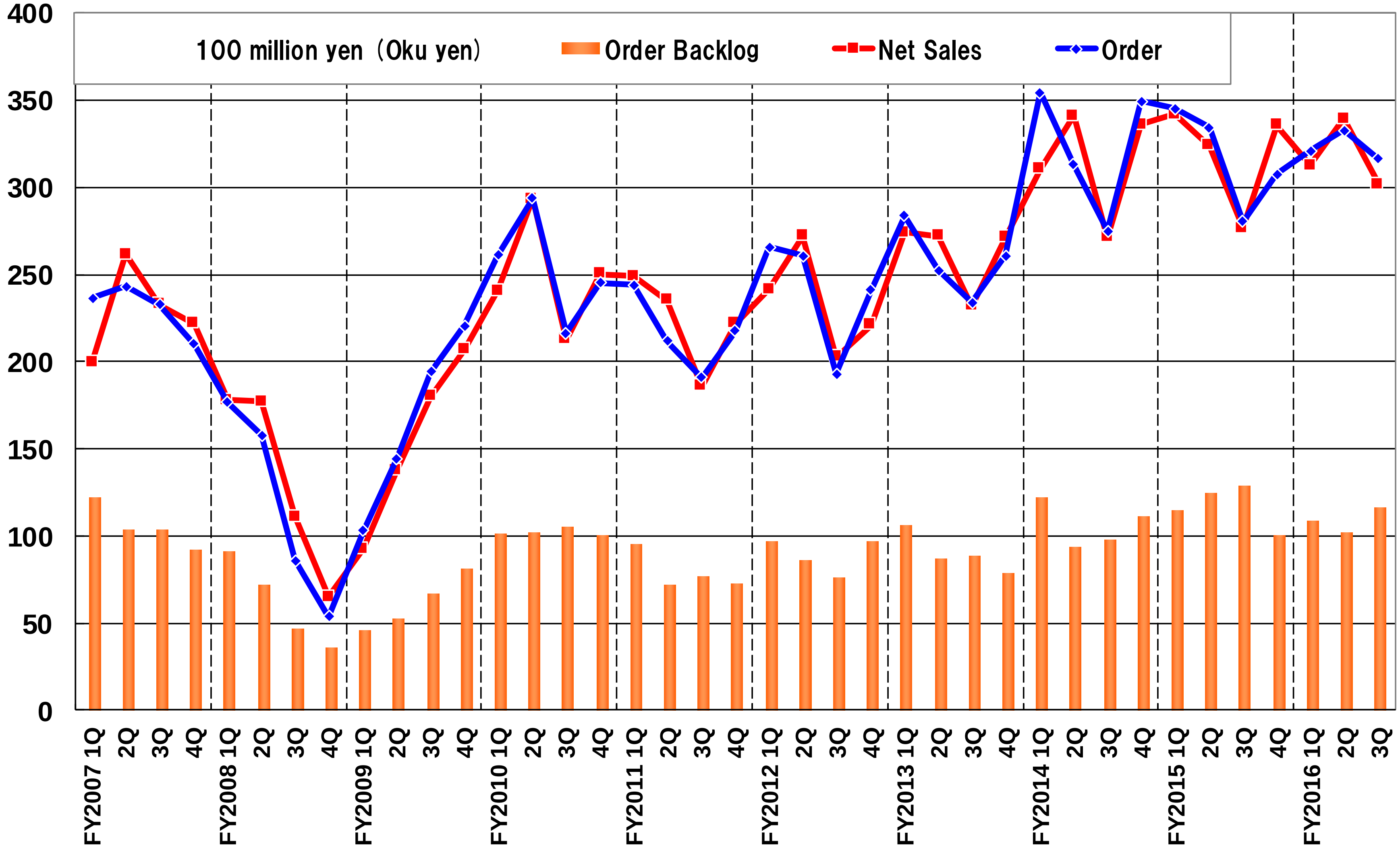
- FY16 3Q sales increased YoY, thanks to steady shipments in equipment for memory and robust sales in consumables, despite the negative impact of the exchange rate.
- The GP ratio improved significantly QoQ, mainly due to product structure optimization. The US dollar exchange rate against the yen had an appreciation of approx. 3 Yen QoQ and approx. 15 Yen YoY.
- SG&A expenses increased both QoQ and YoY due to active R&D activity and increased personnel expenses.
- Despite the yen's significant strength against the US dollar YoY, the operating income remained at the same level of last year, thanks to the increase in sales and the optimization of the product structure.

Quarterly Consolidated Financial Results



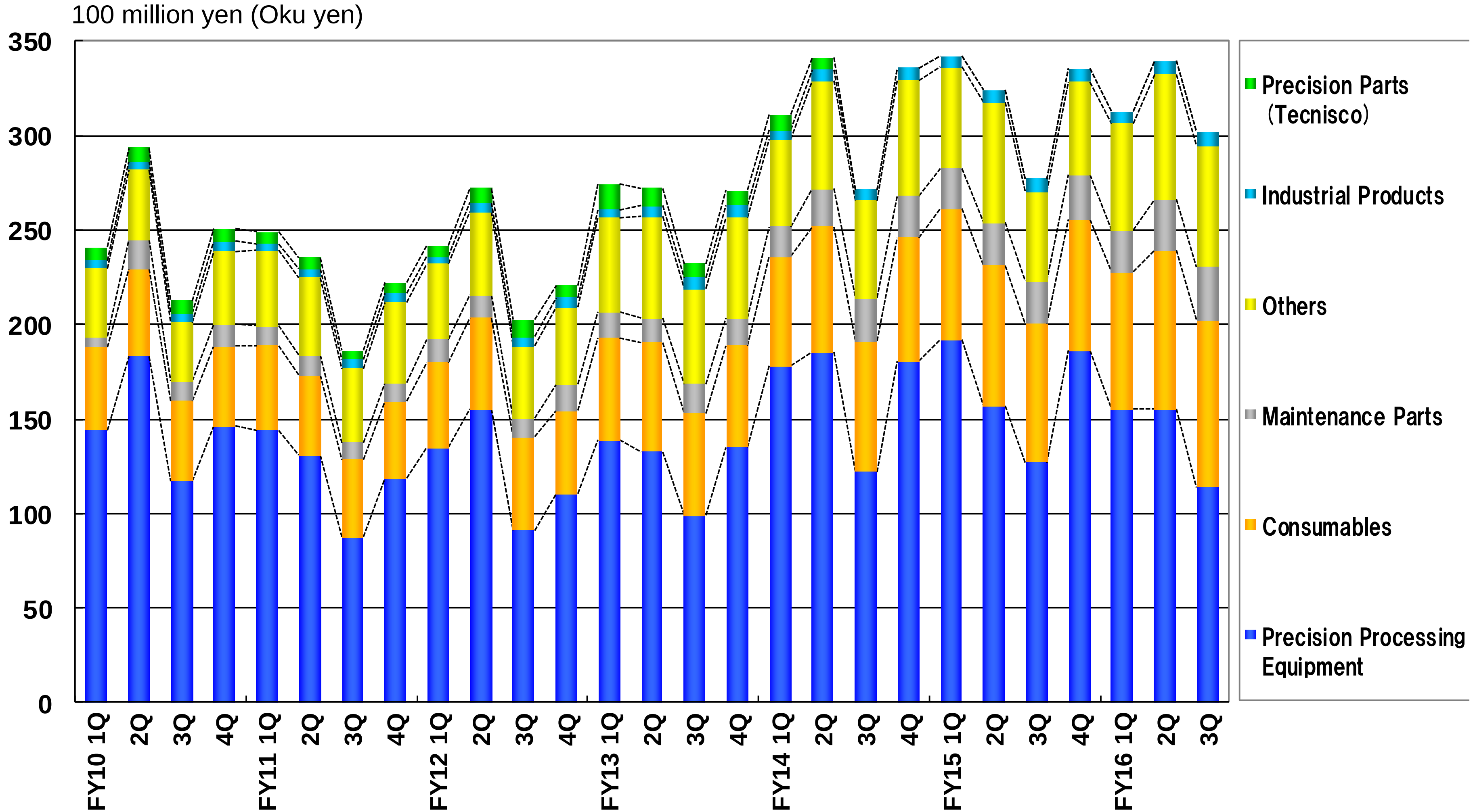
- The FY16 3Q ordinary income margin was 17.4%, falling short of the 20% ordinary income margin achieved for nine consecutive quarters up until the last quarter.

Quarterly Consolidated Sales/Orders



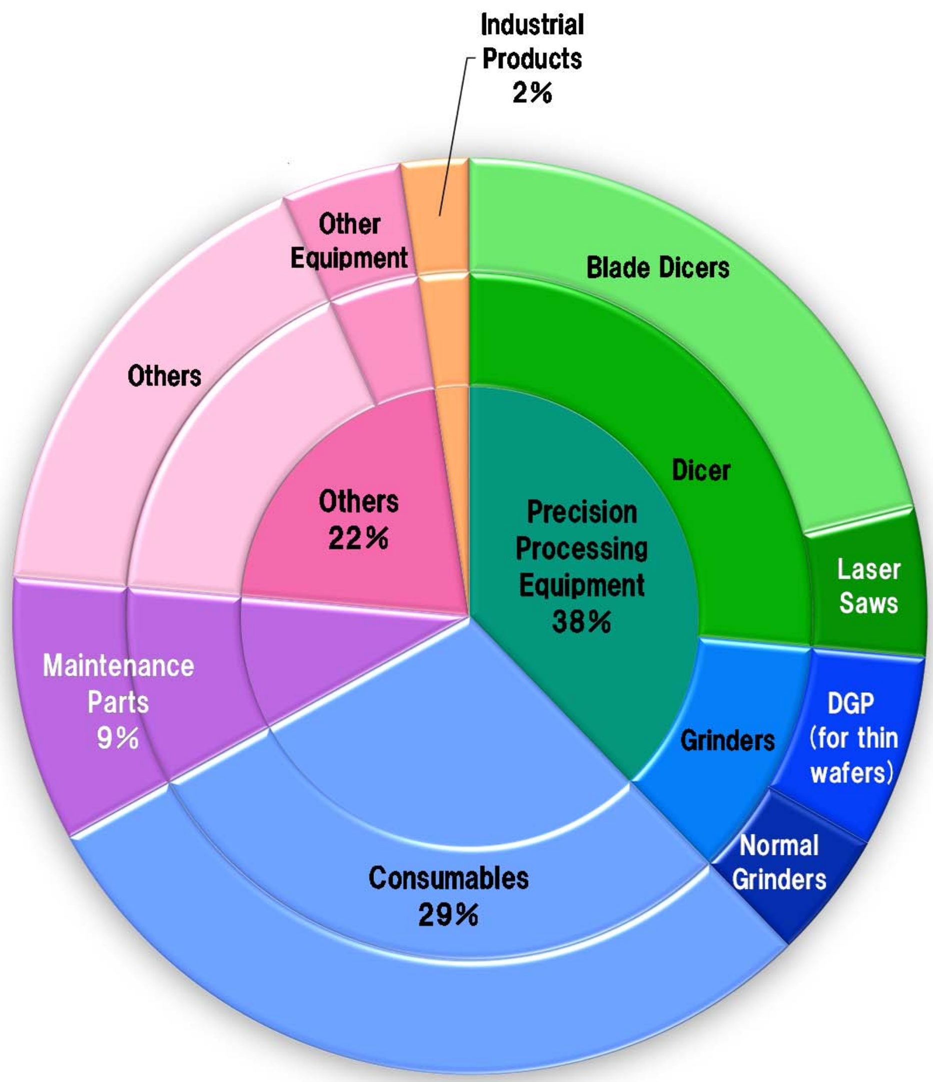
- Thanks to steady order trends in consumables, the FY16 3Q orders amounted to approx. ¥31,600 million and the order backlog was at about ¥11,600 million. Due to a robust increase in inquiries for equipment, the number of orders in 4Q will be more than that of the same period in the previous year.

Quarterly Consolidated Sales Breakdown by Product



- While the capital investments of memory manufacturers remained firm, equipment sales declined QoQ.
- Consumable sales increased QoQ due to customers' brisk production activities, and the sales composition increased to 29%.

Product and Equipment Sales Breakdown FY16 3Q



FY16_3Q

【Product Sales Breakdown】

Precision Processing Equipment	38%
Consumables	29%
Maintenance Parts	9%
Others	22%
Industrial Products	2%

【Precision Processing Equipment Breakdown】

Dicing Saws	70%
Grinders	30%

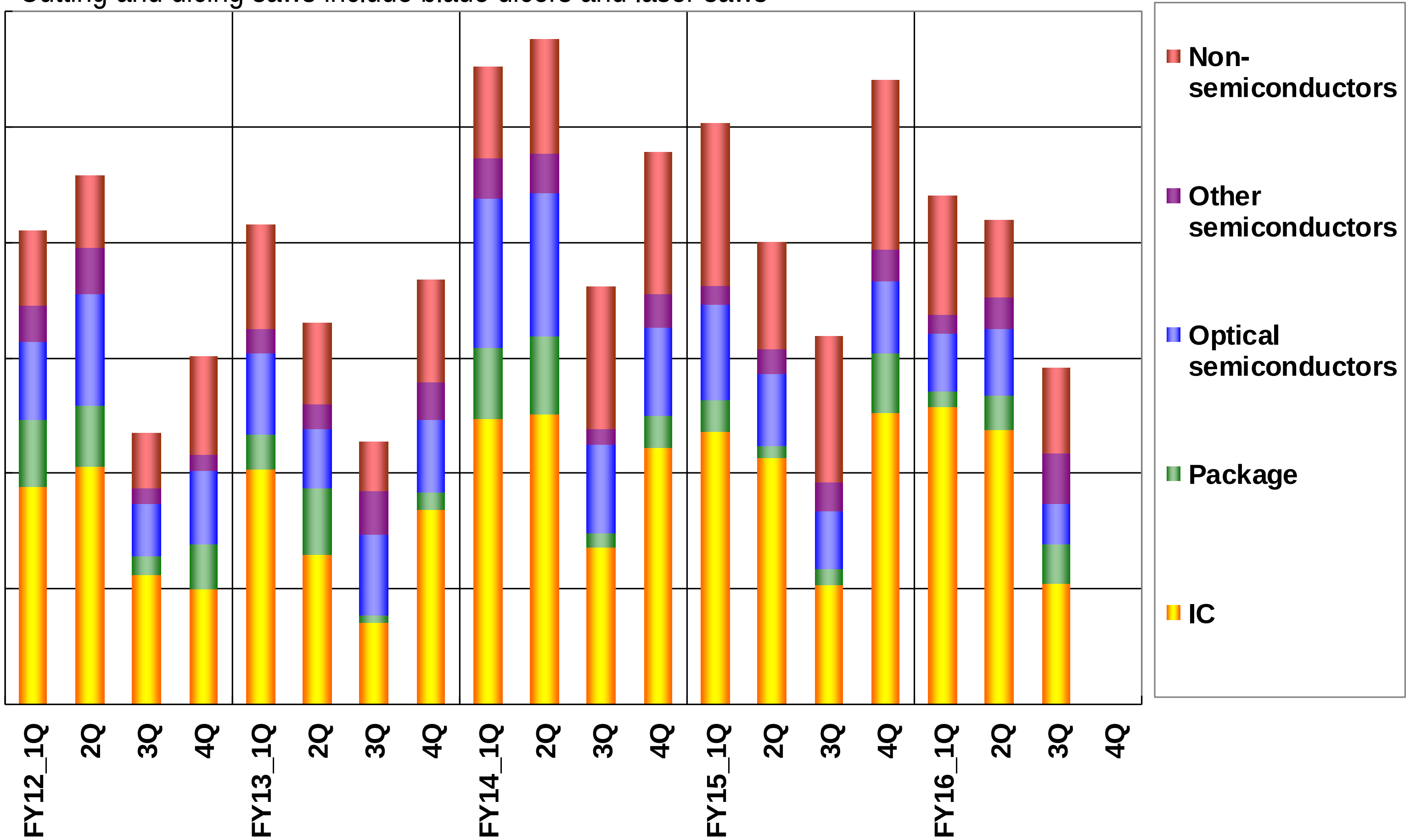
【Dicing Saws Breakdown】	80%
Blade Dicers	20%
Laser Saws	

【Grinders Breakdown】

DGP (for thin wafers)	60%
Normal Grinders	40%

Cutting and Dicing Saws* Sales Breakdown by Application

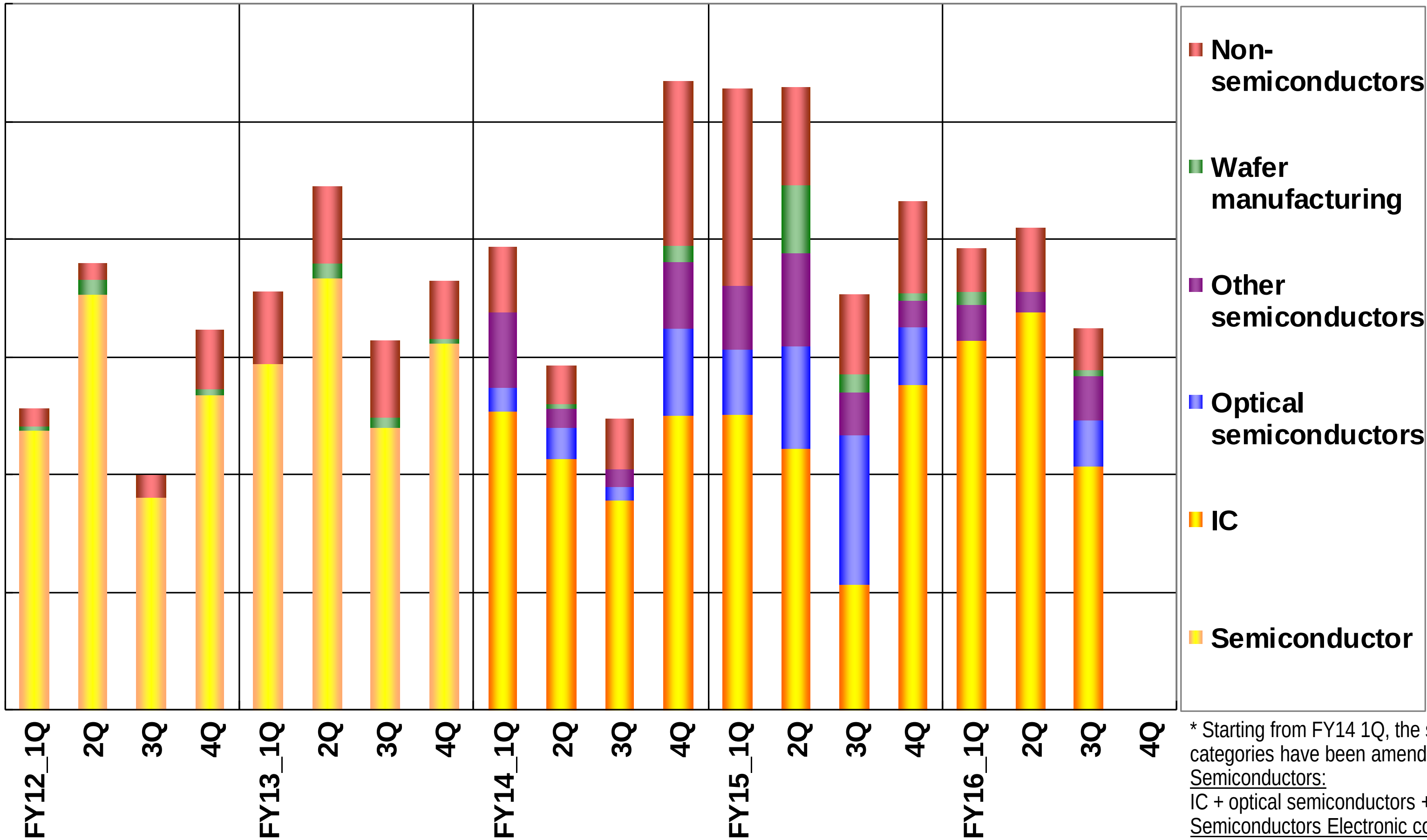
*Cutting and dicing saws include blade dicers and laser saws



- QoQ: While dicing saw sales for IC manufacturers decreased, dicing saw sales for other ICs (mainly discrete) and non-semiconductor manufacturers supported the total sales amount.
- YoY: The total sales amount decreased approx. 10% due to the negative impact of the exchange rate, but the number of shipments for equipment increased.

Grinders and Polishers* Sales Breakdown by Application

*Grinders and polishers also include surface planers

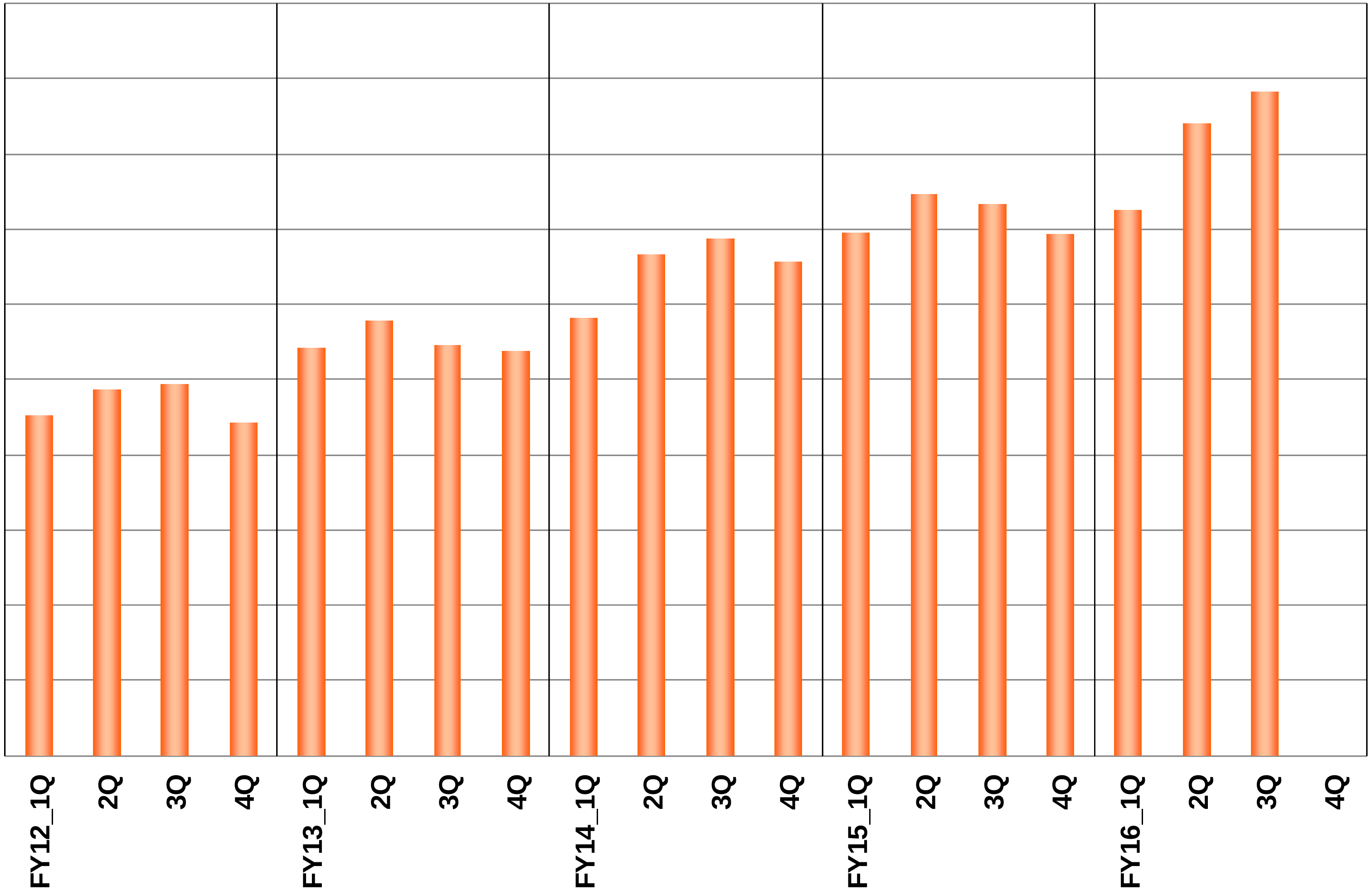


* Starting from FY14 1Q, the sales categories have been amended as follows:
Semiconductors:
IC + optical semiconductors + other
Semiconductors Electronic components:
Non-semiconductors

- QoQ: Dicing saw sales for ICs manufactures decreased, but the total grinder sales was supported primarily by demands from optical semiconductors and non-semiconductor manufacturers.
- YoY: Grinder sales for optical semiconductors, which were robust in the same quarter of the last year, decreased significantly. Grinder sales for IC (primarily memory) manufacturers increased significantly.

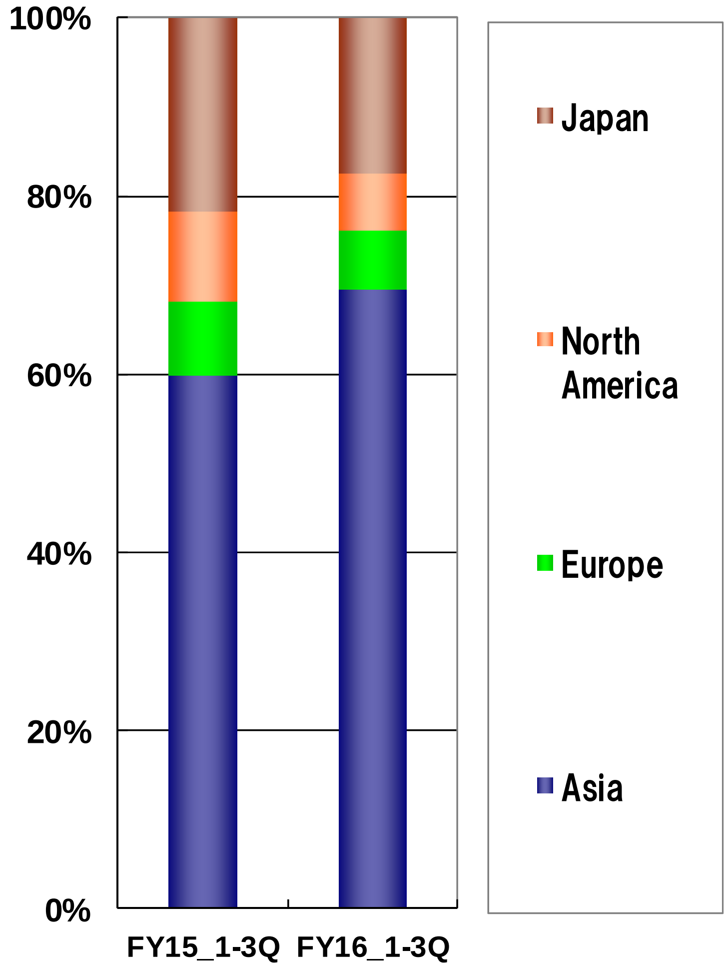
Consumables* Sales

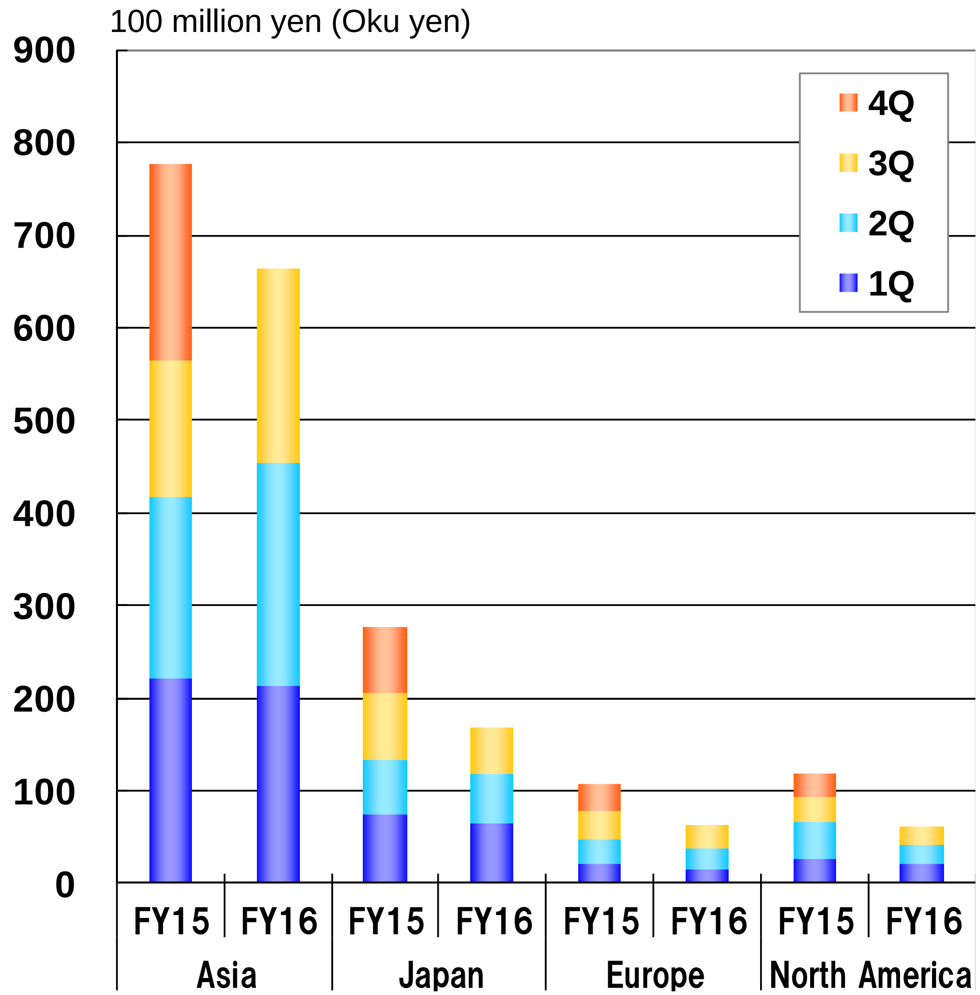
*Consumables include dicing blades, grinding wheels, and dry polishing wheels, etc.



- Consumables sales increased significantly YoY due to steady consumable shipments, despite the negative impact of the exchange rate. Grinding wheel shipments in particular increased significantly.

Sales Breakdown by Region Consolidated





- Last year, the investment activities of manufacturers were brisk in Japan, Europe and America. This year, the sales composition of the Asian area increased due to active investments by processor and memory manufacturers. The 3Q sales in China, Taiwan and Korea increased significantly YoY.

Balance Sheet (Summary)

Millions of Yen	FY2016 3Q	FY2016 2Q	Amount
Cash and deposits	82,091	74,567	7,524
Notes and account receivable	30,274	32,107	-1,833
Inventories	29,762	27,125	2,637
Total current assets	148,250	139,433	8,817
Property, plant and equipment	61,693	61,840	-147
Total noncurrent assets	66,771	66,851	-80
Total assets	215,022	206,285	8,737
Current liabilities	41,143	35,934	5,208
Noncurrent liabilities	1,117	1,151	-33
Total liabilities	42,260	37,086	5,175
Total net assets	172,761	169,199	3,562
Total liabilities and net assets	215,022	206,285	8,737

Equity Ratio	79.9%	81.6%	-1.7p

Comparison with End of September

Assets: While accounts receivables decreased, total assets increased approx. ¥8,700 million due to the drastic increase of cash and inventory.

Liabilities: Increased approx. ¥5,200 million due to an increase in accounts payable.

Net assets: The shareholders equity ratio decreased by 1.7 points to 79.9%.

FY2016 Earning Forecast

100 million yen (Oku yen)

FY2016	Actual 1Q	Actual 2Q	Actual 3Q	Earning Forecast 4Q	Earning Forecast Full Year	Earning Forecast FY2017_1Q
Net Sales	313	340	302	370	1,324	400
Operating Income	69	80	61	97	307	116
Ordinary Income	75	81	53	99	308	118
Net Income	58	61	36	80	235	86
Operating Income Margin	22.2%	23.4%	20.2%	26.2%	23.2%	29.0%
Ordinary Income Margin	24.0%	23.9%	17.4%	26.9%	23.3%	29.5%
Net Income Margin	18.5%	17.9%	12.0%	21.7%	17.7%	21.5%

(Reference) Previous year's results

FY2015	1Q	2Q	3Q	4Q	Full Year
Net Sales	342	324	277	336	1,279
Operating Income	99	78	61	65	303
Ordinary Income	98	81	61	67	307
Net Income	65	56	44	66	231
Operating Income Margin	29.0%	24.2%	22.1%	19.3%	23.7%
Ordinary Income Margin	28.5%	24.9%	22.2%	20.1%	24.0%
Net Income Margin	19.0%	17.1%	15.9%	19.8%	18.1%

Expected exchanges rates:
US$ 1 / ¥110, EUR 1 / ¥115
Effect per ¥1 fluctuation in exchange rates (consolidated, whole year)
US$: approx. ¥500 million, EUR: approx. ¥30 million

Dividend Policy and Dividend Payment

(Yen)	FY2016 Previous forecast	FY2016 Forecast	FY2016 Actual	(Reference) FY2015 Actual
Intermediate dividend			83	85
Year-end dividend	213	278		230
Annual dividend	296	361		315

FY2016 Year-end dividend: ¥278 Breakdown

Performance-linked dividend: ¥82
(Based on dividend policy clause 1)

One -third of the surplus: ¥196
(Based on dividend policy clause 3)

Dividend Policy

Decisions concerning the distribution of surpluses are made by the general meeting of shareholders, in the case of the final dividend, and by the Board of Directors, in the case of the interim dividend.

1.Adopting a performance?linked dividend policy and aiming at giving clearer priority to shareholder returns, our target dividend payout ratio is 25% of the consolidated half-yearly net income. There will be interim and final dividends, each of which will be equivalent to 25% of the half-yearly consolidated net income.

2.Irrespective of the level of income, we will maintain a reliable dividend of ¥10 per half-year. This means that the minimum yearly dividend will be ¥20.

3.Except when there is a loss, if the year-end balance of cash and deposits after payment of dividends and income taxes is greater than projected funding requirements for the acquisition of technology resources, such as through patent purchases and investment in venture businesses, facility expansion, the retirement of interest-bearing debt and other purposes, one-third of that surplus will be added to dividends.

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

[Reference]
Calculation Surplus Distribution as Additional Dividends

One third of the surplus will be added to the normal dividend.

Expected Year-end balance of cash and deposits ¥84,100 million

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Necessary funds

Working capital (two months' sales)	¥22,100 million	Facility expansion (Kuwabata plant C zone)	¥9,100 million
Projected funding requirements for the acquisition of technology resources, such as through patent purchases and investment in venture businesses	¥11,000 million	Payment of dividends, income taxes, and others	¥11,500 million
Repayment of interest-bearing debt	¥9,400 million		

Total necessary funds: ¥63,100 million

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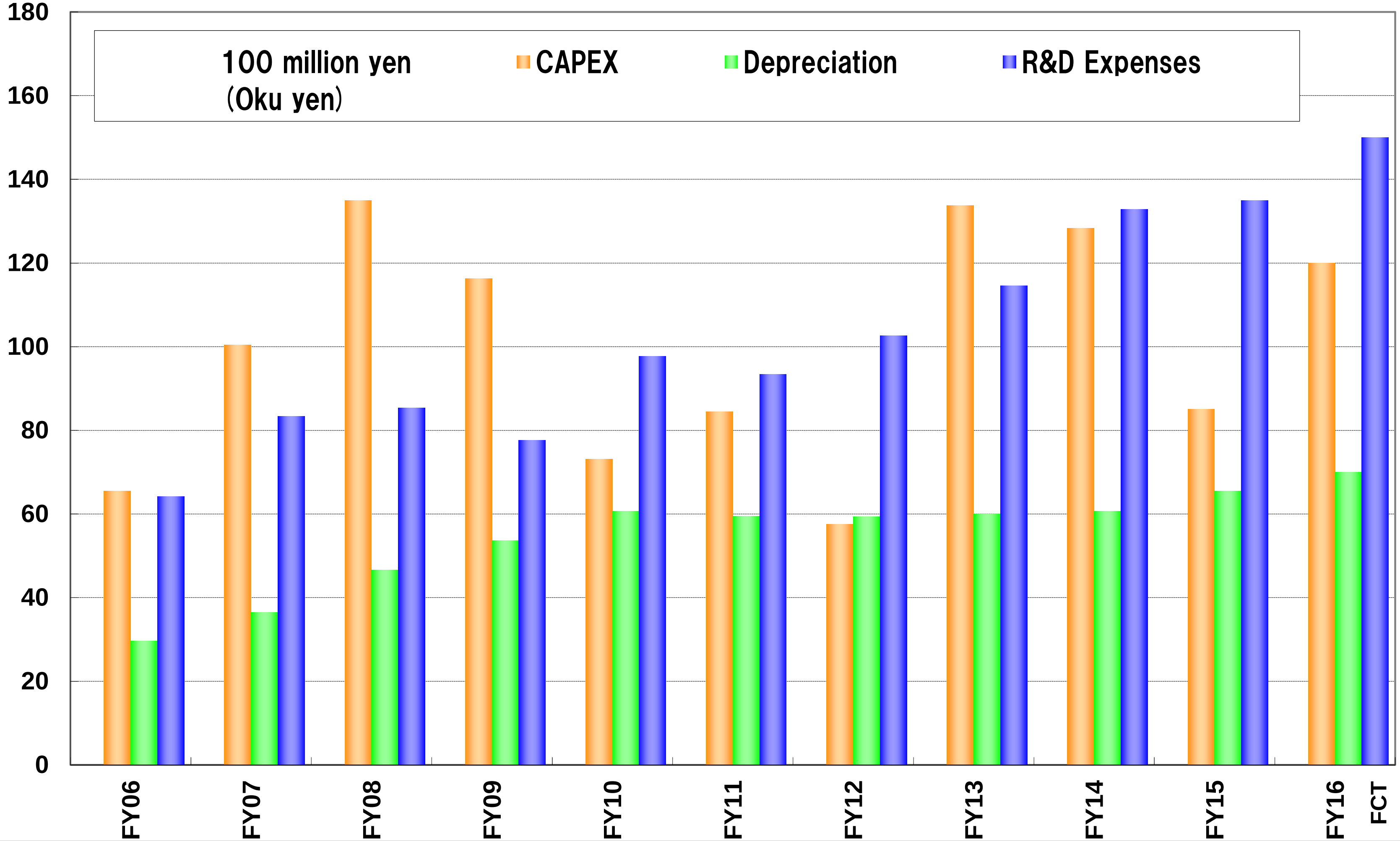
Excess cash: ¥21,000 million

Forecasted Additional Dividend Payment

Excess cash: ¥21,000 million/ 3/ number of shares = ¥196 per share

Consolidated R&D/CAPEX Forecast



FY16 R&D expenses, and depreciation expenses have not changed since the forecast was released in last November.

- R&D expenses will remain at a high level, unchanged from less than ¥15,000 million. (FY15: ¥13,500 million)
- Capital spending due to the construction of the new building at Kuwabata Plant will be changed from ¥12,000 to ¥10,000 million. (FY15: ¥8,500 million)
- Depreciation expenses are expected to be less than ¥7,000 million. (FY15: ¥6,500 million)

FY2016 Sales Forecast

	YoY FY2015 Actual	YoY FY2016 Previous forecast	YoY FY2016 Revised forecast	YoY FY2017 1Q Revised forecast
Systems	-1%	-10%	**-5%**	**40%**
Grinders	30%	-10%	**-10%**	**80%**
DGP (for thin wafers)	20%	5%	**5%**	**100%**
Normal Grinders	60%	-40%	**-40%**	**50%**
Dicers	-10%	-10%	**Slight decrease**	**20%**
Non-laser	-20%	-10%	**Slight decrease**	**50%**
Laser	10%	-10%	**Slight increase**	**-20%**
Precision blades and wheels	10%	10%	**15%**	**20%**
Other products, subsidiaries	Slight decrease	10%	**10%**	**10%**

DISCO

Kiru・Kezuru・Migaku Technologies