DISCO
Kiru·Kezuru·Migaku Technologies

DISCO CORPORATION

Annual Report 2010

for the year ended March 31, 2010

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

cutting grinding polishing

DISCO's three core technologies contribute to the development of industry and to the enjoyment of life.

DISCO was established in 1937 as a manufacturer of industrial abrasive wheels. While adapting to the changing needs of precision manufacturing for over 70 years, we have become, ironically, a specialist and innovator in technologies that go back to the beginning of civilization: cutting, grinding and polishing. We bring a 21st century perspective to these universal technologies to enable the leading-edge processes to be employed in the manufacture of the semiconductors and electronic components of tomorrow. In fiscal 2009, initiatives that carried us through the financial downturn strengthened our business structure and improved the capacity of our organization to respond to change.

Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS

Years Ended March 31, 2010 and 2009

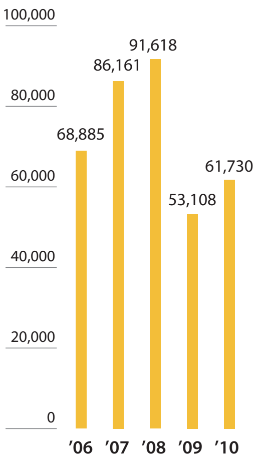
	Millions of Yen		Thousands of U.S. Dollars [1]
	2010	2009	**2010**
For the Period:			
Net sales	¥ 61,730	¥ 53,108	$ 663,478
Operating income	4,668	76	50,172
Net income	2,470	251	26,548
Capital expenditures	11,626	13,497	124,957
Depreciation and amortization	5,364	4,657	57,652
Research and development expenses	7,767	8,532	83,478
At Year-end:			
Total net assets	¥ 88,092	¥ 86,329	$ 946,818
Total assets	¥ 124,313	¥ 123,925	$ 1,336,124
Per Share of Common Stock:			
Basic net income	¥ 73.51	¥ 7.41	$ 0.79
Cash dividends	20.00	20.00	0.21
Ratio:			
Equity Ratio	70.3%	69.2%	
Return on equity (ROE) [2]	2.9	0.3	

Note: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥93.04=US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2010.

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

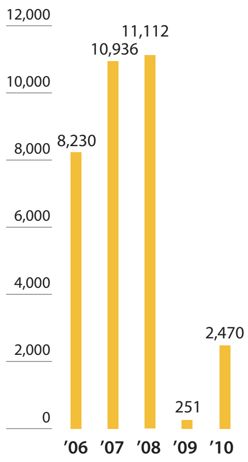
Net Sales

(Millions of yen)



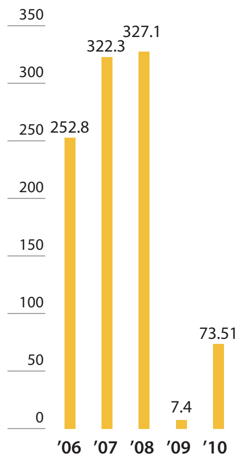
Net Income

(Millions of yen)



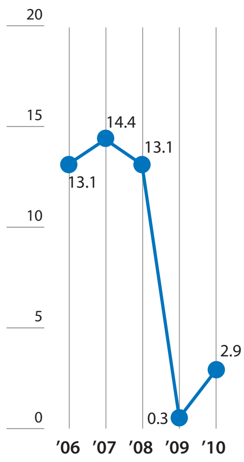
Basic Net Income per Share

(Yen)



Return on Equity (ROE)

(%)



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.

A MESSAGE FROM THE CHAIRMAN

Adapting flexibly and quickly to changes in our business environment produced dramatic income growth.

In fiscal 2009, the world economy emerged from the worst of the economic crisis and began a gradual recovery. Semiconductor manufacturers were among the first to report increases in their equipment utilization, and by the second half of the fiscal year, there were signs of a major recovery trend, including the resumption of capital investment.

This situation was reflected in the performance of the DISCO Group. Sales of precision blades and wheels were close to peak levels, despite the effects of a higher yen. In addition, the resumption of capital investment by semiconductor manufacturers resulted in a sharp improvement in demand for semiconductor assembly equipment, especially dicing saws. Sales of laser saws for use in LED production remained especially strong, and cumulative sales surpassed the 200-unit milestone four months ahead of schedule. As these figures indicate, we have expanded our income base by building the laser saw business, under development since 2001, into a new core business segment.

We responded to the recession by implementing comprehensive cost-cutting measures. The benefits of these efforts, combined with an improving market environment, aggressive marketing activities and production-related measures, were reflected in a substantial year-on-year increase in operating income.

We remain committed to the development of a stronger, leaner corporate structure through improvements in efficiency and optimisation of costs. We will also continue to invest in strategic research and development in the fields of *Kiru* (cutting), *Kezuru* (grinding) and *Migaku* (polishing), and in efficiency improvements in our production facilities, so that we can achieve our corporate mission while realizing a fair exchange of value with our stakeholders. We look forward to the continuing support of our shareholders.

Hitoshi Mizorogi, Chairman and CEO

AN INTERVIEW WITH THE PRESIDENT

In fiscal 2009, our efforts to survive an unprecedented financial downturn strengthened our business structure and improved the capacity of our organization to respond to challenges. We also enhanced our business portfolio by building our LED-related business into a new core business capable of contributing to earnings.

Kazuma Sekiya, President and COO

Q. How would you describe business conditions in fiscal 2009? How did DISCO respond to those conditions, and what were the results of those initiatives?

DISCO has been involved in the semiconductor industry for many years, and we have experienced the peaks and troughs of many "silicon cycles." For this reason, we have always been keenly aware of the need to continuously build and maintain an organizational structure strong enough to weather economic fluctuations.

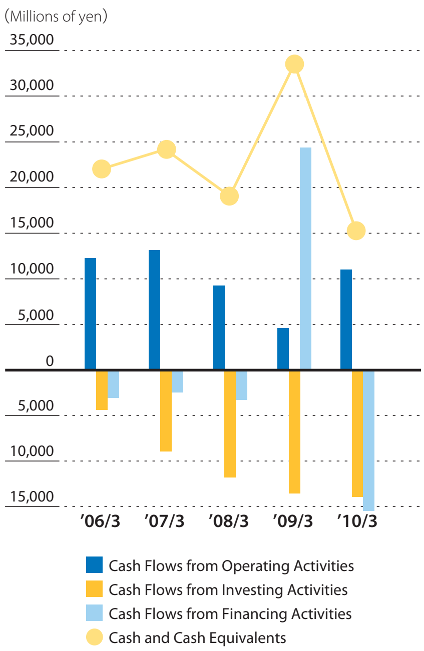
Fiscal 2009 was a period of extreme change. By the start of the period in April 2009, global demand was melting away under the impact of the financial crisis that had begun in the previous fall, and businesses faced an environment of unprecedented severity. However, demand for semiconductors began to recover for us relatively quickly, helped by aggressive government spending in many countries. Investment in manufacturing facilities for high-intensity LEDs suddenly began to expand in the second quarter, and our sales of laser saws surged to 2.5-times the fiscal 2008 level. The third quarter brought a resumption of capital investment, especially in Taiwan and South Korea, and a rapid improvement in business conditions. By the fourth quarter, orders had recovered almost to the previous peak level. We responded by dynamically expanding our resources to keep pace with production requirements.

In spite of the difficulties faced during the first half of fiscal 2009, DISCO responded by implementing a range of cost-cutting measures, which included reductions in executive salaries and overtime hours, furloughs and a review of R&D topics. We also froze some of our capital investment activities. In addition, we raised our internal cost management standards to the highest possible level with the aim of minimizing expenditures.

Fully automatic laser saw for stealth dicing of 200mm wafers

DFL 7340

Cash Flows, and Cash and Cash Equivalents



Even during periods of buoyant economic activity, we had implemented structural cost reduction initiatives and managed margins intensively under our own management and accounting systems. This allowed us to make rapid management decisions and greatly contributed to improving our earnings during this recession.

In the second half of fiscal 2009, a dramatic improvement in economic conditions allowed us to relax our cost management to the extent that we were able to increase R&D expenditure and resume capital investment.

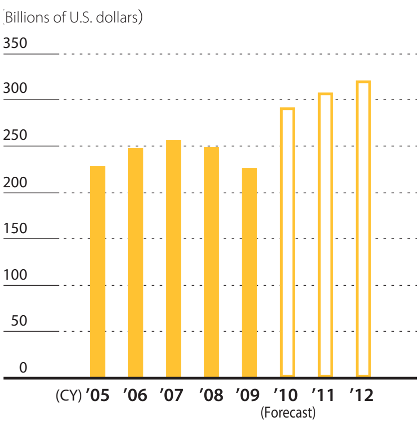
As a result of the aforesaid initiatives, our business structure has been strengthened, along with an improved capacity of our organization to meet challenges.

Q. What are your thoughts on capital policies and the reinforcement of DISCO's financial structure?

The semiconductor industry is dominated by the silicon cycle. To achieve business stability in that environment, companies need to build robust financial structures. Above all, it is necessary to have sufficient financial resources to weather any business condition. When the global recession occurred in fiscal 2008, we reduced our financial risk by securing funds totaling approximately ¥27 billion through bank loans and other methods. When business conditions began to recovery earlier than expected, we retired this debt, including the bank loans, ahead of schedule through payments of ¥12 billion in September 2009 and ¥12 billion in February 2010. Currently, our outstanding bank loans total ¥3 billion. We plan to complete the early repayment of this debt by the end of June 2010. We also took steps to provide for our financial needs in a rapidly deteriorating business environment by establishing commitment lines that would reduce our financing costs. In November 2009, we procured ¥10 billion through a convertible bond issue. We will use the proceeds to finance investment in initiatives to strengthen our production systems. Our goal now is to build an even stronger financial structure as the basis for future-focused business operations.

Q. What market opportunities do you see for this fiscal year?

Worldwide Shipments of Semiconductor



Source: WSTS

Semiconductor demand is extremely buoyant, and customer demand for our products is extremely strong. Our highest priority in this situation is the expansion of our production facilities. In 2010, a new building was completed at the Kuwabata Plant in January and became fully operational in June, while another was completed at the Chino Plant that same month. Also in February 2010, we decided to construct another building at the Kure Plant. We will develop a reliable supply structure capable of supplying products in sufficient quantities to keep pace with quantitative growth in semiconductor demand.

A variety of new end-user products, such as smartphones and electronic books, are starting to appear on the market. This has prompted semiconductor manufacturers to announce aggressive investment plans. We must respond to these market requirments on all levels, including production, technology and service.

We are also determined to keep pace with the increasingly sophisticated technology needs of our customers while also expanding sales of our new products. These include the DFD6760 Fully Automatic Dicing Saw, which combines high-speed processing with extremely precise cutting performance, and the DGP8761 Fully Automatic Grinder Polisher (High-Level Cleaning Specification), which improves the cleanness of wafers after reducing their thickness.

Fully automatic dual-spindle dicing saw with two tables to improve productivity

DFD 6760

Forward investment is essential to ensure our ability to reliably supply our products and keep pace with future demand. We will gauge our capacity increases in response to the expansion of capital investment by our customers.

In January 2010, we completed a new eight-story building at the Kuwabata Plant with a total floor area of 63,000m². The new facility will be used to manufacture precision processing equipment, blades and wheels. The total investment amounted to approximately ¥11 billion. Work began on the new building in September 2008, but construction was temporarily suspended after the onset of the global recession. Work resumed after the recovery in our business performance emerged in the summer of 2009. Production facilities were relocated in May 2010, allowing us to increase manufacturing capacity in step with capital investment by our customers.

Exterior

Like other manufacturers of semiconductor assembly equipment, DISCO was placed in an extremely difficult position after semiconductor manufacturers began to freeze their capital investment in the fall of 2008. However, market conditions began to improve in the second quarter of fiscal 2009. Net sales reached ¥13.8 billion, and operating income returned to positive figures. At ¥18.0 billion, third-quarter sales were 62% higher than the same period a year earlier and 30.4% above the figure for the previous quarter.

Interior

This improvement resulted from the recovery of shipments of consumable precision blades and wheels, to their pre-recession level, and from sustained growth in shipment volumes in the area of precision processing equipment, led by laser saws for use in LED production, and blade dicers for package singulation. As a result of these trends, there was a major improvement in the production situation in our plants.

The completion of the new building will double our production capacity and allow us to keep pace with future demand growth. There will also be efficiency gains resulting from the centralized production of parts including spindles and chuck tables that were previously manufactured at our Nagatani Plant. An additional benefit is the improvement in our capacity to maintain business continuity and supply products reliably in the event of an earthquake.

The new building was designed to facilitate rapid evacuation in the event of an emergency. The flooring materials on each level are color coded, and columns are marked with letters and numbers so that all employees can easily determine their locations in the building.

FINANCIAL SECTION

Six-Year Summary

Years Ended March 31, 2010, 2009, 2008, 2007, 2006 and 2005

	Millions of yen						Thousands of U.S. dollars (1)
	2010	2009	2008	2007	2006	2005	2010
For the Period:							
Net sales	¥ 61,730	¥ 53,108	¥ 91,618	¥ 86,161	¥ 68,885	¥ 60,321	$ 663,478
Electronics industry-related products	60,137	50,983	88,607	83,429	66,049	57,343	646,356
Industrial products	1,462	1,951	2,684	2,468	2,536	2,597	15,714
Other products	131	174	327	264	300	381	1,408
Operating income	4,668	76	19,334	19,524	13,949	9,869	50,172
Income before income taxes and minority interests	4,046	770	18,452	17,716	13,385	9,081	43,487
Net income	2,470	251	11,112	10,936	8,230	5,301	26,548
Capital expenditures	11,626	13,497	10,038	6,554	3,288	11,815	124,957
Depreciation and amortization	5,364	4,657	3,652	2,968	2,762	2,440	57,652
Research and development expenses	7,767	8,532	8,332	6,415	6,353	6,256	83,478
At Year-End:							
Total assets	¥ 124,313	¥ 123,925	¥ 118,603	¥ 113,791	¥ 99,319	¥ 84,839	$1,336,124
Interest-bearing debt	3,000	27,723	783	1,128	3,291	12,044	32,244
Total net assets	88,092	86,329	89,665	81,824	70,277	55,727	946,818
Number of shares issued and outstanding	34,004,418	34,004,418	33,995,418	33,982,518	33,562,718	32,180,240	
Share price (Yen)	5,750	2,435	4,290	7,200	7,740	4,600	
Number of shareholders	15,168	13,661	13,480	13,293	12,828	15,636	
Number of employees	2,465	2,438	2,260	2,012	1,721	1,678	
Per Share of Common Stock (Yen and U.S. Dollars):							
Basic net income	¥ 73.51	¥ 7.41	¥ 327.07	¥ 322.32	¥ 252.82	¥ 162.57	$ 0.79
Cash dividends	20.00	20.00	79.00	75.00	50.00	40.00	0.21
Shareholders' equity	2,600	2,553	2,621	2,393	2,092	1,730	27.94
Ratios:							
Gross profit margin	46.5%	47.2%	51.1%	51.1%	52.5%	50.7%	
Operating income margin	7.6	0.1	21.1	22.7	20.2	16.4	
Income before income taxes and minority interests margin	6.6	1.5	20.1	20.6	19.4	15.0	
Net income margin	4.0	0.5	12.1	12.7	11.9	8.8	
Return on assets (ROA) (2)	3.8	0.2	16.9	18.5	15.2	12.0	
Return on equity (ROE) (3)	2.9	0.3	13.1	14.4	13.1	9.9	
Price-earning ratio	78.2	328.6	13.1	22.3	30.6	28.3	
Equity ratio	70.3	69.2	75.0	71.5	70.8	65.7	
Interest coverage ratio (4)	13.7	4.2	805.1	436.5	479.0	252.8	

Notes: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥93.04=US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2010.

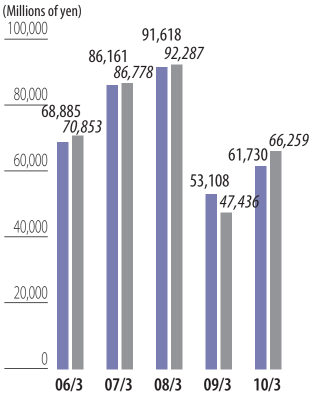
(2) ROA = (Operating income + Interest and dividend income) ÷ Average total assets × 100

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

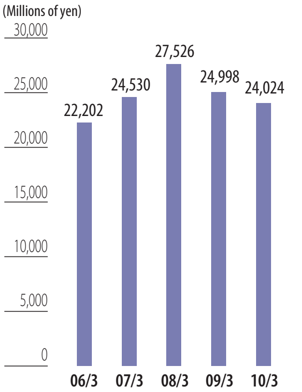
(4) Interest coverage ratio = (Operating income + Interest and dividend income) ÷ Interest expense

Management Analysis & Discussion

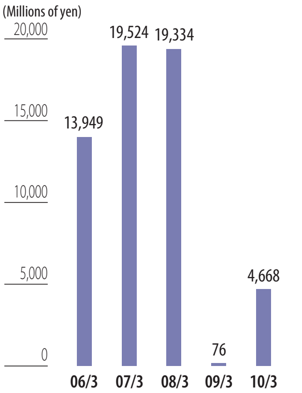
Net Sales
Orders



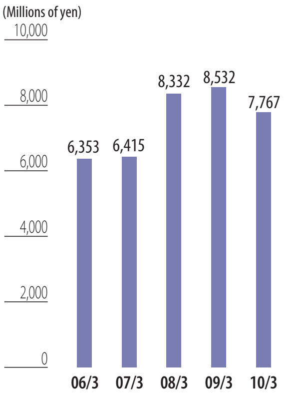
SG&A Expenses



Operating Income



R&D Expenses



Overview

Fiscal 2009 (April 1, 2009 to March 31, 2010) started with the world economy in a severe state as the financial crisis caused the health of the real economy to worsen, but a mild recovery began in the second half as fiscal stimulus measures and loose monetary policy pursued by governments across the world began to have an effect. In the semiconductor market, a major focus of the DISCO Group's business, there was a deep slump at the start of the year, but over the second half, a major recovery accompanied the resurgence of demand for end products such as PCs, mobile phones and flat-screen TVs.

In the situation directly facing the DISCO Group, semiconductor equipment utilization in Asia started to move up in response to production activity as early as the first quarter, according to quarterly statistics, but new capital investment generally failed to appear. In the second quarter, manufacturers began to invest in facilities to raise production capacity for high-intensity LEDs, and in the third quarter, spending resumed led by subcontract manufacturers. As a result, a robust recovery driven by Asia suddenly appeared, leading to a large increase in total sales for the year under review.

Orders Received and Net Sales

Orders received in fiscal 2009 greatly exceeded sales, a situation driven by the rapid market recovery, enabling the company achieved 39.7% year-on-year growth to ¥66,259 million. Both sales and orders received bottomed out in the fourth quarter of fiscal 2008, and then orders led sales to four quarters of consecutive growth in fiscal 2009. Total sales increased 16.2% year on year to ¥61,730 million.

Quarterly Trends in Orders and Net Sales (millions of yen)

	FY2009/1Q	FY2009/2Q	FY2009/3Q	FY2009/4Q	FY2009/Total
Orders	10,312	14,433	19,428	22,083	66,259
Net sales	9,256	13,801	17,995	20,676	61,730

Expenses and Profits

The cost of sales increased along with net sales and rose to ¥33,038 million, a 17.8% year-on-year increase. The ratio of costs to sales was up 0.7 points over the previous year to 53.5%. We enacted cost reductions throughout the company in response to the recession, but material purchases rose as a result of the recovery of product demand. Gross profit increased 14.4% year on year to ¥28,692 million.

Selling, general and administrative expenses were ¥24,024 million, down 3.9% from the previous year. While sales commissions increased in step with sales and depreciation rose as a result of construction in new plant buildings, we also sought to control costs, by reducing management salaries, cutting overtime and instigating temporary furloughs. The result was that the ratio of selling, general and administrative expenses to sales dropped 8.2 points year on year to 38.9%.

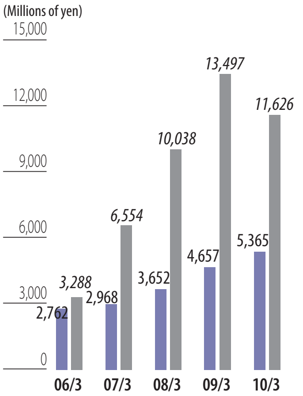
R&D expenses were 9.0% lower year on year to ¥7,767 million. Intense development work focused on laser saws suitable for high-quality precision cutting and advanced grinders, while a review of development themes kept other R&D costs down.

As a result of the above, operating income came to ¥4,668 million, a large jump of 6008.0%, while the operating income ratio improved 7.5 points to 7.6%.

The DISCO Group's capital investment priorities lie in product areas and R&D fields where long-term growth is anticipated. We also invest funds to expand plant and equipment and to improve the reliability, safety and regard for the environment of DISCO products. In addition, we make investments that streamline processes or save effort. In the year under review, capital investment was lowered 13.9%

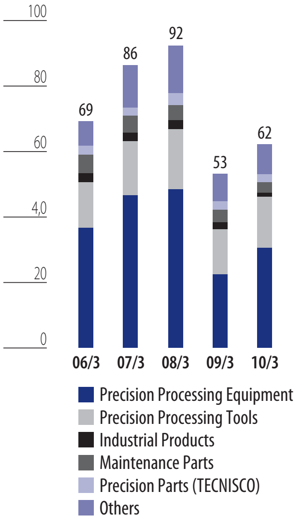
Depreciation
Capital Expenditures

(Millions of yen)



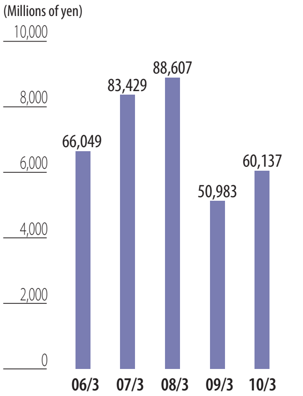
Sales Breakdown by Product

(Billions of yen)



Electronics Industry-Related Products

(Millions of yen)



year on year to ¥11,626 million. Key projects included expansion of the head office and R&D center and construction of new buildings at the Kuwabata plant in Hiroshima Prefecture and the Chino Plant in Nagano Prefecture.

Depreciation expenses were ¥5,364 million, a 15.2% year-on-year increase.

Segment Information

DISCO manufactures products in six categories: precision processing equipment, including dicing saws and grinders, precision blades and wheels (consumables), maintenance parts, precision parts, which are made by the consolidated subsidiary TECNISCO, LTD., industrial grinding products* and other items.

*Products for the industrial grinding business, which is a business-based segment.

Segment Contributions to Consolidated Net Sales

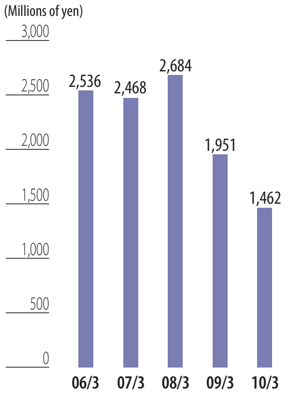
	FY2009/1Q	FY2009/2Q	FY2009/3Q	FY2009/4Q	FY2009/Total
Consolidated net sales (millions of yen)	9,256	13,801	17,995	20,676	61,730
Contributions to net sales					
Precision processing equipment	30%	46%	55%	55%	49%
Consumables	37%	27%	22%	19%	25%
Maintenance parts	6%	6%	3%	4%	5%
Precision parts (TECNISCO)	5%	4%	3%	3%	4%
Industrial grinding products	3%	2%	2%	2%	2%
Other items	18%	14%	14%	16%	15%

Sales of precision processing equipment were up greatly year on year due to vigorous demand for laser saws used to cut high-intensity LEDs and recovery in demand for blade dicers and package singulation dicers for semiconductor ICs. Sales of grinders were in line with the previous year, aided by resumption of investment in plant and equipment in the second half by contractors and other manufacturers, an indication of a recovery. Sales of precision blades and wheels showed a firm trend, despite unfavorable foreign exchange rates, and were buoyed by an early uplift in customers' equipment utilization and flourishing semiconductor demand.

Under these conditions, we achieved year-on-year growth rates of 35% in the precision processing equipment segment, 8% in the precision processing tool segment, –19% in the maintenance parts segment, –20% in the precision parts segment, –25% in the industrial grinding products segment and 16% in the other items segment.

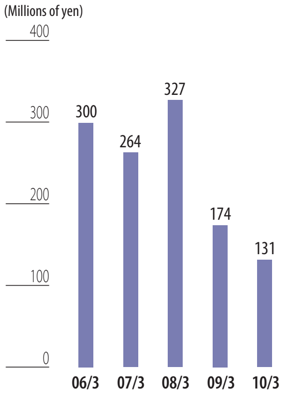
Industrial Products

(Millions of yen)



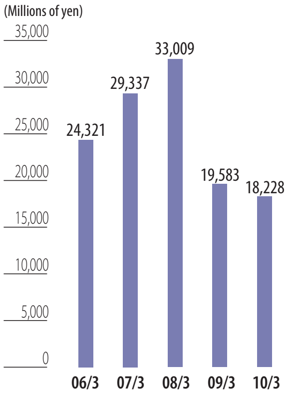
Other Products

(Millions of yen)



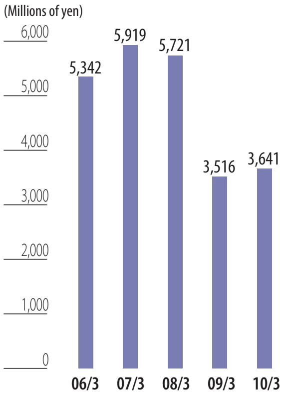
Japan

(Millions of yen)



North America

(Millions of yen)



Business-Based Segment Information

Electronic Industry Product Segment

Activities in this segment include the manufacture and sale of precision equipment, such as dicing saws and grinders, precision processing blades and wheels, which are supplied as consumables, and precision electronic parts, and the provision of after-sales service.

In the year under review, this segment achieved 18.0% year-on-year growth to ¥60,137 million and 166.2% growth in operating income to ¥7,308 million.

Industrial Grinding Product Segment

In this segment, DISCO manufactures and sells industrial diamond tools, for use in the civil engineering and construction sector and various manufacturing industries, and general-purpose grinding wheels, for use in the manufacture of motor vehicles, electronic parts and other products.

Although signs of recovery gradually appeared in the second half of the year in review, this segment continued to suffer from the effects of the severe economic conditions. Thus, sales were down 25.0% year on year to ¥1,462 million and operating income dropped 78.2% to ¥27 million.

Other Business Segment

In this segment, DISCO develops and sells computer system hardware and software. These products are used mainly by manufacturers of semiconductor fabrication equipment.

In the year under review, segment sales were lower, at ¥131 million, down 25.5% year on year, and operating loss was ¥81 million, compared to a ¥74 million loss in the previous fiscal year.

Quarterly Trends in Business Segment Sales (millions of yen)

	FY2009/1Q	FY2009/2Q	FY2009/3Q	FY2009/4Q	FY2009/Total
Electronic industry products	8,946	13,454	17,573	20,162	60,137
Industrial grinding products	286	335	407	432	1,462
Other business	22	11	15	81	131

Geographical Segment Information

Domestic Segment

In addition to sales in the Japanese market, this segment also includes direct exports to Taiwan and South Korea and sales through local distributors in these markets. In the year ended March 31, 2010, a recovery in demand for precision processing equipment and precision blades and wheels spurred substantial year-on-year growth in both net sales and operating income. Net sales increased 28.0% to ¥41,044 million and operating income jumped 330.8% to ¥4,932 million.

Overseas Segment (Sales by North American, Asian and European subsidiaries)

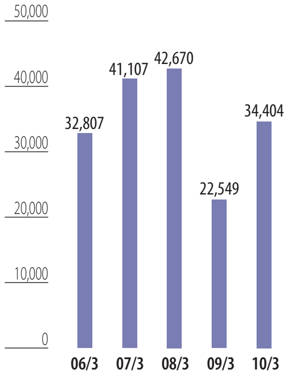
In North America, sales were down 5.8% from the previous year to ¥3,561 million, but the segment recorded an operating profit of ¥139 million for the year under review, compared to a ¥139 million loss in the previous year. In Asia, on the other hand, sales were up 13.8% year on year to ¥11,081 million, while operating income jumped 252.3% to ¥1,192 million. In Europe, sales fell 19.5% from the previous year to ¥6,044 million, and operating income totaled ¥897 million, a 0.4% year-on-year increase.

Overseas Sales (Combined net sales to overseas customers by Group companies)

The breakdown of sales by region shows a 3.6% year-on-year increase to ¥3,641 million in North America, a 52.6% year-on-year increase to ¥34,404 in Asia and a 26.8% decrease to ¥5,457 million in Europe. As a result, overseas sales contributed 70.5% of consolidated sales, a 7.4 point increase from the previous year's 63.1%.

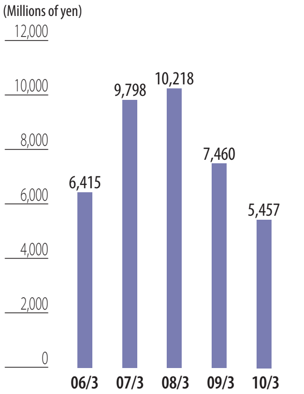
Asia

(Millions of yen)



Europe

(Millions of yen)



Other Income and Expenses

Other income in the year ended March 31, 2010, amounted to ¥706 million versus ¥1,567 million in the previous fiscal year. Included in this amount were ¥38 million in subsidy income for plant construction from the Hiroshima Prefectural government and ¥248 million in subsidy income for temporary furloughs at headquarters, as an anti-recessionary measure. There was also ¥67 million in interest and dividend income.

On the expense side, other expenses totaled ¥1,328 million versus ¥873 million in the previous year. Interest expenses on borrowings were ¥347 million, special retirement expenses were ¥112 million, and furlough expenses were ¥176 million. In addition, foreign exchange losses totaled ¥103 million and valuation losses on investment securities totaled ¥347 million. As a result, net other income came to a loss of ¥622 million compared to a profit of ¥694 million in the previous year.

Income before Income Taxes and Net Income

Income before income taxes totaled ¥4,046 million, a 425.5% year-on-year increase. Total income taxes were 191.3% higher at ¥1,574 million, which corresponds to an effective tax rate of 38.9% or a 31.3 point drop from the previous fiscal year. Contributing factors include fewer exclusions from the calculation of entertainment and other expenses and a decrease in valuation reserves.

An amount of ¥2 million was included in minority interests in income, including minority shareholdings in consolidated subsidiaries such as DISCO Technology (Shanghai) Co., Ltd. and DSD, Ltd. As a result, DISCO recorded net income of ¥2,470 million for the year ended March 31, 2010, an 883.6% increase. Net income per share was ¥73.51 compared to ¥7.41 in the previous year.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to an inflow of ¥11,017 million. This total included ¥4,046 million in income before income taxes and ¥5,364 million in depreciation and amortization.

Cash Flows from Investing Activities

Net cash used in operating activities amounted to an outflow of ¥13,950 million. The major component was ¥10,644 in purchase of property, plant and equipment related to new construction at the Kuwabata and Chino plants.

Free cash flow, calculated by adding the net cash from operating activities and investment activities, amounted to an outflow of ¥2,932 million, compared to an outflow of ¥9,002 million in the previous year.

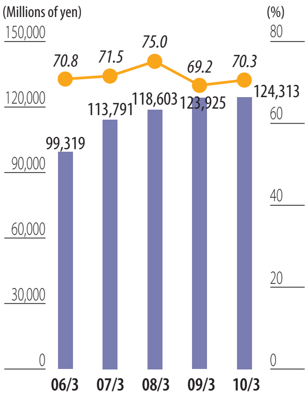
Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥15,412 million in outflow. Major outflows included ¥24,651 for repayment of long-term debt and the repurchase and cancellation of variable-interest private placement debt with bank guarantees, while major inflows included ¥9,976 million in proceeds from issuance of convertible bonds.

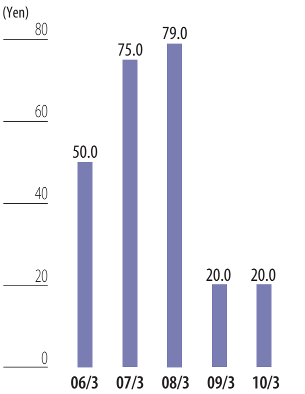
Cash and cash equivalents

The above cash flows brought cash and cash equivalents to a total of ¥15,248 million at the fiscal year end on March 31, 2010, a reduction of ¥18,171 million from the position one year earlier on March 31, 2009.

Total Assets ■
Equity Ratio ●



Cash Dividends



Financial Position

Assets

Total assets amounted to ¥124,313 million as of March 31, 2010, an increase of ¥388 million from the position one year earlier. Total current assets amounted to ¥62,926 million, a decrease of ¥3,379 million. There was an increase of ¥12,124 million in notes and accounts receivable, reflecting the recovery in product demand, and also a decrease of ¥18,170 million in cash and deposits, coming from early repayment of borrowings, among other factors. The completion of a new building at the Kuwabata Plant added ¥5,136 million to property, plant and equipment from the position a year earlier to bring the balance to ¥53,678 million, but investments and other assets fell by ¥1,368 million to ¥7,709 million.

Liabilities

Total liabilities amounted to ¥36, 221 million as of March 31, 2010, a decrease of ¥1,374 million from the position one year earlier. Total current liabilities rose ¥10,913 million to ¥22,784 million. Increased purchases of materials and other items to keep pace with the recovery in product demand boosted notes and accounts payable by ¥8,955 million, while other accounts payable also added ¥3,252 million. Total long-term liabilities were reduced by ¥12,288 million from a year earlier to ¥13,437 million. Issuance of convertible bonds procured ¥10.0 million in financing to be used for capital investment. On the other hand, ¥22,447 million in long-term liabilities were eliminated by repurchase and cancellation of variable-interest private placement debt with bank guarantees and early repayment of long-term debt.

These activities resulted in a reduction of total interest-bearing debt, excluding private placement unsecured bonds, to ¥3,000 million, a difference of ¥24,723 million from one period earlier. The interest-bearing debt ratio now stood at 2.4% at the end of the year.

Net Assets

Net assets grew to ¥88,092 million as of March 31, 2010, an increase of ¥1,763 million from the position one year earlier. Among assets, foreign currency translation adjustments fell by ¥231 million, while retained earnings rose ¥1,798 million.

The shareholders' equity ratio stood at 70.3% at the end of the consolidated fiscal year on March 31, 2010, an increase of 1.1 percentage points from one year earlier.

The ratio of net income to shareholders' equity also rose, improving percentage 2.6 points from 0.3% to 2.9%.

Dividend Policy

Our target dividend payout ratio is 20% of consolidated net income. However, we maintain a minimum annual dividend of ¥20, regardless of the income level. Unless there is a loss, if the amount of cash and deposits after payment of dividends and income taxes is greater than our projected funding requirements for the acquisition of technology, such as through patent purchases and investment in venture businesses, facility expansion, the retirement of interest-bearing debt and other purposes, we aim to add one-third of that surplus to dividends. If there is a consolidated net loss in three consecutive years, it may be necessary to review our stable dividend policy.

If the four-year cumulative ratio of consolidated operating income to consolidated net sales is greater than 20%, the normal dividend payout ratio will be increased to 24%.

In accordance with the dividend policy described above, the DISCO Group is paying a steady annual dividend for the year ended March 31, 2010, of ¥20 per share, consisting of a ¥10 yen interim dividend and a ¥10 yen final dividend.

For the fiscal year ending March 31, 2011, we plan to raise the dividend to ¥50 per year in accordance with the company's earnings forecast.

Risk Factors

Listed below are some of the factors that could significantly influence decisions by investors.

(1) Fluctuations in the Semiconductor Market

The DISCO Group manufactures and sells precision processing equipment and consumables in the form of precision blades and wheels. These products are supplied worldwide to manufacturers of semiconductors and electronic components. As a result, the DISCO Group is affected by trends in the capital investment and production activities of its customers.

The so-called "silicon cycle" has a particularly significant impact on the business performance of semiconductor manufacturers. The business performance of the DISCO Group could be adversely affected if customers freeze capital investment and reduce production in response to the downward phase of the cycle and unexpected market fluctuations.

(2) Emergence of New Technologies

The DISCO Group concentrates primarily on the manufacture and sale of semiconductor cutting and grinding equipment and precision tools such as precision diamond grindstones for use in silicon wafer processing. If a processing technology emerges to challenge precision diamond tools 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 tools.

(3) Disasters

The DISCO Group has its corporate headquarters and R&D center in Tokyo's Ota Ward and its production facilities in Hiroshima and Nagano Prefectures. Corporate functions and product manufacturing could be adversely affected by a major earthquake, an outbreak of a new strain of influenza or other disasters in these areas.

(4) Exchange Rate Fluctuations

The DISCO Group manufactures products in Japan and exports them globally to producers of semiconductor and electrical components. Transactions are normally conducted in yen, but certain transactions must be settled in other currencies such as the U.S. dollar, depending on the locale and customer. This poses a risk that business performance may be adversely affected by exchange rate fluctuations.

(5) Other Risks

In addition to the risk factors described above, the business activities of the DISCO Group are subject to global and regional economic developments, natural disasters, war and terrorism, financial and capital market conditions, laws and government regulations, product defects, problems with supply mechanisms, infringement of intellectual property rights and other external events. Any of these contingencies may adversely affect the group's business performance.

Consolidated Balance Sheets

March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 3)
	2010	2009	2010
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (note 4)	¥ 15,248	¥ 33,419	$ 163,887
Notes and accounts receivable-trade (note 4):			
Trade	23,034	10,801	247,571
Unconsolidated subsidiaries and associated companies	54	162	580
Allowance for doubtful receivables	(63)	(71)	(677)
Inventories (note 6)	18,540	18,778	199,269
Deferred tax assets (note 11)	1,258	980	13,521
Prepaid expenses and other current assets (note 4)	4,855	2,237	52,182
Total current assets	62,926	66,306	676,333
PROPERTY, PLANT AND EQUIPMENT:			
Land	12,794	12,787	137,510
Buildings and structures	37,794	27,552	406,212
Machinery and equipment	22,856	20,216	245,658
Tools, furniture and fixtures	4,299	4,133	46,206
Construction in progress	3,484	6,858	37,446
Total	81,227	71,546	873,032
Accumulated depreciation	(27,549)	(23,004)	(296,098)
Net property, plant and equipment	53,678	48,542	576,934
INVESTMENTS AND OTHER ASSETS:			
Investment securities (notes 4 and 5)	372	728	3,998
Investments in unconsolidated subsidiaries and associated companies (note 7)	210	173	2,257
Leasehold land	215	215	2,311
Long-term deposits (note 4)	5,200	5,200	55,890
Deferred tax assets (note 11)	464	1,522	4,987
Bond issuance cost	23	20	247
Other	1,263	1,256	13,575
Allowance for doubtful receivables	(38)	(37)	(408)
Total investments and other assets	7,709	9,077	82,857
TOTAL	¥124,313	¥ 123,925	$1,336,124

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 3)
	2010	2009	2010
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Notes and accounts payable-trade (note 4)	¥ 12,558	¥ 3,603	$ 134,974
Short-term bank loans (note 8)	1,000	1,073	10,748
Current portion of long-term debt (note 8)	—	2,203	—
Accrued expenses	2,743	1,949	29,482
Accrued income taxes (note 11)	403	215	4,332
Other current liabilities (note 11)	6,080	2,828	65,348
Total current liabilities	22,784	11,871	244,884
LONG-TERM LIABILITIES:			
Long-term debt (notes 4 and 8)	12,000	24,447	128,977
Accrued retirement benefits (note 9)	815	536	8,760
Negative goodwill	120	210	1,290
Other long-term liabilities (note 11)	502	532	5,395
Total liabilities	36,221	37,596	389,306
CONTINGENT LIABILITIES			
NET ASSETS (notes 10 and 18):			
SHAREHOLDERS' EQUITY:			
Common stock, authorized 72,000,000 shares; number of shares issued, 34,004,418 shares in 2010 and 34,004,418 shares in 2009.	14,517	14,517	156,030
Additional paid-in capital	15,605	15,599	167,724
Retained earnings	59,141	57,343	635,651
Treasury stock - at cost, 397,346 shares in 2010 and 399,666 shares in 2009.	(1,065)	(1,071)	(11,447)
Total	88,198	86,388	947,958
VALUATION AND TRANSLATION ADJUSTMENTS:			
Other securities valuation difference	11	0	118
Translation adjustments	(841)	(610)	(9,039)
Total	(830)	(610)	(8,921)
SHARE SUBSCRIPTION RIGHTS	589	421	6,330
MINORITY INTERESTS	135	130	1,451
Total net assets	88,092	86,329	946,818
TOTAL	¥124,313	¥ 123,925	$1,336,124

Consolidated Statements of Income

Years Ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 3)
	2010	2009	2010
NET SALES	¥ 61,730	¥ 53,108	$ 663,478
COST OF SALES (notes 9 and 12)	33,038	28,034	355,095
Gross profit	28,692	25,074	308,383
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (notes 9, 11, 12 and 13)	24,024	24,998	258,211
Operating income	4,668	76	50,172
OTHER INCOME (EXPENSES):			
Interest and dividend income	67	142	720
Interest expense	(347)	(52)	(3,729)
Foreign exchange gain (loss)	(103)	359	(1,107)
Equity in earnings gain of associated companies	27	30	290
Amortization of negative goodwill	90	124	967
Subsidy income	38	600	408
Loss on sale or disposal of property, plant and equipment	(69)	(462)	(742)
Gain on prior period adjustment	—	54	—
Devaluation loss on investment securities	(347)	(24)	(3,729)
Special retirement expenses	(112)	(46)	(1,203)
Subsidy income for furlough	248	—	2,666
Furlough expenses	(176)	(158)	(1,892)
Other, net	62	127	666
	(622)	694	(6,685)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	4,046	770	43,487
INCOME TAXES (note 11)			
Income taxes - Current	815	639	8,760
Income taxes - Deferred	759	(99)	8,158
	1,574	540	16,918
INCOME BEFORE MINORITY INTERESTS	2,472	230	26,569
MINORITY INTERESTS	(2)	21	(21)
NET INCOME	¥ 2,470	¥ 251	$ 26,548

	Yen		U.S. dollars (note 3)
	2010	2009	2010
AMOUNT PER SHARE OF COMMON STOCK:			
Net income			
Basic	¥ 73.51	¥ 7.41	$ 0.79
Diluted	72.19	7.40	0.78
Cash dividends applicable to the year	20.00	20.00	0.21

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Years Ended March 31, 2010 and 2009

	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 (note 9)	Retained earnings (note 9)	Treasury stock	Other securities valuation difference	Translation adjustments			
BALANCE at MARCH 31, 2008	33,995,418	¥ 14,517	¥ 15,599	¥ 58,924	¥ (270)	¥ 24	¥ 137	¥ 208	¥ 526	¥ 89,665
Increase due to issuance of common stock	9,000	0								0
Cash dividend paid				(1,832)						(1,832)
Net income				251						251
Purchases of treasury stock					(801)					(801)
Disposal of treasury stock										—
Net increase (decrease) during the year						(24)	(747)	213	(396)	(954)
BALANCE at MARCH 31, 2009	34,004,418	14,517	15,599	57,343	(1,071)	0	(610)	421	130	86,329
Increase due to issuance of common stock										—
Cash dividend paid				(672)						(672)
Net income				2,470						2,470
Purchases of treasury stock					(0)					(0)
Disposal of treasury stock			6		6					12
Net increase (decrease) during the year						11	(231)	168	5	(47)
BALANCE at MARCH 31, 2010	34,004,418	¥ 14,517	¥ 15,605	¥ 59,141	¥ (1,065)	¥ 11	¥ (841)	¥ 589	¥ 135	¥ 88,092

	Thousands of U.S. dollars (note 3)									
	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 (note 9)	Retained earnings (note 9)	Treasury stock	Other securities valuation difference	Translation adjustments			
BALANCE at MARCH 31, 2009	34,004,418	$156,030	$167,659	$616,326	$(11,511)	$0	$(6,556)	$4,525	$1,397	$927,870
Increase due to issuance of common stock										—
Cash dividend paid				(7,223)						(7,223)
Net income				26,548						26,548
Purchases of treasury stock					(0)					(0)
Disposal of treasury stock			65		64					129
Net increase (decrease) during the year						118	(2,483)	1,805	54	(506)
BALANCE at MARCH 31, 2010	34,004,418	$156,030	$167,724	$635,651	$(11,447)	$118	$(9,039)	$6,330	$1,451	$946,818

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 3)
	2010	2009	2010
OPERATING ACTIVITIES:			
Net income	¥ 2,470	¥ 251	$ 26,548
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,364	4,657	57,652
Loss on sale or disposal of property, plant and equipment	31	417	333
Amortization of negative goodwill	(89)	(124)	(957)
Devaluation loss on investment securities	347	24	3,729
Equity in earnings of associated companies	(27)	(30)	(290)
Decrease (Increase) in notes and accounts receivable-trade	(12,276)	15,863	(131,943)
Decrease in inventories	548	1,024	5,890
Increase (Decrease) in notes and accounts payable-trade	9,120	(9,454)	98,022
Increase (Decrease) in accrued income taxes	1,563	(2,378)	16,799
Increase (Decrease) in accrued bonus	557	(972)	5,987
Increase (Decrease) in allowance for doubtful receivables	(2)	14	(21)
Increase in allowance for warranty cost	83	8	892
Increase (Decrease) in accrued retirement benefits	270	(468)	2,902
Increase (Decrease) in accounts payable-non trade	2,486	(3,803)	26,720
Other, net	572	(424)	6,148
Net cash provided by operating activities	11,017	4,605	118,411
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(10,644)	(13,677)	(114,402)
Proceeds from sales of property, plant and equipment	37	40	398
Purchases of investment securities	0	(578)	0
Decrease (Increase) of time deposits over one year	(3,000)	800	(32,244)
Increase in other assets	(343)	(171)	(3,687)
Net cash used in investing activities	(13,950)	(13,586)	(149,935)
FINANCING ACTIVITIES:			
Short-term bank loans, net	(74)	1,048	(795)
Proceeds from long-term debt	9,976	26,046	107,223
Repayment of long-term debt	(24,651)	(96)	(264,951)
Cash dividends paid	(674)	(1,834)	(7,244)
Purchases of treasury stock	(1)	(801)	(11)
Other	12	0	129
Net cash (used in) provided by financing activities	(15,412)	24,363	(165,649)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	174	(26)	1,870
NET CHANGE IN CASH AND CASH EQUIVALENTS	(18,171)	15,356	(195,303)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,419	18,063	359,190
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 15,248	¥ 33,419	$ 163,887

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2010 and 2009

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of DISCO CORPORATION ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation— The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (collectively, "the Companies"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements. The Company has immaterial investments (of two and two subsidiaries) that should be consolidated in the accompanying financial statements (as of March 31, 2010 and 2009, respectively).

All significant intercompany accounts and transactions have been eliminated on consolidation. All material unrealized profits included in assets resulting from transactions within the Companies have been eliminated.

Investments in significant associated companies are stated at their underlying equity value, and the Companies' share of the income or loss of such companies is included in consolidated income. In addition, the Company accounts for its unconsolidated subsidiaries and associated companies under the cost method (of four and four entities at March 31, 2010 and 2009, respectively). The effect on the consolidated financial statements of not applying the equity method was immaterial.

Two subsidiaries which had December 31 year ends closed their accounts tentatively at March 31. Three subsidiaries with a December 31 year ends accounted for any major transaction that took place between December 31 and March 31 for these subsidiaries in the accompanying consolidated financial statements.

b. Cash and Cash Equivalents— For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments, including time deposits with a maturity of three months or less when purchased, to be cash equivalents.

c. Inventories— Inventories of the Companies are stated at the cost. The carrying value on the balance sheet is written down to reflect the decrease in profitability. The cost of finished goods and work in process is determined principally by the job-identification-cost method or average cost method. The cost of merchandise and raw materials of the Company is determined by the average cost method and those of the subsidiaries are principally by the moving average method.

d. Marketable and Investment Securities— The Companies classify their debt and equity securities into one of the following three categories: trading, held-to-maturity, or other securities. All securities of the Companies are classified as other securities. The Companies have no trading or held-to-maturity securities.

Other securities with fair market value are principally carried at the fair market value. The difference between the acquisition cost and the carrying value of other securities, net of related tax effect, is recognized as "Other securities valuation difference" in a separate component of net assets until realized. Other securities without fair market value are stated at cost. The cost of other securities sold is principally computed based on the moving average method.

e. Derivatives— Derivative financial instruments are stated at fair value and changes in the fair value are recognized in the consolidated statements of income.

f. Property, Plant and Equipment— Property, plant and equipment are stated at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets. The straight-line method has been applied to newly acquired buildings since April 1, 1998. The range of useful lives is principally from 3 to 38 years for buildings and structures, from 2 to 12 years for machinery and equipment, and from 2 to 20 years for tools, furniture and fixtures.

g. Deferred Assets— Bond issuance cost is amortized by interest method over the redemption period of Bond.

h. Negative Goodwill— Negative goodwill is amortized over 5 years by the straight-line method.

i. Retirement Benefits— The Company and consolidated domestic subsidiaries provide for employees severance and retirement benefits based on estimated amounts of projected benefit obligation and the fair value of plan assets. Prior service costs are recognized in expenses using the straight-line method over a fixed term of years (3 years) within the average of the estimated remaining service years commencing in the period they arise. Actuarial gain or losses are recognized in expenses using the straight-line method over a fixed term of years (3 years) within the average of the estimated remaining service years commencing with the following period.

Additional Information

From the year ended March 31, 2010, the Company adopted Partial Amendments to Accounting Standards for Retirement Benefits (Part 3) (ASBJ Statement No. 19 July 31, 2008). The adoption of this accounting standard had no effect on projected benefit obligations, operating income and income before income taxes.

Provisions for unfunded retirement benefits to directors and corporate auditors of two of the domestic consolidated subsidiaries were calculated to accrue the amount required to be paid if all directors and corporate auditors retired at the balance sheet date.

j. Research and Development Expenses— Research and development expenses are charged to income when incurred.

k. Income Taxes— The Companies recognize deferred taxes for the estimated tax effects of temporary differences between the financial reporting and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates applicable to the periods in which the temporary differences are expected to be recovered or settled.

l. Per Share Information— The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of shares of common stock used in the computation was 33,605,839 shares and 33,901,704 shares in 2010 and 2009, respectively.

The diluted net income per share assumes full exercise of potentially dilutive securities outstanding at the end of the year. The average number of shares of common stock used in the computation was 34,222,127 shares and 33,956,951 shares in 2010 and 2009, respectively.

Cash dividends per share are based on cash dividends declared with respect to income for the year.

m. Foreign Currency Translation— In accordance with the accounting standards for foreign currency translation issued by The Business Accounting Deliberation Council, foreign currency transactions are translated into Japanese yen at the rates in effect at the transaction date.

At the year-end, receivables and payables denominated in foreign currencies are translated into Japanese yen at exchange rates in effect at the balance sheet date. Resulting translation effects, including gains and losses on settlement, are credited or charged to current income.

Investment securities without fair market value and investments in unconsolidated subsidiaries and associated companies denominated in foreign currencies are translated into Japanese yen at the historical rates prevailing at the date of transaction.

Foreign exchange contracts are marked to market and included in other assets or other liabilities, with offsetting gain or loss included in other income or expense (the fair value method).

For consolidation purposes the financial statements of overseas subsidiaries are translated into Japanese yen, the reporting currency, as follows:

All assets and liabilities are translated at the year-end exchange rates;

Shareholders' equity accounts are translated at historical rates;

And revenue and expense items are translated at average rates.

Translation adjustments are included in the net assets section of the consolidated financial statements.

n. Leases— Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are formerly accounted for by the method that is applicable to operating leases.

Effective from the fiscal year ended March 31, 2009, leased assets related to finance lease transactions without the ownership transfer are capitalized and depreciated on a straight-line basis, with the lease periods used as their useful lives and no residual value.

The accounting treatment for finance lease transactions without the ownership transfer which took place before adoption of these standards remains the same (in accordance with the method applied for ordinary operating lease transactions).

o. Use of Estimates— The preparation of the consolidated financial statements requires management of the Companies to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the valuation of receivables, inventories and deferred income tax assets and assets and obligations related to employee benefits. Actual results could differ from those estimates.

p. Reclassification— Certain prior year amounts have been reclassified to conform to the current year presentation. These changes had no impact on previously reported results of operations or retained earnings.

3. FINANCIAL STATEMENT TRANSLATION

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥93.04=U.S.$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2010. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

4. FINANCIAL INSTRUMENTS

a. The situation of financial instruments

Policy for financial instruments

With regard to operating fund and planned capital expenditure, essential funds are procured firstly through operating cash flow, and secondly bank loans and the issue of corporate bonds. Temporary surpluses are invested in highly secure financial assets. The Company and its subsidiaries limit the use of derivatives to actual requirements, and do not engage in speculative transactions.

Financial instruments content, risks, and risk management system

Notes and accounts receivable-trade are exposed to customer credit risk. The Company and its subsidiaries mitigate this risk by managing settlement date and amount due for each counterparty.

Investment securities are exposed to the risk of fluctuations in market price or the financial condition of the issuing entities. The Company and its subsidiaries manage this risk by monitoring these factors.

Notes and accounts payable-trade are mainly due within one year.

Debt includes short-term bank loans, which the Company and its subsidiaries mainly use to procure funds for operating transactions, as well as long-term debt, which the Company and its subsidiaries mainly use to fund capital expenditures. Floating-rate long-term debt is exposed to the risk of fluctuations in interest rates. However, this floating-rate long-term debt will be repaid ahead of schedule by the end of the year.

The Company and its subsidiaries use forward foreign exchange contracts to hedge the risk of foreign exchange fluctuations in associated with trade receivables and payables denominated in foreign currencies. The Company and its subsidiaries execute and manage derivative transactions within the limits of established internal rules and regulations, and reduce credit risk by limiting counterparties to highly creditworthy financial institution.

Supplemental information on the fair value of financial instruments

The Company and its subsidiaries calculate the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to changes in the underlying assumptions. The contract amounts of the derivatives discussed in "15. DERIVATIVES" below are not an indicator of the market risk associated with derivative transactions.

b. Fair value of financial instruments

Fair value and variance with carrying value presented on the balance sheet as of March 31, 2010 are as follows. Fair values that are not readily determinable are not included in the following table. (Please see "Notes 2: Fair values that are difficult to determine" for additional information.)

Millions of yen

	2010		
	Carrying value	Fair value	Variance
1. Cash and cash equivalents	15,248	15,248	—
2. Notes and accounts receivable-trade	23,088	23,088	—
Allowance for doubtful receivables (*1)	(63)	(63)	—
Notes and accounts receivable-trade, net	23,025	23,025	—
3. Time deposits with maturities exceeding 3 months including(*2)	3,000	3,000	—
4. Investment securities			
Other securities	77	77	—
5. Long-term deposits	5,200	4,443	(757)
Assets total	46,550	45,793	(757)
1. Notes and accounts payable-trade	12,558	12,558	—
2. Long-term debt	12,000	11,679	321
Liabilities Total	24,558	24,237	321
Derivative instruments (*3)			
Hedge accounting not applicable	(312)	(312)	—
Hedge accounting applicable	—	—	—
Derivative instruments Total	(312)	(312)	—

	Thousands of U. S. dollars		
	2010		
	Carrying value	Fair value	Variance
1. Cash and cash equivalents	163,887	163,887	—
2. Notes and accounts receivable-trade	248,151	248,151	—
Allowance for doubtful receivables (*1)	(677)	(677)	—
Notes and accounts receivable-trade, net	247,474	24,474	—
3. Time deposits with maturities exceeding 3 months including(*2)	32,244	32,244	—
4. Investment securities			
Other securities	828	828	—
5. Long-term deposits	55,890	47,754	(8,136)
Assets total	500,323	492,187	(8,136)
1. Notes and accounts payable-trade	134,974	134,974	—
2. Long-term debt	128,977	125,527	3,450
Liabilities Total	263,951	260,501	3,450
Derivative instruments (*3)			
Hedge accounting not applicable	(3,353)	(3,353)	—
Hedge accounting applicable	—	—	—
Derivative instruments Total	(3,353)	(3,353)	—

(*1) Allowance for doubtful receivables is deducted from notes and accounts receivable trade.
(*2) This is included in prepaid expenses and other current assets on the balance sheet.
(*3) Derivative instruments are presented as net amounts receivable or payable, with net amounts payable in parentheses.

Notes 1: Method of calculating the fair value of financial instruments, investment securities and derivative instruments. Fair value measurement of financial instruments

Assets

1. Cash and cash equivalents; 2. Notes and accounts receivable-trade; 3. Time deposits with maturities exceeding 3 months

Carrying value is used for fair value for these short-term items because these amounts are approximately the same.

4. Investment securities

Market prices on exchanges are used to determine the fair value.

5. Long-term deposits

Market prices indicated by financial institutions are used to determine the fair value of long-term deposits.

Liabilities

1. Notes and accounts payable-trade

Carrying value approximates fair value for these short-term items.

2. Long-term deb

Fair value of long-term debt is the discounted value of total principal and interest using an assumed interest rate on equivalent new transactions.

Derivative instruments

Market price indicated by financial institutions are used to determine the fair value of derivative instruments.

Note 2: Fair values that are difficult to determine

	Millions of yen	Thousands of U. S. dollars
Classification	Carrying value	Carrying value
Unlisted equity securities	504	5,417

Market prices do not exist for this item, or the cost of estimating future cash flows is considered prohibitive. This item is not included in "3. Investment securities", because that fair values are not readily determinable.

Note 3: The carrying value of monetary assets as of March 31, 2010.

	Millions of yen			
	April 1, 2010 to March 31, 2011	April 1, 2011 to March 31, 2015	April 1, 2015 to March 31, 2020	April 1, 2020 and thereafter
Cash and cash equivalents	15,248	—	—	—
Notes and accounts receivable-trade	23,088	—	—	—
Investment securities				
Other securities with maturity date	—	—	—	—
Long-term deposit	—	—	—	5,200
Total	38,336			5,200

	Thousands of U.S. dollars			
	April 1, 2010 to March 31, 2011	April 1, 2011 to March 31, 2015	April 1, 2015 to March 31, 2020	April 1, 2020 and thereafter
Cash and cash equivalents	163,887	—	—	—
Notes and accounts receivable-trade	248,151	—	—	—
Investment securities				
Other securities with maturity date	—	—	—	—
Long-term deposit	—	—	—	55,890
Total	412,038			55,890

Note 4: Amount repaid of convertible bonds with subscription right to shares and long-term debt after consolidated accounting.

Additional information

Effective from the year ended March 31, 2010, "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 Guidance, March 10, 2008) were applied.

5. INVESTMENT SECURITIES

The cost and carrying amounts of securities with fair market values at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cost	¥ 58	¥ 68	$ 623
Aggregate market value (carrying amount)	77	69	828

6. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Merchandise	¥ 2,951	¥ 2,963	$ 31,718
Finished goods	2,056	2,570	22,098
Work in process	5,921	5,139	63,639
Raw materials and supplies	7,612	8,106	81,814
Total	¥ 18,540	¥ 18,778	$199,269

7. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in unconsolidated subsidiaries and associated companies at March 31, 2010 and 2009 were as follows:

	Equity Ownership percentage *1	Millions of yen		Thousands of U.S. dollars
		2010	2009	2010
Unconsolidated subsidiaries:				
DISCO HI-TEC MOROCCO SARL *2	100.0%	¥ 1	¥ 1	$ 11
KKM INVESTMENT Co.,Ltd.*3	100.0	30	30	322
Associated companies:				
Dura Systems Corporation*4	43.1	10	10	108
APPLIED PRECISION, INC.*5	39.1	38	38	408
DHK Solution Corporation*6	30.0	131	94	1,408
Total		¥ 210	¥ 173	$ 2,257

*1 Direct and indirect ownership at March 31, 2010.
*2 DISCO HI-TEC MOROCCO SARL was incorporated on June 27, 2003.
*3 KKM INVESTMENT Co.,Ltd. was incorporated on July 3, 2007.
*4 DSD, Ltd. directly owns 50.0% of Dura Systems Corporation, which was incorporated on September 18, 2003.
*5 APPLIED PRECISION, INC. was incorporated on June 26, 2003.
*6 DHK Solution Corporation was incorporated on July 4, 2006.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2010 and 2009 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged 0.9% and from 1.1% to 7.3% at March 31, 2010 and 2009, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
0.8% yen bond, due 2013	¥ —	3,000	$ —
Zero Coupon Convertible Bonds due 2014 (bonds with stock acquisition rights)	10,000	—	107,481
Loans from banks and other financial institutions, due through 2014 with interest rates ranging 0.9% and from 1.2% to 4.0% at March 31, 2010 and 2009	2,000	23,650	21,496
Total	12,000	26,650	128,977
Less current portion	—	2,203	—
Long-term debt, less current portion	¥ 12,000	¥ 24,447	$ 128,977

The pledged assets as collateral for long-term debt at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Time deposits	¥ —	5,000	$ —

Liabilities corresponding to the pledged assets above:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current portion of long-term debt	¥ —	¥ 500	$ —
Long-term debt	—	4,800	—
Total	¥ —	¥ 5,300	$ —

Annual maturities of long-term debt at March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2011	¥ —	$ —
2012	—	—
2013	—	—
2014	2,000	21,496
2015	10,000	107,481
Total	¥ 12,000	$ 128,977

The Company and its consolidated subsidiaries maintains credit lines of ¥10,480 million ($112,639 thousand) in the aggregate with five banks. At March 31, 2010, the used line of credit was ¥1,000 million ($10,748 thousand) and the unused line of credit was ¥9,480 million ($101,892 thousand).

The Company and its consolidated subsidiaries maintains long-term debt commitments of ¥8,000 million ($85,985 thousand) with four banks. At March 31, 2010, the unused line of credit was ¥8,000 million ($85,985 thousand). These programs have certain debt covenants and if the Companies violate either of the following covenants, creditors may require repayment of all debt.

- At the end of each fiscal year, the total amount of net assets shown in the each balance sheet of the Company and consolidated subsidiaries must equal or exceed 75% of the total amount of net assets at the end of the fiscal year 2007 except for one bank which requires the amount to equal or exceed 75% of the total amount of net assets at the end of the most recent year end.
- Ordinary profit in the stand alone income statement must not be negative for two consecutive years.

The Company and its consolidated subsidiaries maintains a new long-term debt commitments of 17,000 million ($182,717 thousand) with four banks at March 31, 2010. At March 31, 2010, the unused line of credit was ¥17,000 million ($182,717 thousand). These programs have certain debt covenants and if the Companies violate either of the following covenants, creditors may require repayment of all debt.

- At the end of each fiscal year, the total amount of net assets shown in the each balance sheet of the Company and consolidated subsidiaries must equal or exceed 75% of the total amount of net assets at the end of the fiscal year 2009 except for one bank which requires the amount to equal or exceed 75% of the total amount of net assets at the end of the most recent year end.
- The Company must obtain long-term credit rating greater than or equal to BBB- from Japan Credit Rating Agency, Ltd.

Detail information of convertible bonds is as follows.

	Zero coupon convertible bonds due 2014 (bonds with stock acquisition rights)
Type of shares covered by stock acquisition rights to shares	Common stock
Issue price of stock acquisition rights to shares	Free
Initial conversion price on exercise of subscription rights to shares	¥6,111
Aggregate issuance price	¥10,000,000,000
Aggregate amount of shares issued exercising by stock acquisition rights to shares	—
Percentage of grant on stock acquisition rights to shares	100%
Exercise period for stock acquisition to shares	From January 4, 2010 to December 2, 2014

9. RETIREMENT BENEFITS

Employees of the Company and consolidated domestic subsidiaries are covered by an unfunded, non-contributory, defined benefit retirement plan. In addition, the Company and two of the domestic subsidiaries have funded, noncontributory, defined benefit pension plans, the funds of which are placed in trust with a private life insurance company and a trust bank. The company and certain consolidated domestic and overseas subsidiaries have defined contribution retirement plans. The employees may be, in case of their involuntary retirements, entitled to an additional payment of retirement benefits, which are not reflected in the actuarial calculation of the projected benefit obligations.

Net periodic employees' retirement benefits cost for the year ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost - benefits earned during the year	¥ 397	¥ 371	$ 4,267
Interest cost on projected benefit obligation	105	95	1,128
Expected return on plan assets	(63)	(93)	(677)
Amortization of actuarial loss	545	(117)	5,858
Amortization of prior service cost	(420)	(419)	(4,514)
Other	236	229	2,536
Net periodic costs	¥ 800	¥ 66	$ 8,598

Ending balances of the benefit obligations and the fair value of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Benefit obligations at end of year	¥ 5,953	¥ 5,283	$ 63,984
Fair value of plan assets at end of year	(4,586)	(4,211)	(49,291)
Unrecognized actuarial gain and loss	(1,009)	(1,403)	(10,845)
Unrecognized prior service cost	420	839	4,514
Prepaid expense	0	—	0
Accrued retirement benefits	¥ 778	¥ 508	$ 8,362

Actuarial assumptions:

Method of allocating benefit obligations	Pro-rated on years of service
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Amortization term of actuarial loss	3 years starting from next year
Amortization term of prior service cost	3 years

Directors and corporate auditors are not covered by the above plan. Liability for retirement benefits to directors and corporate auditors of two of the consolidated subsidiaries included in the accompanying consolidated balance sheets amounted to ¥37 million ($398 thousand) and ¥28 million($285 thousand)at March 31, 2010 and 2009, respectively. Amounts payable to them upon retirement are subject to shareholders' approval.

10. NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit and could be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the general shareholders' meeting held on June 25, 2010, the shareholders approved cash dividends amounting to ¥336 million ($3,611 thousand). Such appropriations have not been accrued in the consolidated financial statement as of March 31, 2010. Such appropriations are recognized in the period in which they are approved by the shareholders. The special taxation measures law and corporate tax law permit companies to take as tax deductions certain reserves if provided through appropriation of retained earnings. Under Japanese tax laws, these reserves must be reversed to taxable income in future years. These reserves, included in retained earnings at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred gain on sales of property, plant and equipment	¥ 5	¥ 34	$ 54
Contribution gain from a local government	3	4	32
Total	¥ 8	¥ 38	$ 86

11. INCOME TAXES

The Company is subject to Japanese corporate, inhabitant and enterprise taxes on income, which, in the aggregate, result in a normal income tax in Japan of approximately 40.7% for the years ended March 31, 2010 and 2009.

For the year ended March 31, 2010 and 2009, respectively, the value-added input and capital input portions of enterprise tax amounting to ¥119 million ($1,278 thousand) and ¥98 million were treated as selling, general and administrative expenses in accordance with Practical Guidance Report No.12, "Treatment of the Pro Forma Standard Tax Portion of Corporate Tax in the Statements of Income", issued by the Accounting Standards Board of Japan on February 13, 2004.

Significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Property, plant and equipment, leasehold land and other assets - intercompany profits	¥ 186	¥ 195	$ 1,999
Inventories - intercompany profits	108	232	1,161
Devaluation loss on inventories	202	177	2,171
Retirement benefits for employees	322	210	3,461
Accrued bonuses	710	523	7,631
Net operating loss carryforwards	151	1,268	1,623
Long-term liabilities	180	189	1,935
Devaluation loss on investment securities	371	384	3,987
Impairment loss on fixed assets	128	128	1,376
Others	665	591	7,147
Total deferred tax assets	3,023	3,897	32,491
Valuation allowance	(916)	(854)	(9,845)
Net deferred tax assets	2,107	3,043	22,646
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	369	457	3,966
Others	20	90	215
Total deferred tax liabilities	389	547	4,181
Net deferred tax assets	¥ 1,718	¥ 2,496	$ 18,465

Net deferred tax assets were included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current assets - Deferred tax assets	¥ 1,258	¥ 980	$13,521
Investments and other assets - Deferred tax assets	464	1,522	4,987
Current liabilities - Other current Liabilities	(0)	(0)	(0)
Long-term liabilities - Other long-term Liabilities	(4)	(6)	(43)
Total	¥ 1,718	¥ 2,496	$18,465

The effective tax rate differs from the normal tax rate at March 31, 2010 and 2009 for the following reasons:

	2010	2009
Japanese normal income tax rate	40.7%	40.7%
Expenses not deductible /income not assessable for tax purposes	(3.3)	14.4
Increase of valuation allowance	3.9	15.3
Nondeductible foreign withholding tax	—	12.4
Tax effect on net profit of subsidiaries	(2.2)	—
Income taxes for prior period	—	(12.9)
Other, net	(0.2)	0.3
Effective income tax rate	38.9%	70.2%

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the years ended March 31, 2010 and 2009 were ¥7,767 million ($83,478 thousand) and ¥8,532 million, respectively.

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of "Selling, general and administrative expenses" for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Packing and freight costs	¥ 930	¥ 893	$ 9,996
Sales commissions	1,451	772	15,595
Provision for product guarantees	841	826	9,039
Salaries and bonuses	5,207	5,935	55,965
Provision for bonuses	859	668	9,233
Depreciation and amortization	1,414	971	15,198
Research and development expenses	7,756	8,517	83,362

14. LEASES

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are formerly accounted for by the method that is applicable to operating leases.

Effective from the year ended March 31, 2009, finance lease transactions in which the ownership of leased assets do not transfer to lessees and started before April 1, 2008 are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

Acquisition costs, accumulated depreciation and net balance of leased assets as of March 31, 2010 and 2009, as if they had been capitalized, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost	¥1,427	¥ 1,486	$15,338
Accumulated depreciation	696	666	7,481
Net balance	¥ 731	¥ 820	$ 7,857

The acquisition cost, accumulated depreciation and net balance under finance leases includes an imputed interest expense portion.

Obligations under finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 83	¥ 89	$ 892
Due after one year	648	731	6,965
Total	¥ 731	¥ 820	$ 7,857

The obligations under finance leases includes an imputed interest expense portion.

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥89 million ($957 thousand) and ¥155 million for the years ended March 31, 2010 and 2009, respectively.

Obligations under operating leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 154	¥ 123	$ 1,655
Due after one year	763	800	8,201
Total	¥ 917	¥ 923	$ 9,856

15. DERIVATIVES

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. In order to manage those risks, the Company enters into foreign exchange contracts. Foreign exchange contracts are utilized to manage risks arising from foreign currency receivables from export of finished goods and forecasted foreign currency sales transactions. The Company holds no derivatives for trading purposes.

Contract amount and fair value of foreign exchange contracts at March 31, 2010 and 2009 were as follows:

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2010			2009			2010		
	Contract amount	Fair value	Valuation gain (loss)	Contract amount	Fair value	Valuation gain (loss)	Contract amount	Fair value	Valuation gain (loss)
Forward - to sell foreign currencies:									
U.S. dollar	¥11,994	¥ (310)	¥ (310)	¥ 5,282	¥ (402)	¥ (402)	$128,913	$ (3,332)	$ (3,332)
Singapore dollar	—	—	—	14	(1)	(1)	—	—	—
Euro	392	(2)	(2)	612	(49)	(49)	4,213	(21)	(21)
Total	¥12,386	¥ (312)	¥ (312)	¥ 5,908	¥ (452)	¥ (452)	$133,126	$ (3,353)	$ (3,353)

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2010			2009			2010		
	Contract amount	Fair value	Valuation gain (loss)	Contract amount	Fair value	Valuation gain (loss)	Contract amount	Fair value	Valuation gain (loss)
Forward - to buy foreign currencies:									
U.S. dollar	¥ —	¥ —	¥ —	¥ 2,133	¥ 140	¥ 140	$ —	$ —	$ —
Euro	—	—	—	0	0	0	—	—	—
Total	¥ —	¥ —	¥ —	¥ 2,133	¥ 140	¥ 140	$ —	$ —	$ —

16. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Interest	¥ 268	¥ 72	$ 2,880
Income taxes	10	2,919	107

17. SEGMENT INFORMATION

a. Operations in Different Industries

Information about the Companies' operations in different industries as of and for the years ended March 31, 2010 and 2009 were as follows:

(1) Net sales and operating income

	Millions of yen				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
Year ended March 31, 2010:					
Net sales to external customers	¥ 60,137	¥ 1,462	¥ 131	¥ —	¥ 61,730
Intersegment net sales	—	38	168	(206)	—
Total net sales	60,137	1,500	299	(206)	61,730
Operating expenses	52,829	1,473	380	2,380	57,062
Operating income	¥ 7,308	¥ 27	¥ (81)	¥ (2,586)	¥ 4,668

	Millions of yen				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
Year ended March 31, 2009:					
Net sales to external customers	¥ 50,983	¥ 1,951	¥ 174	—	¥ 53,108
Intersegment net sales	—	39	103	(142)	—
Total net sales	50,983	1,990	277	(142)	53,108
Operating expenses	48,238	1,866	351	2,577	53,032
Operating income	¥ 2,745	¥ 124	¥ (74)	¥ (2,719)	¥ 76

	Thousands of U.S. dollars				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
Year ended March 31, 2010:					
Net sales to external customers	$ 646,356	$ 15,714	$ 1,408	$ —	$ 663,478
Intersegment net sales	—	408	1,806	(2,214)	—
Total net sales	646,356	16,122	3,214	(2,214)	663,478
Operating expenses	567,810	15,832	4,084	25,580	613,306
Operating income	$ 78,546	$ 290	$ (870)	$ (27,794)	$ 50,172

(2) Assets, depreciation and capital expenditures

	Millions of yen				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
Year ended March 31, 2010:					
Assets	¥91,806	¥ 2,268	¥ 348	¥29,891	¥124,313
Depreciation and amortization	4,785	56	2	521	5,364
Capital expenditures	10,354	20	4	1,248	11,626

	Millions of yen				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
Year ended March 31, 2009:					
Assets	¥ 73,024	¥ 2,382	¥ 168	¥ 48,351	¥ 123,925
Depreciation and amortization	4,192	83	2	380	4,657
Capital expenditures	12,456	25	6	1,010	13,497

	Thousands of U.S. dollars				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
Year ended March 31, 2010:					
Assets	$986,737	$ 24,377	$ 3,740	$ 321,270	$ 1,336,124
Depreciation and amortization	51,429	602	22	5,600	57,653
Capital expenditures	111,285	215	43	13,414	124,957

Notes: Industry A consists of dicing saws, laser saws, grinders, polishers, dry etchers, surface planer, dicing blades, grinding wheels, dry polishing wheels and electronics parts.
Industry B consists of industrial diamond wheels and cut-off wheels.
Industry C consists of software.

Unallocated operating expenses included in "Eliminations (Corporate)" consists principally of general corporate expenses incurred by the Administration Headquarters of the Company which amounted to ¥2,621 million ($28,171 thousand) and ¥2,749 million ($27,985thousand) for the years ended March 31, 2010 and 2009, respectively.

Corporate assets included in "Eliminations (Corporate)" amounted to ¥30,180 million ($324,377 thousand) and ¥48,498 million ($493,719 thousand) at March 31, 2010 and 2009, respectively.

b. Geographic information

Geographic information of the Companies by area of origin for the years ended March 31, 2010 and 2009 were summarized as follows:

	Millions of yen					
	Japan	North America	Asia	Europe	Eliminations (Corporate)	Consolidated
Year ended March 31, 2010:						
Net sales to external customers	¥ 41,044	¥ 3,561	¥ 11,081	¥ 6,044	¥ —	¥ 61,730
Interarea net sales	13,733	67	836	90	(14,726)	—
Total net sales	54,777	3,628	11,917	6,134	(14,726)	61,730
Operating expenses	49,845	3,489	10,725	5,237	(12,234)	57,062
Operating income	¥ 4,932	¥ 139	¥ 1,192	¥ 897	¥ (2,492)	¥ 4,668
Assets	¥ 85,824	¥ 1,904	¥ 8,785	¥ 3,116	¥ 24,685	¥ 124,313

	Millions of yen					
	Japan	North America	Asia	Europe	Eliminations (Corporate)	Consolidated
Year ended March 31, 2009:						
Net sales to external customers	¥ 32,076	¥ 3,781	¥ 9,740	¥ 7,511	—	¥ 53,108
Interarea net sales	14,189	50	957	8	(15,204)	—
Total net sales	46,265	3,831	10,697	7,519	(15,204)	53,108
Operating expenses	45,120	3,970	10,359	6,626	(13,043)	53,032
Operating income	¥ 1,145	¥ (139)	¥ 338	¥ 893	¥ (2,161)	¥ 76
Assets	¥ 68,116	¥ 1,798	¥ 6,233	¥ 2,793	¥ 44,985	¥ 123,925

	Thousands of U.S. dollars					
	Japan	North America	Asia	Europe	Eliminations (Corporate)	Consolidated
Year ended March 31, 2010:						
Net sales to external customers	$ 441,144	$ 38,274	$ 119,099	$ 64,961	$ —	$ 663,478
Interarea net sales	147,603	720	8,985	967	(158,275)	—
Total net sales	588,747	38,994	128,084	65,928	(158,275)	663,478
Operating expenses	535,737	37,500	115,273	56,288	(131,492)	613,306
Operating income	$ 53,010	$ 1,494	$ 12,811	$ 9,640	$ (26,783)	$ 50,172
Assets	$ 922,442	$ 20,464	$ 94,422	$ 33,491	$ 265,316	$1,336,124

Notes: "North America" includes operations located primarily in the United States.
"Asia" includes operations located primarily in Singapore, Malaysia, Thailand, China, Korea and Taiwan.
"Europe" includes operations located primarily in Germany, France and the United Kingdom.

c. Net sales to Foreign Customers

Net sales to foreign customers by destination for the years ended March 31, 2010 and 2009 are summarized as follows:

	Millions of yen			
	North America	Asia	Europe	Total
Year ended March 31, 2010:				
Net sales to foreign customers	¥ 3,641	¥34,404	¥ 5,457	¥43,502
Total net sales to domestic and foreign customers				¥61,730
Net sales to foreign customers as a percentage of total net sales	5.9%	55.7%	8.9%	70.5%

	Millions of yen			
	North America	Asia	Europe	Total
Year ended March 31, 2009:				
Net sales to foreign customers	¥ 3,516	¥ 22,549	¥ 7,460	¥ 33,525
Total net sales to domestic and foreign customers				¥ 53,108
Net sales to foreign customers as a percentage of total net sales	6.6%	42.5%	14.0%	63.1%

	Thousands of U.S. dollars			
	North America	Asia	Europe	Total
Year ended March 31, 2010:				
Net sales to foreign customers	$ 39,134	$369,776	$ 58,652	$467,562
Total net sales to domestic and foreign customers				$663,478
Net sales to foreign customers as a percentage of total net sales	5.9%	55.7%	8.9%	70.5%

Notes: "North America" primarily includes sales to the United States.
"Asia" primarily includes sales to Singapore, Malaysia, Taiwan, Korea and China.
"Europe" primarily includes sales to Germany, France and the United Kingdom.

18. STOCK COMPENSATION

On July 27, 2004, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on July 27, 2004 to certain directors of the Company. There were 116 units of exercisable stock acquisition rights at March 31, 2009 and 11,600 new shares of common stock were available for awards. The stock options can be exercised at ¥1 per share until June 1, 2024.

On October 21, 2004, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on October 29, 2004 to certain directors and employees of the Companies. There were 444 units of outstanding stock acquisition rights at March 31, 2009 and 44,400 new shares of common stock were available for awards. The stock options can be exercised at ¥4,730 per share until October 29, 2012.

On July 21, 2005, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on July 21, 2005 to certain directors of the Company. There were 121 units of exercisable stock acquisition rights at March 31, 2009 and 12,100 new shares of common stock were available for awards. The stock options can be exercised at ¥1 per share until July 21, 2025.

On October 26, 2005, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 4, 2005 to certain directors and employees of the Companies. There were 982 units of outstanding stock acquisition rights at March 31, 2009 and 98,200 new shares of common stock were available for awards. The stock options can be exercised at ¥5,162 per share until November 4, 2013.

On July 20, 2006, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on July 20, 2006 to certain directors of the Company. There were 88 units of exercisable stock acquisition rights at March 31, 2009 and 8,800 new shares of common stock were available for awards. The stock options can be exercised at ¥1 per share until August 11, 2026.

On October 25, 2006, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 9, 2006 to certain directors and employees of the Companies. There were 228 units of outstanding stock acquisition rights at March 31, 2009 and 22,800 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥7,616 per share on November 10, 2008.

On October 25, 2006, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 9, 2006 to certain directors and employees of the Companies. There were 605 units of outstanding stock acquisition rights at March 31, 2009 and 60,500 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥7,616 per share on November 10, 2008.

On July 24, 2007, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on July 24, 2007 to certain directors of the Company. There were 89 units of exercisable stock acquisition rights at March 31, 2009 and 8,900 new shares of common stock were available for awards. The stock options can be exercised at ¥1 per share until August 8, 2027.

On October 25, 2007, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 9, 2007 to certain directors and employees of the Companies. There were 308 units of outstanding stock acquisition rights at March 31, 2009 and 30,800 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥7,327 per share on November 10, 2009.

On October 25, 2007, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 9, 2007 to certain directors and employees of the Companies. There were 695 units of outstanding stock acquisition rights at March 31, 2009 and 69,500 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥7,327 per share on November 10, 2009.

On July 29, 2008, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on July 29, 2008 to certain directors of the Company. There were 140 units of exercisable stock acquisition rights at March 31, 2009 and 14,000 new shares of common stock were available for awards. The stock options can be exercised at ¥1 per share until August 13, 2028.

On October 28, 2008, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 12, 2008 to certain directors and employees of the Companies. There were 834 units of outstanding stock acquisition rights at March 31, 2009 and 83,400 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥2,583 per share on November 13, 2010.

On October 28, 2008, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 12, 2008 to certain directors and employees of the Companies. There were 807 units of outstanding stock acquisition rights at March 31, 2009 and 80,700 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥2,583 per share on November 13, 2010.

On July 22, 2009, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on August 6, 2009 to certain directors and employees of the Companies. There were 156 units of outstanding stock acquisition rights at March 31, 2010 and 15,600 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥1 per share on August 7, 2009.

On October 29, 2009, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 13, 2009 to certain directors and employees of the Companies. There were 299 units of outstanding stock acquisition rights at March 31, 2010 and 29,900 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥5,853 per share on November 14, 2011

On October 29, 2009, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 13, 2009 to certain directors and employees of the Companies. There were 733 units of outstanding stock acquisition rights at March 31, 2010 and 73,300 new shares of common stock were available for awards. The stock option plan has a six-year term, and options vest and become fully exercisable at ¥5,853 per share on November 14, 2011

By resolution at the general shareholders' meeting held on June 25, 2010, the Company introduced the following stock option plans.

The Company introduced a stock option plan for certain employees of the Company. Under the terms of this plan, up to 100,000 shares of common stock acquisition rights will be granted. The stock acquisition rights of this stock option plan can be exercised any time up to a period of 6 years from the grant date.

19. SUBSEQUENT EVENTS

a. Cash dividends

The following appropriations of retained earnings of the Company at March 31, 2009 were approved at the annual meeting of shareholders held on June 23, 2009:

	Millions of yen	Thousands of U.S. dollars
	2010	
Year-end cash dividends, ¥10 ($0.1) per share	¥ 336	$ 3,611

b. Stock Option Plans

Stock option plans were approved at the annual meeting of shareholders held on June 25, 2010. The details of these stock option plans are described in the note 17 "STOCK COMPENSATION".

Independent Auditors' Report

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of DISCO CORPORATOIN:

We have audited the accompanying consolidated balance sheets of DISCO CORPORATION. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DISCO CORPORATION and subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 25, 2010

KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

ABOUT DISCO

Directors / Corporate Auditors and Operating Officers

(As of June 25, 2010)

Hitoshi Mizorogi	Chairman and CEO, Representative Director
Kazuma Sekiya	President and COO, Representative Director Chief Information Officer (CIO), General Manager, Engineering R&D Division
Keizo Sekiya	Executive Director Concurrent with President of Tecnisco
Hideyuki Sekiya	Director, Member of the Board Chief Safety Officer (CSO), General Manager, Hiroshima Works
Keiichi Kajiyama	Director, Member of the Board General Manager, Application R&D Division
Takao Tamura	Director, Member of the Board Chief Financial Officer (CFO), Chief Privacy Officer (CPO) General Manager, Corporate Support Division
Tsutomu Mimata	Corporate Auditor
Tadao Takayanagi	Corporate Auditor
Yoshihisa Asaumi	Corporate Auditor
Tadahiko Kuronuma	Corporate Auditor
Kazuhisa Arai	Operating Officer, General Manager, Sales Engineering Division
Noboru Yoshinaga	Operating Officer, General Manager, Global Sales Division

Shareholder Information

(As of March 31, 2010)

Shares of Common Stock Issued:	34,004,418
Number of Shareholders:	15,168
Annual Shareholders' Meeting:	June
Stock Listing:	Tokyo Stock Exchange, 1st Section (6146)

Share Ownership by Shareholder Type:

- Financial institutions: 27.53%
- Individuals, other: 26.58%
- Other Japanese corporations: 23.92%
- Foreign corporations, etc: 19.56%
- Financial securities traders: 1.24%
- Treasury Stock: 1.17%

Corporate Data

(As of March 31, 2010)

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
Number of Employees (Non-consolidated Basis): 1,661	
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 CHINA CO., LTD.
DISCO HI-TEC TAIWAN CO.,LTD.

Affiliated Companies:

TECNISCO, LTD.
DSD, LTD.
DISCO ABRASIVE SYSTEMS K.K.
DSD Kyushu, ltd.
DAIICHI COMPONENTS, LTD.
JETSIS INTERNATIONAL PTE LTD
DD Diamond Corporation
TECNISCO (SuZhou) Co., Ltd
DHK Solution Corporation