DISCO CORPORATION

ANNUAL REPORT 2011

for the year ended March 31, 2011

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 is a specialist-innovator in advanced processing technologies, bringing a 21st century perspective to technologies that predate the beginning of civilization: cutting, grinding and polishing. These still-evolving technologies underpin leading-edge processes being developed for the semiconductor and electronic components industries of tomorrow. DISCO was established in 1937 as a manufacturer of industrial abrasive wheels and has excelled by adapting to the changing needs of precision manufacturing industries over 70-plus years of service. In fiscal 2010, we demonstrated our ability to improve product sales in Asia and other expanding areas of semiconductor manufacturing, while furthering our leadership in thin-wafer production and other high-end technologies. In fiscal 2011, DISCO Vision 2020 launches a new decade of achievement as we pursue our mission to bring about the well-being of society as a whole.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

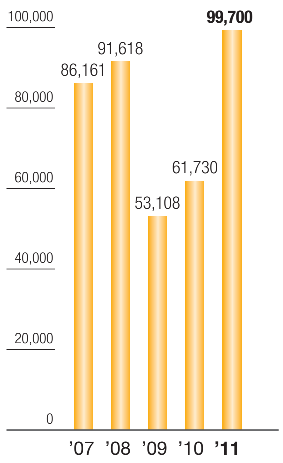
Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars[1]
	2011	2010	**2011**
For the Period:			
Net sales	**¥ 99,700**	¥ 61,730	**$ 1,199,038**
Operating income	**15,915**	4,668	**191,401**
Net income	**10,945**	2,470	**131,630**
Capital expenditures	**7,311**	11,626	**87,925**
Depreciation and amortization	**6,067**	5,364	**72,965**
Research and development expenses	**9,771**	7,767	**117,511**
At Year-end:			
Total net assets	**¥ 97,633**	¥ 88,092	**$ 1,174,179**
Total assets	**¥ 139,240**	¥ 124,313	**$ 1,674,564**
Per Share of Common Stock:	Yen		U.S. dollars[1]
Basic net income	**¥ 325.59**	¥ 73.51	**$ 3.92**
Cash dividends	**65.00**	20.00	**0.78**
Ratio:			
Equity ratio	**69.4%**	70.3%	
Return on equity (ROE)[2]	**11.9%**	2.9%	

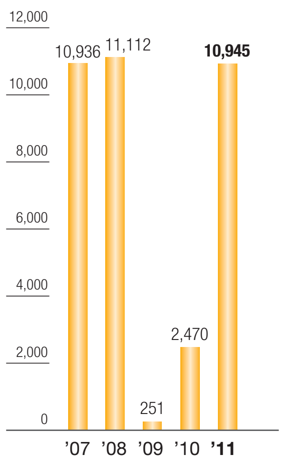
Notes: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥83.15=US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2011.

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

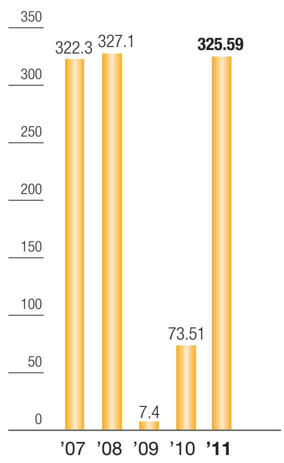
Net Sales
(Millions of yen)



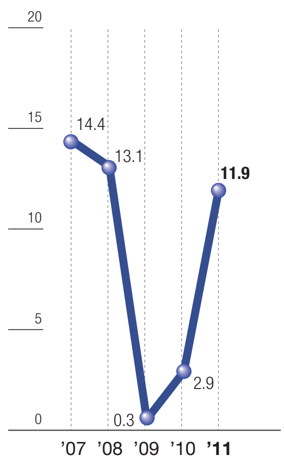
Net Income
(Millions of yen)



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.

Expanding markets for smartphones and other products coupled with a flexible response to customer needs helped to lift net sales to a new record.

Business Environment and Financial Results

In the fiscal year ended March 31, 2011, the world economy followed a generally bullish trend, albeit with some regional variation. China and other emerging economies provided the main impetus. In the semiconductor industry, there was a temporary inventory correction by manufacturers in the third quarter, but global demand for popular new products, such as smartphones, sustained strong performance through the year as a whole. By marketing our products aggressively in this environment, DISCO was able to set a new record for net sales.

In the precision processing equipment category, we recorded a healthy trend in shipments of dicing saws for use in IC manufacturing and package singulation. There was also a substantial year-on-year increase in the number of laser saws shipped to LED manufacturers. This resulted from the rapid expansion of the LED lighting sector alongside the existing market for backlighting applications. We also recorded a substantial increase in shipments of grinders, especially high-end systems, as a result of advances in wafer thinning technologies. Sales of consumables, such as precision blades and wheels, were affected by exchange-rate movements, but shipment volumes expanded in proportion to volume growth in semiconductor production and reached a new record.

Further Improvement in Our Capacity to Meet Customer Needs

We are taking advantage of this positive trend in semiconductor demand to target further expansion of DISCO's markets by enhancing our overall potential as a group. This includes improving our product supply capacity, the service support capabilities of our sites worldwide and our internal organizational structure. In particular, we plan continuing, aggressive capital expenditure in Asia, where production facilities are increasingly being relocated as a result of structural changes in the semiconductor and electronic parts industries. Our aim is to raise customer satisfaction levels by improving the capacity of our regional operations. We will also step up the pace of R&D activities, expand our product lineup and enhance our application R&D so that we can keep pace with advances in wafer thinning technologies, the emergence of new applications for laser technology, and the anticipated shift to 450 mm wafers.

DISCO Vision 2020

In 1997, the entire DISCO organization began to work toward the achievement of management goals set down in DISCO Vision 2010. Having reached the target year, we reviewed our progress toward each of the indicators comprising the Vision. The analysis showed that we had reached the required standard for 16, or 66.7%, of the 24 items. These results were reflected in our targets for the next 10 years, which are contained in DISCO Vision 2020. The new Vision is based on two perspectives: the elements that make up DISCO, and our relationships with our stakeholders. This approach has created a clearer and more multifaceted representation of our vision for the future of DISCO.

Our efforts will focus on DISCO's evolution as an enterprise having exceptional vitality to ensure survival in any environment. We aim to enhance the quality of business activities by giving employees opportunities to realize their full potential as individuals. We look forward to the continuing support of our shareholders as we advance toward this new vision.

I would like to conclude this message by expressing our deepest sympathy to everyone affected by the Great East Japan Earthquake, and by offering our heartfelt prayers for the speediest possible recovery.

Kazuma Sekiya, President and COO

Report on the Impact of the Great East Japan Earthquake, Subsequent Support Measures

We've prepared a report on the Great East Japan Earthquake, an evaluation of radiation risk and subsequent activities to aid people in the effected areas.

We would like to begin this report by expressing our sincere sympathy to all victims of the disaster, and our prayers for the speediest possible recovery. The effects on DISCO are outlined below, together with information about our support measures in the disaster area.

Status of Head Office/R&D Center

At our Head Office and R&D Center, which is located approximately 380 km from the epicenter, the earthquake had an intensity of 5+ on the Japanese seismic intensity scale. Inside Building, which is a seismic base isolation structure, damage was completely minimized—none of the equipment or the even countertop laboratory equipment (such as beakers, flasks and cylinders) fell over.

Status of the Hiroshima Works

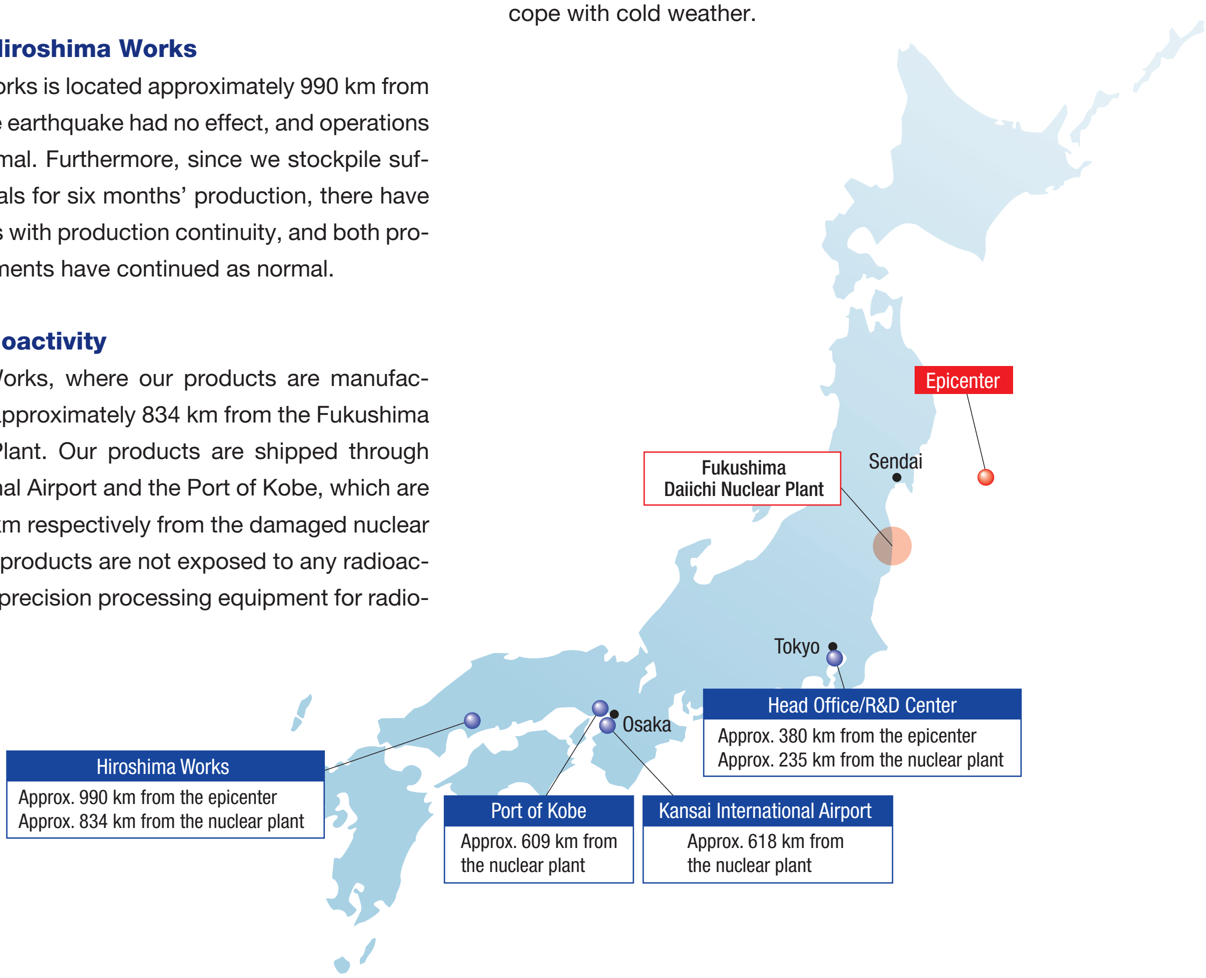
The Hiroshima Works is located approximately 990 km from the epicenter. The earthquake had no effect, and operations continued as normal. Furthermore, since we stockpile sufficient raw materials for six months' production, there have been no problems with production continuity, and both production and shipments have continued as normal.

Effects of Radioactivity

The Hiroshima Works, where our products are manufactured, is located approximately 834 km from the Fukushima Daiichi Nuclear Plant. Our products are shipped through Kansai International Airport and the Port of Kobe, which are 618 km and 609 km respectively from the damaged nuclear facility. While our products are not exposed to any radioactivity, we test our precision processing equipment for radioactivity before shipment from our facilities to verify that our customers can use our products with total confidence.

Support Initiatives in the Disaster Area

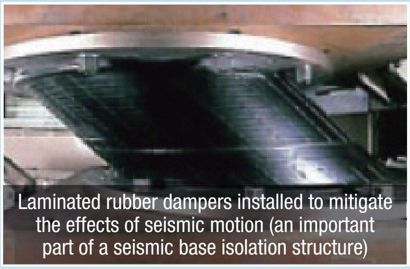
- We have donated ¥200 million through the Japanese Red Cross Society.
- We have also donated ¥18,051,261, consisting of employee donations and matching donations from the Company, through the Chugoku Shimbun Social Welfare Services Corporation, the Japanese Red Cross Society and other organizations.
- In late March, 1,300 items collected by employees, including pocket warmers, clothing and blankets, were delivered to Natori City in Miyagi Prefecture to help victims cope with cold weather.



We will ensure that our customers can deal with us with confidence by assuring that structures are capable of withstanding the full threat of earthquakes.

DISCO will continue to fulfill our supply obligations.


Head Office/R&D Center


Laminated rubber dampers installed to mitigate the effects of seismic motion (an important part of a seismic base isolation structure)


Kuwabata Plant


Kure Plant

We have been developing and maintaining our business continuity management (BCM)* since 2003, as part of our commitment to ensuring that our customers can deal with DISCO with confidence, and that our employees will feel safe working in our facilities. While our head office and plants are located in Japan, where earthquakes are frequent, our products are used worldwide and are essential to the manufacture of semiconductors. DISCO is working to maintain reliable supplies of our products and ensure our continuing ability to provide advanced solutions by implementing a wide range of earthquake countermeasures, as outlined below.

***Business Continuity Management**
Business continuity management consists of the identification of potential and actual risks that could affect business operations, and the management and administration of clearly defined policies designed to ensure effective initial response and the continuity of business operations in the event of a disaster.

Seismic Isolation Measures in All Buildings

We have been constructing seismic base isolation structures, including the new Head Office/R&D Center completed in November 2008, the Kuwabata Plant, which was completed in January 2010 as a production facility for precision processing equipment, and the Chino Plant, which was completed in June 2010 and is now used to manufacture key components and peripheral equipment. We are currently building a new plant in Kure City, Hiroshima Prefecture to expand our production capacity for precision blades and wheels. This facility, which is scheduled for completion in November 2011, will also be a seismic base isolation structure. Our seismic isolation systems are installed between pillars and the ground to absorb and mitigate seismic motion. This can prevent critical damage to manufacturing facilities within the buildings and ensure a rapid resumption of operations in the unlikely event that damage occurs.

Access to Raw Materials

We use multiple procurement channels to secure our raw materials that we need to manufacture our products. In addition, we stockpile sufficient supplies of critical raw materials for 6–12 months in seismic base isolation structured warehouses.

Procurement risk countermeasures

Use of multiple sources	Progressive shift to purchasing from multiple suppliers, starting with materials that can be substituted
Parts and materials that have long procurement lead times and would require time-consuming assessments of alternative products.	Sufficient supplies for 6 months of production routinely stockpiled
Synthetic abrasive diamonds	Sufficient supplies for 12 months of production routinely stockpiled

Reinforcement of Supply Chain for Precision Blades and Wheels in Times of Disaster

Precision blades and wheels must be replaced frequently, and any disruption of supplies would be likely to have a serious impact on the production of semiconductor products. Since January 2011, we have extended the scope of our certification under the BS 25999-2:2007* standard for Business Continuity Management Systems to include all of our precision blades and wheels. In the past, these products were manufactured only at the Kure Plant in Hiroshima Prefecture. However, we have now established an environment in which the main items can also be produced at the Kuwabata Plant, approximately 10 km away. In addition, we are currently investigating further measures to ensure the reliability of our product supply chain by setting up alternative production capacity at the Chino Plant, which is located 545 km away in Nagano Prefecture. Because earthquake magnitude is localized, even a major quake is unlikely to severely impact all of our manufacturing bases.

Protection for Information Systems

Information and data resources are critical to our ability to supply products to our customers. We store duplicate data on computer systems in two separate locations in Tokyo and Hiroshima. Information is normally managed on the system at our head office in Tokyo, which is located in a seismic base isolation building. If that data system becomes inoperable, we are ready to switch immediately to the other system at the Hiroshima Works. We regularly conduct switchover tests to ensure the safety of our data.

Earthquake-proofing the Organization

In addition to measures targeting buildings and other hardware, our efforts to minimize the damage caused by an earthquake also include programs to improve the safety awareness of our employees. We have conducted our own research into such aspects as optimal evacuation methods, behavior during evacuation and the safest posture during an earthquake. We also hold regular drills throughout the entire organization. In addition, we have appointed emergency response officers at each site who are officially responsible for overseeing measures, including assistance with the establishment of emergency headquarters and the arrangement of first aid for the injured.

Taken inside the Head Office immediately after the earthquake. Employees were able to shelter in safe locations while the shaking continued.

***What is BS 25999-2:2007?**

This business continuity management (BCM) standard was developed by the British Standards Institution. It stipulates the steps needed to ensure business continuity and a rapid recovery in the event that a potential threat to business continuity becomes a real situation.

Service Enhancements in Asia

We are expanding our network of business sites in Asia to support the higher level of services needed to keep pace with the growth of the semiconductor market.

Network Expansion in Southeast Asia

Further growth is predicted for the semiconductor market in Southeast Asia, and we also need to respond to continuing diversification of customer needs in the region. As part of our response to these changing needs, we are currently constructing a new building in Singapore. The new building, which will be completed in March 2012, will have six times the floor area of the current building. We will be able to expand and centralize our applications, R&D and training facilities; and provide all the solutions required by our customers.

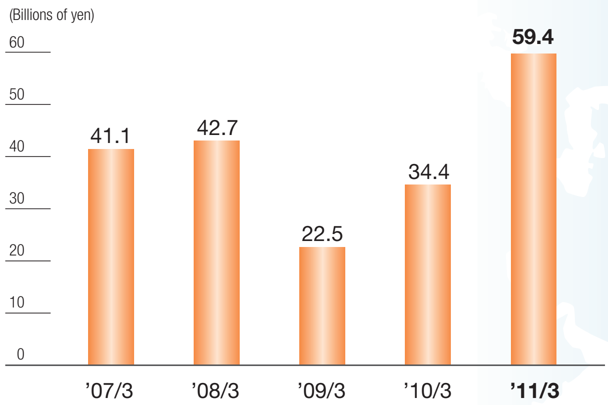
The Vietnamese market is also expected to expand. We have established a new service site in Vietnam as the basis for a framework capable of providing high-quality, local service in a timely manner. This will join our existing sites in Singapore, Thailand and Malaysia as our fourth base in Southeast Asia.

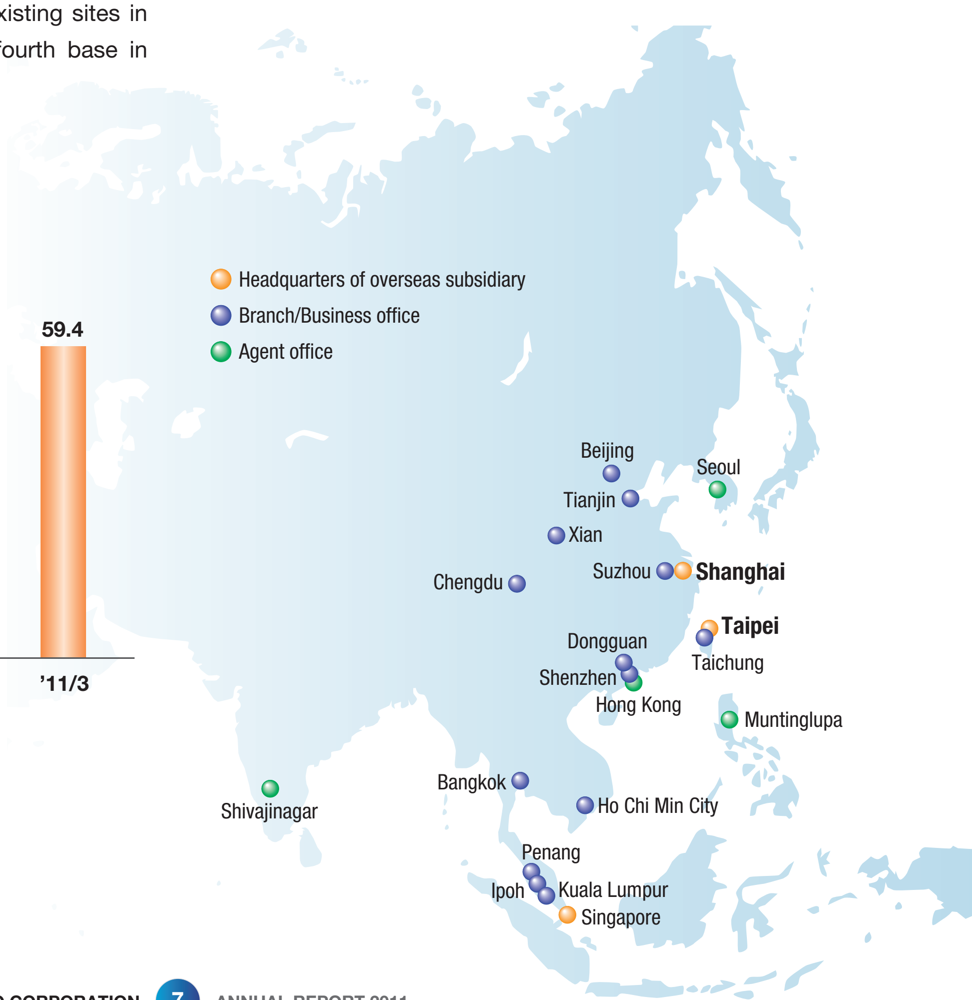
Three New Support Sites in China

China is the driving force for the Asian economy, and there was an urgent need for improvements to the quality and speed of our customer support capabilities in the region, including sales, maintenance and inspection of precision processing equipment, precision blades and wheels, and related equipment. Between November 2010 and February 2011, we opened new support centers in Beijing, Shenzhen and Xian. This brought the total number of DISCO sites in China to eight.

We are determined to raise customer satisfaction levels in Asia, which is a key market, by providing advanced applications and building our service network. Our aim is to provide total solutions that exceed customer needs.

Sales in Asia





FINANCIAL SECTION

Six-Year Summary

Years Ended March 31, 2011, 2010, 2009, 2008, 2007 and 2006

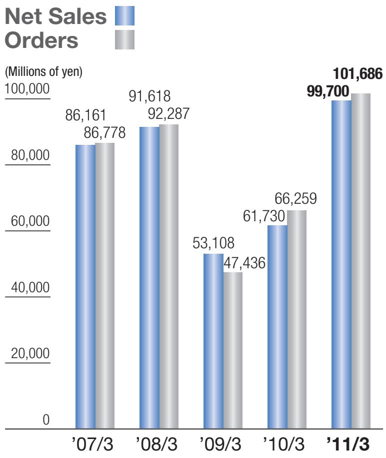
	Millions of yen						Thousands of U.S. dollars[1]
	2011	2010	2009	2008	2007	2006	**2011**
For the Period:							
Net sales	**¥ 99,700**	¥ 61,730	¥ 53,108	¥ 91,618	¥ 86,161	¥ 68,885	**$ 1,199,038**
Precision processing systems	**95,405**	58,198					**1,147,384**
Precision processing parts	**2,492**	2,069					**29,970**
Industrial grinding products	**1,804**	1,462					**21,696**
Operating income	**15,915**	4,668	76	19,334	19,524	13,949	**191,401**
Income before income taxes and minority interests	**16,569**	4,046	770	18,452	17,716	13,385	**199,266**
Net income	**10,945**	2,470	251	11,112	10,936	8,230	**131,630**
Capital expenditures	**7,311**	11,626	13,497	10,038	6,554	3,288	**87,925**
Depreciation and amortization	**6,067**	5,364	4,657	3,652	2,964	2,762	**72,965**
Research and development expenses	**9,771**	7,767	8,532	8,332	6,415	6,353	**117,511**
At Year-End:							
Total assets	**¥ 139,240**	¥ 124,313	¥ 123,925	¥ 118,603	¥ 113,791	¥ 99,319	**$ 1,674,564**
Interest-bearing debt	**788**	3,000	27,723	783	1,128	3,291	**9,477**
Total net assets	**97,633**	88,092	86,329	89,665	81,824	70,277	**1,174,179**
Number of shares issued and outstanding	**34,004,418**	34,004,418	34,004,418	33,995,418	33,982,518	33,562,718	
Share price (Yen)	**5,680**	5,750	2,435	4,290	7,200	7,740	
Number of shareholders	**13,545**	15,168	13,661	13,480	13,293	12,828	
Number of employees	**2,565**	2,465	2,438	2,260	2,012	1,721	
Per Share of Common Stock (Yen and U.S. Dollars):							
Basic net income	**¥ 325.59**	¥ 73.51	¥ 7.41	¥ 327.07	¥ 322.32	¥ 252.82	**$ 3.92**
Cash dividends	**65.00**	20.00	20.00	79.00	75.00	50.00	**0.78**
Shareholders' equity	**2,869**	2,600	2,553	2,621	2,393	2,092	**34,505**
Ratios:							
Gross profit margin	**47.1%**	46.5%	47.2%	51.1%	51.1%	52.5%	
Operating income margin	**16.0**	7.6	0.1	21.1	22.7	20.2	
Income before income taxes and minority interests margin	**16.6**	6.6	1.5	20.1	20.6	19.4	
Net income margin	**11.0**	4.0	0.5	12.1	12.7	11.9	
Return on assets (ROA)[2]	**12.1**	3.8	0.2	16.9	18.5	15.2	
Return on equity (ROE)[3]	**11.9**	2.9	0.3	13.1	14.4	13.1	
Price-earning ratio	**17.4**	78.2	328.6	13.1	22.3	30.6	
Equity ratio	**69.4**	70.3	69.2	75.0	71.5	70.8	
Interest coverage ratio[4]	**517.4**	13.7	4.2	805.1	436.5	479.0	

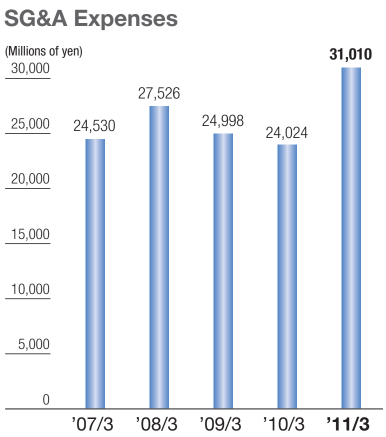
Notes: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥83.15=US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2011.

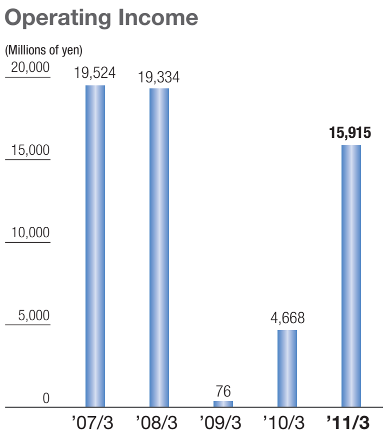
(2) ROA = (Operating income + Interest and dividend income) ÷ Average total assets × 100

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

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







Overview

World economic trends in fiscal 2010 (April 1, 2010–March 31, 2011) were characterized by a gradual recovery in most advanced economies, including those in North America and Europe, and robust growth in China and other emerging economies. The Japanese economy continued to mark time under the impact of the high yen and a harsh employment environment. There is also concern about the effects of the Great East Japan Earthquake in March.

In the semiconductor and electronic component industries, which are the main focus for DISCO's business activities, growing demand for final goods, such as smartphones and tablet PCs, led to increased production by manufacturers of DRAMs, NAND flash memory, electronic components and other items, with the result that capital investment was extremely buoyant. LED manufacturers also invested aggressively in new capacity to meet expanding demand for LEDs for use in lighting as well as TV backlight systems.

DISCO recorded continuous growth in shipments of precision cutting equipment, which began to expand in the second half of the previous fiscal year. In the first quarter, shipments to Asian markets, especially Taiwan, South Korea and China, started to expand at a much faster pace than shipments to other regions. In the third quarter, semiconductor markets were affected by inventory corrections, which caused sharp declines in both orders and sales. However, orders for equipment used to manufacture smartphone-related components and LEDs remained strong, and in the fourth quarter, it became necessary to raise production quotas and expand production. Despite the impact of a higher yen, annual production of precision blades and wheels, which are supplied as consumables, set a new record under the impetus of strong demand for semiconductors. As a result, total net sales reached a new record.

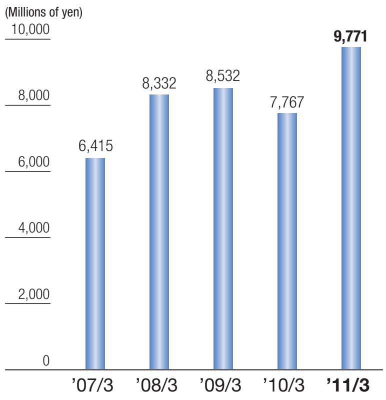
Orders Received and Net Sales

Orders received in fiscal 2010 were boosted by strong demand for precision processing equipment, and the quarterly record set in the second quarter of fiscal 2007 was broken in the first and second quarters of fiscal 2010. The order balance remained high at over ¥10,000 million throughout the year. As a result, orders received exceeded sales and increased by 53.5% year on year to a new record of ¥101,686 million. Net sales were also substantially higher in fiscal 2010, and the second quarter figure was a new quarterly record at ¥29,349 million, an increase of 112.6% over the result for the second quarter of the previous fiscal year. As with orders received, net sales for the year also reached a record level with a 61.5% year-on-year increase to ¥99,700 million.

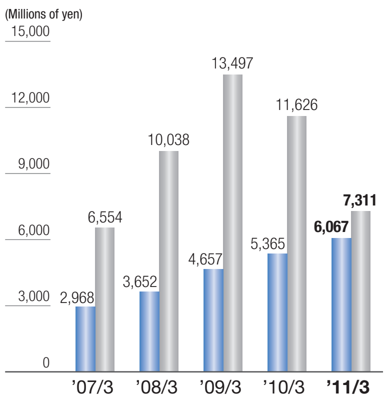
Costs and Profits

Because of the increase in sales, the cost of sales also rose by 59.7% year on year to ¥52,775 million. Despite the impact of the higher yen, the ratio of costs to sales was reduced by 0.6 points to 52.9%, mainly through cost-cutting efforts and changes to the sales mix. As a result, gross profit was 63.5% higher year on year at ¥46,925 million.

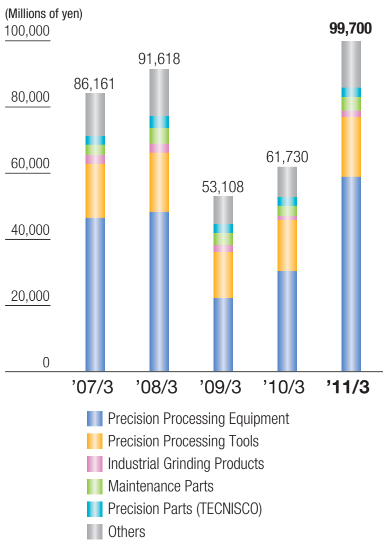
R&D Expenses



Depreciation / Capital Expenditures



Sales Breakdown by Product



Selling, general and administrative expenses increased by 29.1% year on year to ¥31,010 million. The higher figure was mainly attributable to increased R&D expenditure and performance-linked increases in labor costs. Sales growth was also reflected in increased sales commissions. Because of the substantial increase in net sales, the ratio of selling, general and administrative expenses to net sales fell by 7.8 points to 31.1%.

R&D expenses were 25.8% higher than in the previous fiscal year at ¥9,771 million. This resulted from the continuing implementation of research themes and an increase in staffing levels to support priority development efforts in a number of areas, including laser saws suitable for high-quality, high-precision cutting operations, and grinders capable of performing high-grade grinding processes. The ratio of R&D expenses to net sales was 2.8 points lower at 9.8%.

Operating income increased by 241.0% year on year to ¥15,915 million. The operating income ratio improved by 8.4 points to 16.0%.

DISCO prioritizes its capital investment toward product categories and R&D fields that offer long-term growth potential. Our main investment targets are capacity expansion from a business continuity management (BCM) perspective, the improvement of product reliability, safety and environmental performance, as well as rationalization and labor-saving measures. In the year ended March 2011, we constructed new buildings at the Chino Plant in Nagano Prefecture and the Kure Plant in Hiroshima Prefecture. Total capital investment was 37.1% below the previous year's level at ¥7,311 million. Because of the start-up of new plant facilities, depreciation increased by 13.1% year on year to ¥6,067 million.

Segment Information

Precision Processing Systems

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

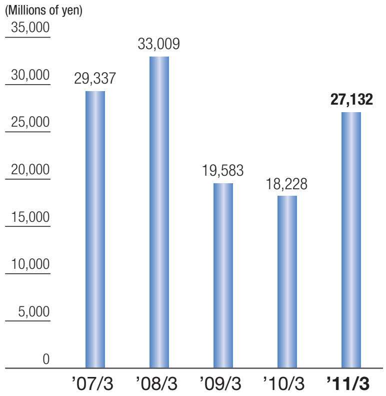
Demand for dicing saws, especially for use in IC production and package singulation, was strong, and there was also a substantial increase in sales of laser saws for use in LED production and other applications. In addition, we recorded strong growth in sales of grinders, especially for use with thin products. These factors helped us to set a new record for sales in this segment in fiscal 2010.

Despite the erosion of overseas sales by the high yen, record shipments of precision processing blades and wheels lifted sales of precision processing tools to the second highest level ever. Segment net sales amounted to ¥95,405 million, while segment income reached ¥19,027 million.

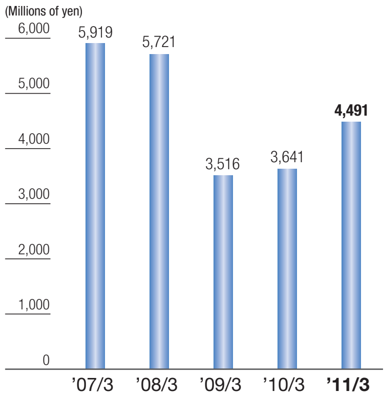
Precision Processing Parts

In this segment, DISCO manufactures and sells precision processing parts made from metals, glass, silicon and other materials for use in electronic, optical and medical products. In the core category of glass products, demand for projector-related products in the imaging equipment market surged dramatically in the second half of the year. We also recorded strong sales of heat sink products to China for use in optical communication products, while

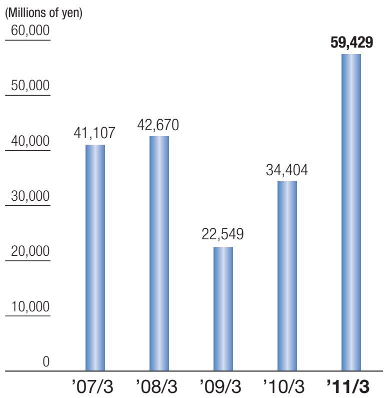
Japan



North America



Asia



sales of products for industrial laser equipment also began to recover in the fourth quarter.

Net sales for this segment in fiscal 2010 amounted to ¥2,492 million, while segment income was ¥147 million.

Industrial Grinding Products

In this segment, DISCO manufactures and sells industrial diamond tools, for use in civil engineering, construction and manufacturing, as well as general-purpose grinding wheels used in the manufacture of motor vehicles and electronic parts.

Demand for general-purpose grinding wheels began to increase in the first half of the year in response to trends in the motor vehicle industry, which was generally in a recovery mode. Net sales in this segment amounted to ¥1,804 million, and segment income reached ¥246 million.

Geographical Segment Information

Structural changes in the semiconductor and electronic parts industries have caused the main focus of DISCO's business activities to shift toward Asia. Net sales in Asia increased by 72.7% year on year, and the contribution to total net sales reached approximately 60%. The main markets within Asia are Taiwan, South Korea and China, which together account for over 50% of sales in Asia.

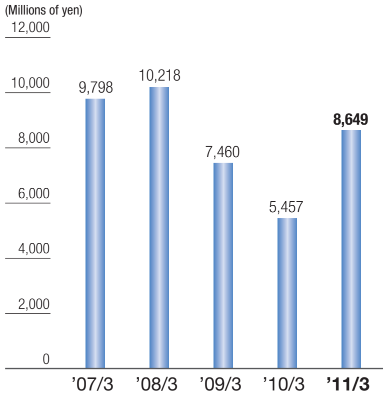
Regional totals for overseas sales were ¥4,491 million for the Americas, ¥59,429 million for Asia, and ¥8,649 million for Europe. These figures represent year on year increases of 23.4%, 72.7% and 58.5% respectively. As a result of this growth, the contribution of overseas sales to consolidated net sales climbed to 72.8%, an increase of 2.3 points from the previous year's level of 70.5%.

Other Income and Expenses

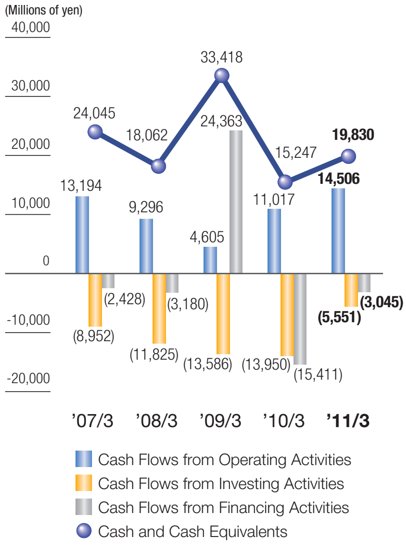
Other income in fiscal 2010 amounted to ¥1,677 million, compared with ¥706 million in the previous fiscal year. This total includes plant construction subsidies of ¥1,207 million from Hiroshima Prefecture and other sources, and ¥117 million in returns on equity method investments.

Other expenses were reduced from ¥1,328 million in the previous year to ¥1,023 million. This total includes ¥263 million for the construction of a plant for the precision processing parts business, and for land impairment losses in Kure City, Hiroshima Prefecture, ¥167 million in losses on sales of fixed assets, ¥162 million in foreign exchange losses, and ¥110 million in depreciation. As a result, net other income amounted to ¥654 million, compared with a loss of ¥622 million in the previous year.

Europe



Cash Flows, and Cash and Cash Equivalents



Income Before Income Taxes and Net Income

Income before income taxes and minority interests increased by 309.5% year on year to ¥16,569 million. Income taxes were 260.3% higher at ¥5,668 million, and the effective tax rate was 34.2%.

Minority interests included ¥44 million in minority shareholder losses on minority equity, including equity in Tecnisco, Ltd., a consolidated subsidiary.

Net income increased by 343.1% year on year to ¥10,945 million, and the ratio of net income to sales improved by 7 points to 11.0%. Net income per share was ¥325.59, compared with ¥73.51 in the previous year.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥14,506 million. An outflow resulting from increases in accounts receivable and inventories was offset by other items, including net income before provision for income taxes and minority interests, which reached ¥16,569 million thanks to extremely strong product shipments, and depreciation of ¥6,067 million.

Cash Flows from Investing Activities

Net cash used for investing activities amounted to ¥5,551 million. This figure reflects expenditure of ¥7,612 million on the acquisition of tangible fixed assets, including new buildings at the Chino and Kure Plants.

Free cash flows, which are the sum of cash from operating income activities and investing activities, amounted to an inflow of ¥8,955 million, reflecting extremely healthy product shipments. The cash flow situation in the year under review was follows.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥3,045 million. This consisted mainly of expenditure on debt retirement and dividends.

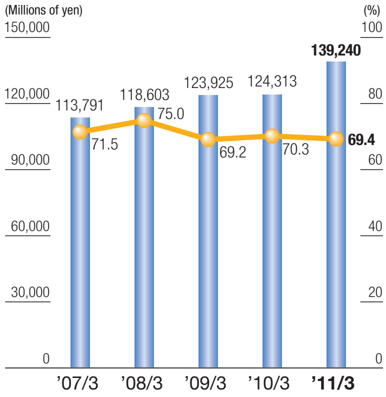
Cash and Cash equivalents

Cash and cash equivalents as of March 31, 2011 amounted to ¥19,830 million, an increase of ¥4,582 million compared with the position as of March 31, 2010.

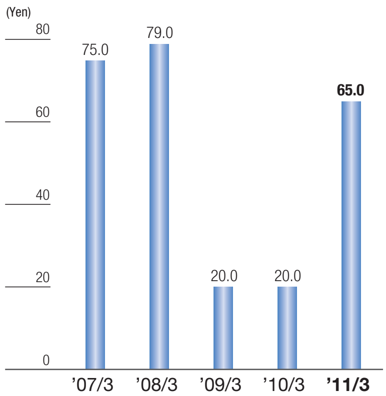
Assets, Liabilities and Net Assets

Total assets amounted to ¥139,240 million as of March 31, 2011, an increase of ¥14,927 million from the position a year earlier. Total current assets were ¥14,852 million higher at ¥77,778 million. Reasons for the higher figure include an increase in notes and accounts receivable resulting from expanding demand for products and an increase in inventories caused by a sudden surge in demand for equipment. Total fixed assets increased by ¥79 million to ¥61,444 million.

Total Assets
Equity Ratio



Cash Dividends



Total liabilities increased by ¥5,385 million to ¥41,607 million as of March 31, 2011. Current liabilities amounted to ¥29,355 million, an increase of ¥6,570 million. In addition to increased purchases of materials and other items, other factors contributing to the higher figure included an increase in notes and accounts payable. Total long-term liabilities were reduced by ¥1,186 million to ¥12,252 million, mainly through the retirement of long-term debt.

Net assets amounted to ¥97,633 million as of March 31, 2011, an increase of ¥9,541 million compared with the position a year earlier. As a result, the shareholders' equity ratio was 0.9% lower year on year at 69.4%.

Basic Policy on Dividends, Dividends for the Current and Coming Year

According to its Articles of Incorporation, the Company is authorized to set an interim dividend with a record date of September 30 by resolution of the Board of Directors. Our basic policy on dividends is to distribute surpluses twice annually in the form of interim and final dividends. Decisions concerning the distribution of surpluses are made by the general meeting of shareholders, in the case of the final dividend, and by the Board of Directors, in the case of the interim dividend.

At a meeting held on February 17, 2006, the Board of Directors adopted a performance-linked dividend policy with the aim of giving clearer priority to shareholder returns. At its meeting on February 23, 2011, the Board of Directors adopted a dividend policy designed to provide closer real-time linkage to financial performance. This new policy will be applied from the year ending March 2012.

Hitherto, our target dividend payout ratio has been 20% of consolidated yearly net income. This target has now been changed to 20% of consolidated half-yearly income for each of the interim and final dividends.

Note: The total amount of the interim dividend will consist of 20% of consolidated net income for the first half of the year (April–September), and that of the final dividend, of 20% of consolidated net income for the second half of the year (October–March).

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

Except when there is a loss, if the year-end balance of cash and deposits after payment of dividends and income taxes is greater than projected funding requirements for the acquisition of technology resources (such as through patent purchases and investment in venture businesses, facility expansion, the retirement of interest-bearing debt and other purposes), one-third of that surplus will be added to dividends. The 20% payout ratio stipulated in our stable dividend policy may be reviewed if there are consolidated net losses in three consecutive years.

If the four-year cumulative consolidated ratio of ordinary income to net sales is higher than 20%, a dividend payout ratio of 24% of consolidated net income will be applied. Any difference over the interim dividend will be distributed with the final dividend.

The interim dividend for the year ended March 2011 was set at ¥25 per share. In accordance with the previous dividend policy, we paid a final dividend of ¥40, bringing the annual dividend to ¥65.

Risk Factors

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

(1) Fluctuations in the Semiconductor Market

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

The semiconductor market in particular is subject to changes in the supply-demand balance, and the business performance of semiconductor manufacturers is affected by the pattern known as the silicon cycle. The performance of DISCO may be adversely affected if customers freeze capital investment, reduce production or take other actions during the downward phase of this cycle or when other unforeseen market fluctuations occur.

(2) Emergence of New Technologies

DISCO concentrates primarily on the manufacture and sale of semiconductor cutting and grinding equipment and precision tooling such as precision diamond blades and grinding wheels for use in silicon wafer processing. If a processing technology emerges to challenge precision diamond tooling in the future, DISCO's business performance may be adversely affected. DISCO also develops and sells laser saws, which can be used on materials that are difficult to cut with precision diamond tooling.

(3) Disasters

DISCO's corporate headquarters and R&D center is located in Ota Ward, Tokyo, and its production facilities in Hiroshima and Nagano Prefectures. We are continually enhancing our business continuity management (BCM) systems, but corporate systems and production operations could be affected by a major disaster, outbreak of a new strain of influenza or other contingencies. The Great East Japan Earthquake of March 11 had a minimal effect on DISCO's business performance.

(4) Exchange Rate Fluctuations

DISCO manufactures products in Japan and exports them to manufacturers of semiconductor and electronic parts in various parts of the world. Transactions are normally denominated in yen, but transactions in some regions and with some customers need to be settled in U.S. dollars or other foreign currencies. This means that DISCO's business performance could be affected by exchange rate fluctuations.

(5) Other Risks

In addition to the risk factors listed above, the business performance of DISCO could also be adversely affected by global and local economic conditions, natural disasters, war or terrorism, trends in financial and capital markets, laws and government regulations, product defects, issues relating to suppliers and problems with intellectual property rights.

Management Policy

(1) Basic Corporate Management Policies

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

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

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

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

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

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

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

Consolidated Balance Sheets

March 31, 2011 and 2010

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars 2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 19,830**	¥ 15,248	**$ 238,485**
Notes and accounts receivable—trade:			
Trade	**28,238**	23,034	**339,603**
Unconsolidated subsidiaries and associated companies	**85**	54	**1,022**
Allowance for doubtful receivables	**(37)**	(63)	**(445)**
Inventories	**23,778**	18,540	**285,965**
Deferred tax assets	**2,265**	1,258	**27,240**
Prepaid expenses and other current assets	**3,619**	4,855	**43,524**
Total current assets	**77,778**	62,926	**935,394**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**12,853**	12,794	**154,576**
Buildings and structures	**40,416**	37,794	**486,061**
Machinery and equipment	**26,139**	22,856	**314,360**
Tools, furniture and fixtures	**4,483**	4,299	**53,915**
Construction in progress	**1,587**	3,484	**19,086**
Total	**85,478**	81,227	**1,027,998**
Accumulated depreciation	**(31,967)**	(27,549)	**(384,450)**
Net property, plant and equipment	**53,511**	53,678	**643,548**
INVESTMENTS AND OTHER ASSETS:			
Investment securities	**300**	372	**3,608**
Investments in unconsolidated subsidiaries and associated companies	**299**	210	**3,596**
Leasehold land	**215**	215	**2,586**
Long-term deposits	**5,200**	5,200	**62,538**
Deferred tax assets	**221**	464	**2,658**
Bond issuance cost	**18**	23	**216**
Other	**1,759**	1,263	**21,154**
Allowance for doubtful receivables	**(61)**	(38)	**(734)**
Total investments and other assets	**7,951**	7,709	**95,622**
TOTAL	**¥139,240**	¥124,313	**$1,674,564**

Consolidated Balance Sheets

March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Notes and accounts payable—trade	¥ 13,609	¥12,558	$ 163,668
Short-term bank loans	—	1,000	—
Current portion of long-term debt	250	—	3,007
Accrued expenses	3,842	2,743	46,206
Accrued income taxes	5,286	403	63,572
Other current liabilities	6,368	6,080	76,584
Total current liabilities	29,355	22,784	353,037
LONG-TERM LIABILITIES:			
Long-term debt	10,538	12,000	126,735
Accrued retirement benefits	1,093	815	13,145
Negative goodwill	30	120	361
Other long-term liabilities	591	502	7,107
Total long-term liabilities	12,252	13,437	147,348
CONTINGENT LIABILITIES			
NET ASSETS :			
SHAREHOLDERS' EQUITY:			
Common stock, authorized 72,000,000 shares; number of shares issued, 34,004,418 shares in 2011 and 34,004,418 shares in 2010.	14,517	14,517	174,588
Additional paid-in capital	15,645	15,605	188,154
Retained earnings	68,988	59,141	829,681
Treasury stock—at cost, 321,546 shares in 2011and 397,346 shares in 2010.	(862)	(1,065)	(10,366)
Total shareholders' equity	98,288	88,198	1,182,057
VALUATION AND TRANSLATION ADJUSTMENTS:			
Other securities valuation difference	6	11	72
Translation adjustments	(1,654)	(841)	(19,892)
Total valuation and translation adjustments	(1,648)	(830)	(19,820)
SHARE SUBSCRIPTION RIGHTS	767	589	9,224
MINORITY INTERESTS	226	135	2,718
Total net assets	97,633	88,092	1,174,179
TOTAL	¥139,240	¥124,313	$1,674,564

Consolidated Statements of Income

Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
NET SALES	**¥99,700**	¥61,730	**$1,199,038**
COST OF SALES	**52,775**	33,038	**634,696**
Gross profit	**46,925**	28,692	**564,342**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**31,010**	24,024	**372,941**
Operating income	**15,915**	4,668	**191,401**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**60**	67	**721**
Interest expense	**(31)**	(347)	**(373)**
Foreign exchange loss	**(162)**	(103)	**(1,948)**
Equity in earnings gain of associated companies	**117**	27	**1,407**
Amortization of negative goodwill	**90**	90	**1,082**
Subsidy income	**1,207**	38	**14,516**
Loss on sale or disposal of property, plant and equipment	**(155)**	(69)	**(1,864)**
Devaluation loss on investment securities	**(40)**	(347)	**(481)**
Impairment loss on property, plant and equipment	**(263)**	—	**(3,163)**
Special retirement expenses	**(81)**	(112)	**(974)**
Subsidy income for furlough	**—**	248	**—**
Furlough expenses	**—**	(176)	**—**
Other, net	**(88)**	62	**(1,058)**
	654	(622)	**7,865**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**16,569**	4,046	**199,266**
INCOME TAXES			
Income taxes—Current	**6,346**	815	**76,319**
Income taxes—Deferred	**(678)**	759	**(8,154)**
	5,668	1,574	**68,165**
INCOME BEFORE MINORITY INTERESTS	**10,901**	2,472	**131,101**
MINORITY INTERESTS	**44**	(2)	**529**
NET INCOME	**¥10,945**	¥ 2,470	**$ 131,630**

	Yen		U.S. dollars
	2011	2010	2011
AMOUNT PER SHARE OF COMMON STOCK:			
Net income			
Basic	**¥325.59**	¥73.51	**$3.92**
Diluted	**308.99**	72.19	**3.72**
Cash dividends applicable to the year	**65.00**	20.00	**0.78**

Consolidated Statements of Changes in Net Assets

Years Ended March 31, 2011 and 2010

	Millions of yen									
		Shareholders' equity				Valuation and Translation Adjustments				
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other securities valuation difference	Translation adjustments	Share subscription rights	Minority interests	Total net assets
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
Increase due to issuance of common stock										**—**
Cash dividend paid				**(1,176)**						**(1,176)**
Net income				**10,945**						**10,945**
Purchases of treasury stock					**(1)**					**(1)**
Disposal of treasury stock			**40**		**204**					**244**
Other				**78**						**78**
Net increase (decrease) during the year						**(5)**	**(813)**	**178**	**91**	**(549)**
BALANCE at MARCH 31, 2011	**34,004,418**	**¥14,517**	**¥15,645**	**¥68,988**	**¥(862)**	**¥6**	**¥(1,654)**	**¥767**	**¥226**	**¥97,633**

	Thousands of U.S. dollars									
		Shareholders' equity				Valuation and Translation Adjustments				
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other securities valuation difference	Translation adjustments	Share subscription rights	Minority interests	Total net assets
BALANCE at MARCH 31, 2010	34,004,418	$174,588	$187,673	$711,257	$(12,808)	$132	$(10,114)	$7,084	$1,624	$1,059,436
Increase due to issuance of common stock										—
Cash dividend paid				**(14,143)**						**(14,143)**
Net income				**131,629**						**131,629**
Purchases of treasury stock					**(12)**					**(12)**
Disposal of treasury stock			**481**		**2,454**					**2,935**
Other				**938**						**938**
Net increase (decrease) during the year						**(60)**	**(9,778)**	**2,140**	**1,094**	**(6,604)**
BALANCE at MARCH 31, 2011	**34,004,418**	**$174,588**	**$188,154**	**$829,681**	**$(10,366)**	**$72**	**$(19,892)**	**$9,224**	**$2,718**	**$1,174,179**

Consolidated Statements of Cash Flows

Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
OPERATING ACTIVITIES:			
Net income	¥10,945	¥ 2,470	$131,630
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,067	5,364	72,964
Loss on sale or disposal of property, plant and equipment	109	31	1,311
Amortization of negative goodwill	(90)	(89)	(1,082)
Devaluation loss on investment securities	40	347	481
Impairment of fixed assets	263	-	3,163
Equity in earnings of associated companies	(117)	(27)	(1,407)
Subsidy income	(1,095)	-	(13,169)
Increase in notes and accounts receivable—trade	(5,757)	(12,276)	(69,236)
Decrease(Increase) in inventories	(5,031)	548	(60,505)
Increase in notes and accounts payable—trade	1,721	9,120	20,697
Increase in accrued income taxes	4,374	1,563	52,604
Increase in accrued bonus	791	557	9,513
Increase(Decrease) in allowance for doubtful receivables	2	(2)	24
Increase in allowance for warranty cost	109	83	1,311
Increase in accrued retirement benefits	315	270	3,788
Increase in accounts payable—non trade	758	2,486	9,116
Other, net	1,102	572	13,253
Net cash provided by operating activities	14,506	11,017	174,456
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(7,612)	(10,644)	(91,545)
Proceeds from sales of property, plant and equipment	20	37	240
Collection of long-term loans receivable	(236)	(214)	(2,838)
Decrease(Increase) of time deposits over one year	2,508	(3,000)	30,162
Other	(231)	(129)	(2,778)
Net cash used in investing activities	(5,551)	(13,950)	(66,759)
FINANCING ACTIVITIES:			
Short-term bank loans, net	(1,000)	(74)	(12,026)
Proceeds from long-term debt	900	9,976	10,823
Repayment of long-term debt	(2,112)	(24,651)	(25,400)
Cash dividends paid	(1,176)	(674)	(14,143)
Proceeds from sales of treasury stock	198	12	2,381
Other	145	(1)	1,744
Net cash used in financing activities	(3,045)	(15,412)	(36,621)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(1,328)	174	(15,971)
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,582	(18,171)	55,105
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,248	33,419	183,380
CASH AND CASH EQUIVALENTS, END OF YEAR	¥19,830	¥ 15,248	$238,485

ABOUT DISCO

Directors / Corporate Auditors and Operating Officers

(As of June 24, 2011)

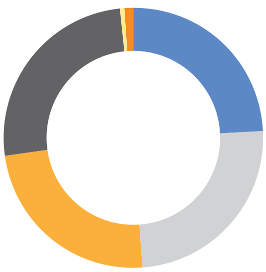
Hitoshi Mizorogi	Chairman and CEO, Representative Director
Kazuma Sekiya	President and COO, Representative Director Chief Information Officer (CIO), General Manager, Engineering R&D Division
Hideyuki Sekiya	Executive Director Chief Safety Officer (CSO), General Manager, Hiroshima Works
Takao Tamura	Executive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

Shareholder Information

(As of March 31, 2011)

Shares of Common Stock Issued:	34,004,418
Number of Shareholders:	13,545
Annual Shareholders' Meeting:	June
Stock Listing:	Tokyo Stock Exchange, 1st Section (6146)

Share Ownership by Shareholder Type:



Financial institutions:	24.37%
Individuals, other:	24.61%
Other Japanese corporations:	23.99%
Foreign corporations, etc:	25.45%
Financial securities traders:	0.63%
Treasury Stock:	0.95%

Corporate Data

(As of March 31, 2011)

Company Name:	DISCO CORPORATION
Registered Office:	13-11 Omori-Kita 2-chome, Ota-ku, Tokyo, Japan
Founded:	May 5, 1937
Incorporated:	March 2, 1940
Capitalization:	¥14,517,469,520 (as of end of June, 2011)
Number of Employees (Non-consolidated Basis):	1,740
Office:	Head Office/R&D Center Hiroshima Works (Kure Plant, Kuwabata Plant, Nagatani Plant), Chino Plant

Domestic Network:

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

Global Network:

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

Affiliated Companies:

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