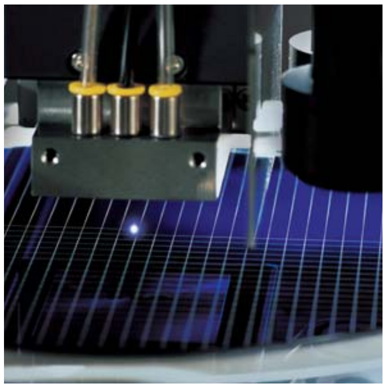
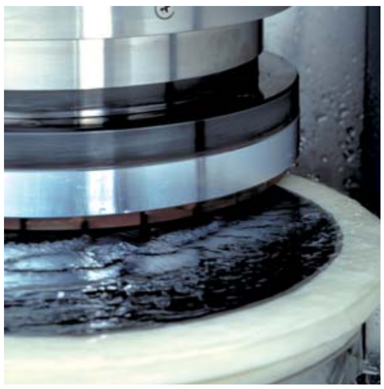
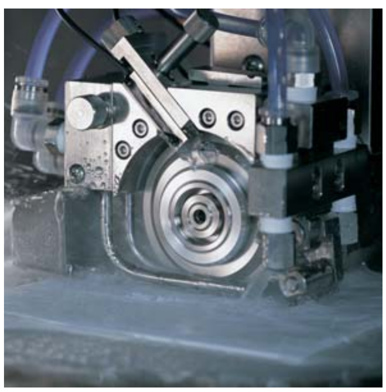
DISCO

Kiru·Kezuru·Migaku Technologies







Annual Report 2009

for the year ended March 31, 2009

DISCO CORPORATION

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. After evolving with the changing needs of the manufacturing industries over more than 70 years, we have become specialists in the precision application of technologies that evolved from the beginnings of human civilization: cutting, grinding and polishing. Today DISCO is the only manufacturer in the world to develop and manufacture blades and grinding wheels as well as precision equipment. We develop these technologies to their highest proprietary levels to provide key process (production) support to leading-edge companies for their emerging technologies in the semiconductor and electronic components industries.

There will always be a market for technological innovation, and DISCO Corporation will continue to supply the market with original precision equipment, consumables and total solutions based on application technology and services.

CONTENTS

Consolidated Financial Highlights

Years Ended March 31, 2009 and 2008

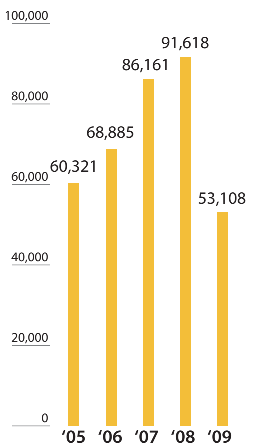
	Millions of Yen		Thousands of U.S. Dollars [1]
	2009	2008	**2009**
For the Period:			
Net sales	**¥ 53,108**	¥ 91,618	**$ 540,649**
Operating income	**76**	19,334	**774**
Net income	**251**	11,112	**2,555**
Capital expenditures	**13,497**	10,038	**137,402**
Depreciation and amortization	**4,657**	3,652	**47,409**
Research and development expenses	**8,532**	8,332	**86,857**
At Year-end:			
Total net assets	**¥ 86,329**	¥ 89,665	**$ 878,846**
Total assets	**¥123,925**	¥118,603	**$ 1,261,580**
Per Share of Common Stock:			
Basic net income	**¥ 7.41**	¥ 327.07	**$ 0.08**
Cash dividends	**20.00**	79.00	**0.20**
Ratio:			
Equity Ratio	**69.2%**	75.0%	
Return on equity (ROE) [2]	**0.3**	13.1	

Note: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥98.23=US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2009.

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

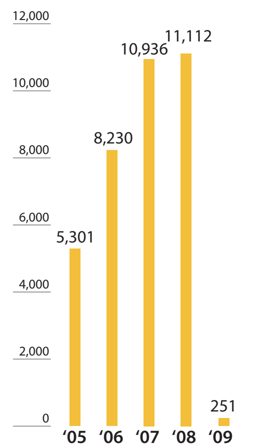
Net Sales

(Millions of yen)



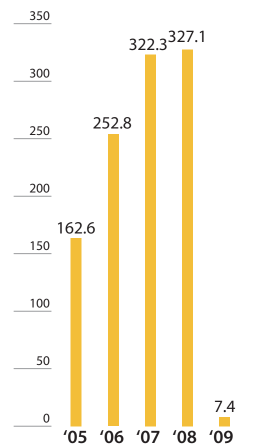
Net Income

(Millions of yen)



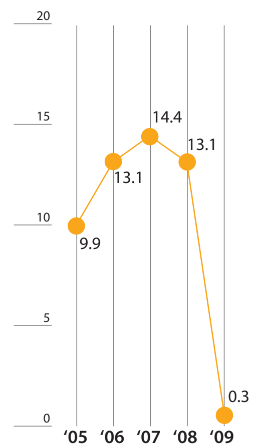
Basic Net Income per Share

(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.

Chairman and CEO Hitoshi Mizorogi *President and COO* Kazuma Sekiya

In the year ended March 2009, the world economy spiraled downward rapidly. The collapse of a major American financial institution in September 2008 added further impetus to the downtrend. The result was a dramatic worsening of the real economy, including a slump in consumer spending and large-scale production cutbacks.

In the first quarter of the year, demand in emerging economies helped the semiconductor industry to maintain high shipment levels. Starting in the second half of the second quarter, however, manufacturers became increasingly cautious about investment in new capacity, and by the third quarter, final-product demand was falling rapidly, causing massive and widespread inventory build-ups.

In the first half of the year ended March 2009, DISCO experienced a gradual decline in shipments of precision processing equipment, but sales of consumables, specifically precision blades and wheels, remained comparatively strong. In the second half of the year, manufacturers halted capital investment and implemented major production cutbacks. This situation was reflected in the largest decline in sales since the collapse of the IT bubble.

For DISCO, the impact was no less dramatic. Consolidated net sales fell by 42.0% to ¥53,108 million, and operating income by 99.6% to ¥76 million.

Economic growth is expected to remain negative amid prolonged business stagnation. Amid this slowdown, we are stepping up cross training and adjusting our organization and processes for improved speed, cost and efficiency, seeking to turn current challenges to future stakeholder value.

In April, Kazuma Sekiya, who was previously involved in the management of our business operations as an executive director, became President and COO. Under his leadership, we will continue our efforts to realize our mission and improve the exchange of value between DISCO and our stakeholders. We look forward to your continuing support.

June 2009

Hitoshi Mizorogi, Chairman and CEO
Kazuma Sekiya, President and COO

An Interview with the President

"We will never sacrifice the future for short-term expediency. Our policy is to minimize cash outflow, but also to maintain a strategic commitment to research and development. We aim to expand our business opportunities by helping our customers to achieve innovation in semiconductor technology."

Q. 1

What are your thoughts on taking over as president in this difficult market environment?

As a company, we need to find ways to work through these challenging times constructively. Since 1998, I have held positions of responsibility over every segment of our business operations, so my appointment as president will not change my frame of reference or bring any new pressures. Obviously the present environment is difficult. However, rapid change is a feature of the semiconductor industry, and any company working in this environment needs to build strong corporate fundamentals to withstand the ups and downs of the business cycle.

Our focus is not on how to survive the present recession, but rather on how to use this time constructively to prepare for the future surge in demand. We will selectively intensify our recession countermeasures and structural cost-cutting programs, but at the same time we will continue to invest in efficiency improvements and R&D activities in the KKM* fields, so that we can adapt quickly to market trends.

We expect the business outlook to remain uncertain during the year ending March 2010. I intend to use this time as an opportunity to apply our "DISCO Values" philosophy and implement PIM activities**.

* KKM stands for ***kiru*** (cutting), ***kezuru*** (grinding) and ***migaku*** (polishing). DISCO's business activities are based on advanced technologies in these three areas.

** Performance Innovation Management (PIM) activities are unique to DISCO. They are implemented in all areas of activity with the aim of driving continual evolution.

Q. 2

What steps are you taking to bring DISCO through the present recession?

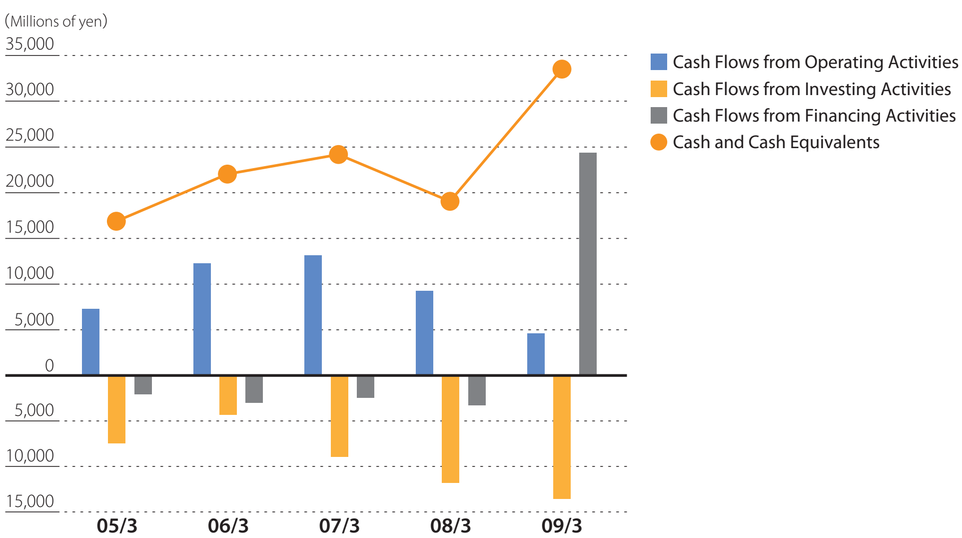
We will control costs without sacrificing the future. My goal is to build a corporate structure that will not be vulnerable to shifts in the business cycle. We enjoyed several years of continuous sales in a buoyant economic environment. At times we were so busy that we had to spend money to buy other people's time so that we could meet our delivery deadlines. However, we now need to modify our working methods and use our own man-hours. We are exploring ways to reduce costs by using our internal resources effectively. By consolidating these changes, we will build a lean corporate structure that is less vulnerable to economic ups and downs and better able to adapt flexibly to change.

My policy concerning research and development will be to assess development themes according to priority and profitability. We need to control cash outflow while maintaining strategic R&D activities.

Another focus will be selling, general and administrative expenses. Since the second half of the year ended March 2009, we have been managing at the most severe of the six levels of expenditure control rules (our so-called "level F"), and both overtime hours and expenditures are now being controlled to help restore the operating income margin. Our target for these measures is an improvement of around 20% in our break-even point. In these ways, we are working to control expenditures without sacrificing the future.

Following the onset of the global financial crisis, we decided to raise finance totaling ¥27 billion in the period to December 2008. As a result of this decision, we were able to secure ample in-hand funds by March 31, 2009. We procured funding in advance to avoid financing problems caused by turmoil in capital markets. This move has also allowed us to secure sufficient funds to meet our financial needs even if the recession continues for five years.

▶ Cash Flows, and Cash and Cash Equivalents



Q. 3

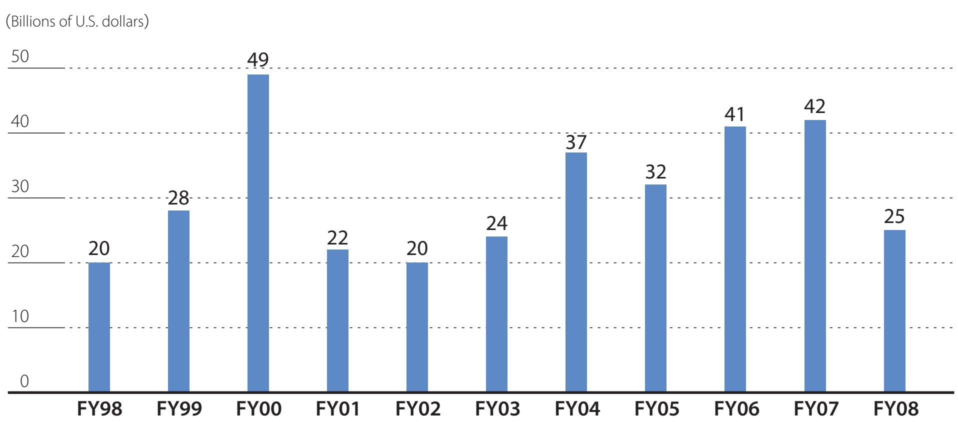
What are your views on the future outlook?

I am confident that the semiconductor market will continue to grow. Demand for digital consumer products, including portable music players, thin-panel televisions, and, in particular, computers and mobile telephones, has driven continual growth in the semiconductor market since 2001. The semiconductor industry has been hit hard by the current global recession. Business conditions are difficult, and a short-term recovery seems unlikely. However, I am certain that demand for increasingly sophisticated and compact digital products will continue to grow, and that the use of telecommunications equipment will expand in emerging economies. There is also a growing global need for technology to reduce environmental loads. Particularly exciting is the rapid growth of the market for high-luminance, long-life LEDs, which are being used increasingly to reduce energy consumed by lighting. In the future, these devices are likely to be used increasingly for general- purpose lighting in homes and offices, in addition to their use in LCD backlighting.

Also encouraging is the global take-up of products designed to reduce environmental loads, such as hybrid cars and inverter air-conditioners, all of which contain large numbers of semiconductors. Demand for semiconductors will inevitably expand in quantitative terms, and the need for continual improvement in the performance of these products will drive relentless innovation in semiconductor technology.

DISCO has earned an excellent reputation as a supplier of solutions. That is why the number of test cut requests has remained high, despite the difficult market environment. This is further evidence that there is a continuing need for DISCO's advanced cutting, grinding and polishing technologies in the market. I believe that we will be able to expand our business opportunities by working with our customers to help them advance their semiconductor technology.

▶ **Worldwide shipments of semiconductor-fabrication equipment**



Source: SEMI

Q. 4

What do you see as potential growth areas for DISCO?

I anticipate growth in a number of areas, including laser applications, the development of thinner devices, and technology related to through-silicon via (TSV). Lasers allow precision cutting of various materials, including materials for which conventional blade dicing is not suitable. We are determined to expand the range of applications for this technology through intensive R&D. We commenced commercial production of laser saws in 2001. Sales to LED manufacturers were especially strong in the year that ended March 2009, and we recorded 50% year-on-year sales growth in this area.

In the past, laser saws have been used mainly by the semiconductor industry, but in recent years the range of potential uses has expanded in step with advances in engineering know-how. We expect laser saws to remain a major growth driver for DISCO, and we are expanding our line-up to include new systems suitable for processing products with significant growth potential, such as LEDs and MEMS. Currently, our laser saw range consists of three models.

Another promising area is technology relating to TSV systems for 3-dimensional packages, which will result in further advances in semiconductor capacity and speed. We also see continuing market potential for ultrathin wafer cutting and grinding technologies and post-cut cleaning systems. These have been major growth drivers for DISCO for several years. We are determined to maintain our ability to provide our customers with solutions that our competitors cannot match. That is why we will continue to pursue increasingly sophisticated R&D challenges.

Manual laser saw
for 6-inch wafers

DAL7020

Fully automatic laser saw
for 300 mm wafers

DFL7160

Fully automatic laser saw
for stealth dicing of 300 mm wafers

DFL7360

Six-Year Summary

Years Ended March 31, 2009, 2008, 2007, 2006, 2005 and 2004

	Millions of yen						Thousands of U.S. dollars (1)
	2009	2008	2007	2006	2005	2004	2009
For the Period:							
Net sales	¥ 53,108	¥ 91,618	¥ 86,161	¥ 68,885	¥ 60,321	¥ 48,243	$ 540,649
Electronics industry-related products	50,983	88,607	83,429	66,049	57,343	45,400	519,017
Industrial products	1,951	2,684	2,468	2,536	2,597	2,605	19,861
Other products	174	327	264	300	381	238	1,771
Operating income	76	19,334	19,524	13,949	9,869	5,625	774
Income before income taxes and minority interests	770	18,452	17,716	13,385	9,081	5,286	7,839
Net income	251	11,112	10,936	8,230	5,301	3,095	2,555
Capital expenditures	13,497	10,038	6,554	3,288	11,815	3,299	137,402
Depreciation and amortization	4,657	3,652	2,968	2,762	2,440	2,108	47,409
Research and development expenses	8,532	8,332	6,415	6,353	6,256	2,653	86,857
At Year-End:							
Total assets	¥ 123,925	¥ 118,603	¥ 113,791	¥ 99,319	¥ 84,839	¥ 80,353	$1,261,580
Interest-bearing debt	27,723	783	1,128	3,291	12,044	13,311	282,225
Total net assets	86,329	89,665	81,824	70,277	55,727	51,002	878,846
Number of shares issued and outstanding	34,004,418	33,995,418	33,982,518	33,562,718	32,180,240	32,130,711	
Share price (Yen)	2,435	4,290	7,200	7,740	4,600	5,550	
Number of shareholders	13,661	13,480	13,293	12,828	15,636	16,572	
Number of employees	2,438	2,260	2,012	1,721	1,678	1,670	
Per Share of Common Stock (Yen and U.S. Dollars):							
Basic net income	¥ 7.41	¥ 327.07	¥ 322.32	¥ 252.82	¥ 162.57	¥ 94.72	$ 0.08
Cash dividends	20.00	79.00	75.00	50.00	40.00	30.00	0.20
Shareholders' equity	2,553	2,621	2,393	2,092	1,730	1,586	25.99
Ratios:							
Gross profit margin	47.2%	51.1%	51.1%	52.5%	50.7%	47.7%	
Operating income margin	0.1	21.1	22.7	20.2	16.4	11.7	
Income before income taxes and minority interests margin	1.5	20.1	20.6	19.4	15.0	10.9	
Net income margin	0.5	12.1	12.7	11.9	8.8	6.4	
Return on assets (ROA) (2)	0.2	16.9	18.5	15.2	12.0	8.0	
Return on equity (ROE) (3)	0.3	13.1	14.4	13.1	9.9	6.2	
Price-earning ratio	328.6	13.1	22.3	30.6	28.3	58.6	
Equity ratio	69.2	75.0	71.5	70.8	65.7	63.5	
Interest coverage ratio (4)	417.3	805.1	436.5	479.0	252.8	193.3	

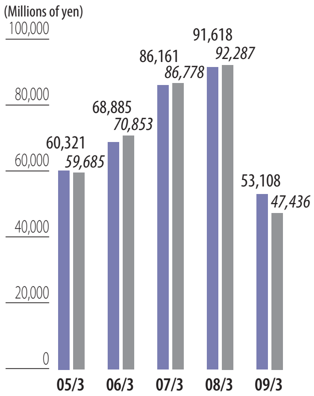
Notes: (1) U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥98.23=US$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2009.

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

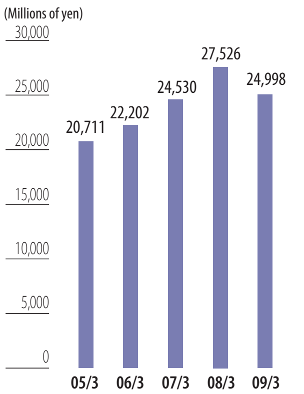
(3) ROE = Net income ÷ Average shareholders' equity × 100

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

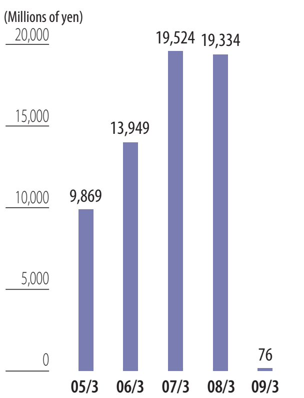
Net Sales
Orders



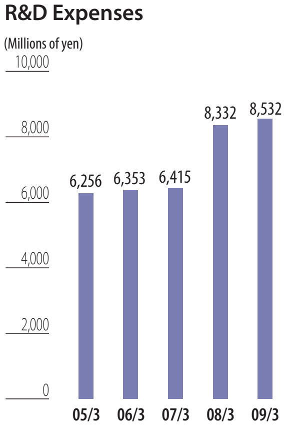
SG & A Expenses



Operating Income



R&D Expenses



Overview

Fiscal 2008 (April 1, 2008–March 31, 2009) brought a dramatic worsening of the world economic situation. A credit crunch triggered by a financial crisis in the United States in September impacted on the real economy, leading to major downturns in consumer spending and production activity. In the semiconductor market, which is the focus of the DISCO Group's activities, shipments remained comparatively high in the first quarter. However, investment in new facilities began to contract in the second quarter, and product demand fell sharply in the third quarter and beyond, causing a substantial inventory build-up across the entire market. The situation was also affected by the memory slump in the previous fiscal year. Semiconductor manufacturers froze their capital investment and implemented major production cutbacks.

The DISCO Group's shipments of cutting equipment declined continuously in the second half of the year, and shipments of grinding equipment began to fall sharply in the first quarter. Shipments of precision blades and wheels, which are consumable items, remained high in volume terms in the first half of the fiscal year, but unprecedented production cutbacks by semiconductor manufacturers drove volumes down in the third and fourth quarters. As a result, total sales fell to their lowest level since the bursting of the IT bubble. In contrast, sales of laser saws used in LED manufacturing were comparatively strong, reflecting buoyant capital investment in this area.

Orders Received and Net Sales

DISCO set a new order record in the second quarter of fiscal 2007. However, orders began to decline rapidly in the third quarter as the silicon cycle entered a downward phase. The effect of this trend was compounded by the global recession, and by the third and fourth quarters of fiscal 2008, orders had fallen to their lowest level since the bursting of the IT bubble in fiscal 2001. Orders in fiscal 2008 amounted to ¥47,436 million, a year-on-year decline of 48.6%.

Sales entered a continual downward trend after setting a new record in the second quarter of fiscal 2007. By the fourth quarter they were 70.1% below the level a year earlier. In fiscal 2008, net sales were 42.0% below the previous year's figure at ¥53,108 million.

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

	FY2008/1Q	FY2008/2Q	FY2008/3Q	FY2008/4Q	FY2008/Total
Orders	17,682	15,808	8,591	5,354	47,436
Net sales	17,793	17,704	11,111	6,500	53,108

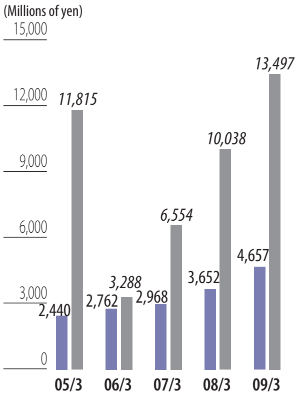
Expenses and Profits

The downward trend in sales was reflected in a 37.4% year-on-year fall in the cost of sales, which amounted to ¥28,034 million. We responded to the recession by implementing cost-cutting measures, including temporary furloughs and employment adjustments. Despite these efforts, lower plant operating rates had a major impact on the ratio of costs to sales, which rose by 3.9 percentage points over the previous year's level to 52.8%. As a result, gross profit on sales fell by 46.5% to ¥25,074 million.

Selling, general and administrative expenses were 9.2% lower year on year at ¥24,998 million. The fall in sales brought reductions in packaging and transportation costs and sales commissions. As business conditions worsened, we also took steps to reduce costs, including the reduction of overtime hours and performance-linked bonuses. However, the ratio of selling, general and administrative expenses to sales rose by 17.1 percentage points year on year to 47.1%.

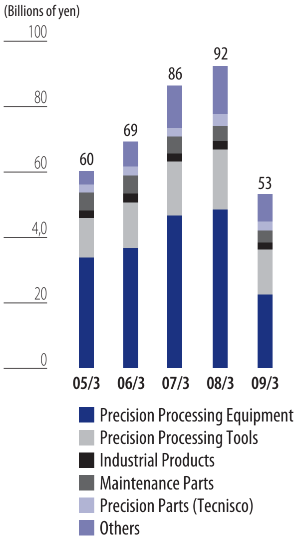
Depreciation
Capital Expenditures

(Millions of yen)



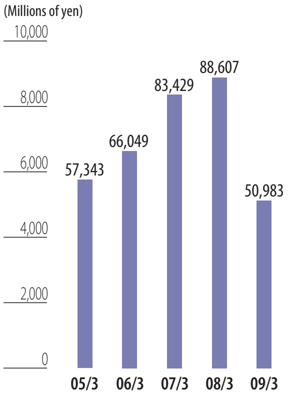
Sales Breakdown by Product

(Billions of yen)



Electronics Industry-Related Products

(Millions of yen)



Quarterly Trends in the Cost of Sales and Selling, General and Administrative Expenses (millions of yen)

	FY2008/1Q	FY2008/2Q	FY2008/3Q	FY2008/4Q	FY2008/Total
Cost of sales	9,067	8,933	5,747	4,287	28,034
Selling, general and administrative expenses	6,872	6,675	6,382	5,069	24,998

Despite intensive development work focusing on laser saws with cutting and grinding capabilities suitable for advanced grinding work, our R&D expenses increased by only 2.4% year on year to ¥8,532 million. The small increase resulted in part from a review of technology development themes.

Operating income amounted to ¥76 million, a year-on-year decline of 99.6%, and the operating income ratio fell by 21.0 percentage points to 0.1%.

Our capital investment priorities were product categories with long-term growth potential and ongoing R&D. Other investment targets included the expansion and enhancement of facilities, the improvement of product reliability, environmental performance and safety, rationalization and the reduction of labor content. In the year under review, capital investment increased by 34.5% to ¥13,497 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 increased by 27.6% to ¥4,657 million.

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

	FY2008/1Q	FY2008/2Q	FY2008/3Q	FY2008/4Q	FY2008/Total
Consolidated net sales (millions of yen)	17,793	17,704	11,111	6,500	53,108
Contributions to net sales					
Precision processing equipment	47%	46%	36%	29%	42%
Consumables	25%	26%	29%	28%	26%
Maintenance parts	7%	6%	6%	6%	7%
Precision parts	5%	5%	6%	7%	5%
Industrial grinding products	3%	3%	4%	6%	4%
Other items	12%	14%	18%	24%	16%

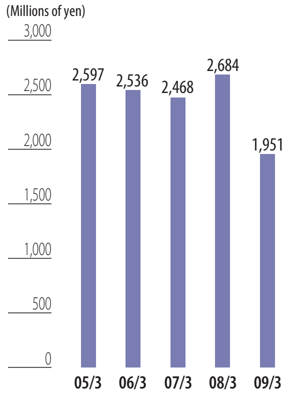
Sales declined in all production segments in the year ended March 2009. In the precision processing system equipment, which is a priority area for DISCO, sales of both thinning and wafer grinders began to decline from the start of the period under review. Sales of dicing saws were substantially lower because of rapid decline in investment in mass-production facilities in the second half of the year. However, sales of laser saws for use in LED manufacturing were relatively strong.

Sales of precision processing tools, which are supplied as consumables, remained high in the first half of the year, but there was a sharp fall in the second half under the impact of the global economic recession. However, sales and orders both bottomed out in January and February, and there were signs of a moderate improvement.

A year-on-year comparison shows that sales declined by 54% in the precision processing equipment segment, 22% in the precision processing tool segment, 20% in the maintenance parts segment, 15% in the precision parts segment, 27% in the industrial grinding product segment, and 42% in the other items segment.

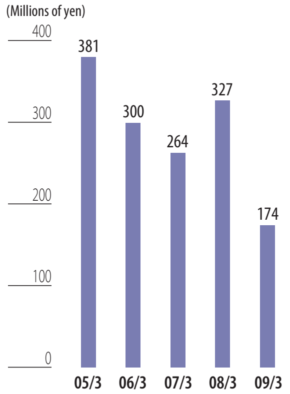
Industrial Products

(Millions of yen)



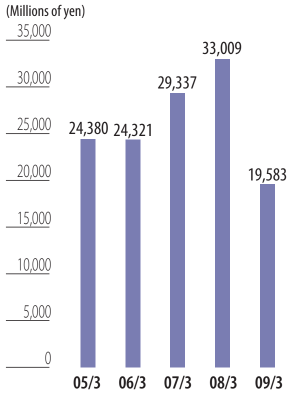
Other Products

(Millions of yen)



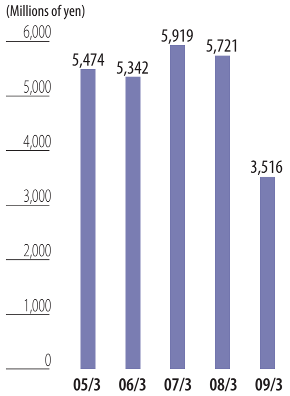
Japan

(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 ended March 2009, sales in this segment declined by 42.5% to ¥50,983 million, and operating income was 87.5% lower at ¥2,745 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.

In the year ended March 2009, the recession caused significant declines in shipments of products for use in the iron and steel and automotive parts industries. Sales were 27.3% lower year on year at ¥1,951 million, while operating income declined by 62.6% to ¥124 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 ended March 2009, sales declined by 46.6% year on year to ¥175 million, and there was an operating loss of ¥74 million, compared with operating income of ¥92 million in the previous year.

Quarterly Trends in Business Segment Sales (millions of yen)

	FY2008/1Q	FY2008/2Q	FY2008/3Q	FY2008/4Q	FY2008/Total
Electronic industry products	17,209	17,137	10,568	6,068	50,983
Industrial grinding products	559	520	498	372	1,951
Other business	24	45	45	60	175

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 2009, semiconductor manufacturers froze their capital investment and implemented major production cutbacks. This impacted on net sales, which fell by 43.8% year on year to ¥32,075 million. Operating income was 93.9% lower at ¥1,144 million.

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

Net sales in North America were 45.3% lower year on year at ¥3,781 million. There was a ¥138 million operating loss, compared with operating income of ¥129 million in the previous consolidated accounting year.

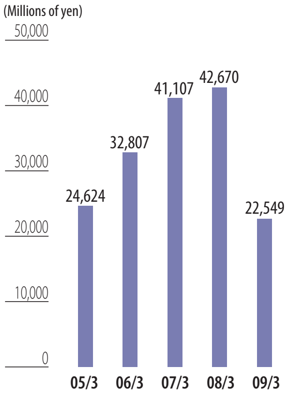
Net sales in Asia declined by 45.1% year on year to ¥9,740 million, while operating income was 77.0% lower at ¥338 million.

Net sales in Europe amounted to ¥7,511 million, and operating income was ¥893 million. These results represent year-on-year declines of 24.1% and 50.1% respectively.

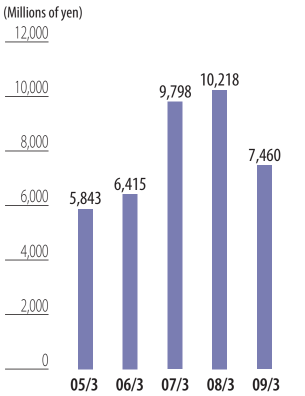
Overseas Sales (Combined net sales to overseas customers by Group companies)

Net sales to North American customers declined by 38.5% year on year to ¥3,516 million, while net sales to customers in Asia were 47.2% lower at ¥22,549 million. Sales to Europe were 27.0% below the previous year's level at ¥7,460 million. As a result, the contribution of overseas sales to consolidated net sales declined by 0.9 percentage points to 63.1%, compared with 64.0% in the previous year.

Asia



Europe



Other Income and Expenses

Other income in the year ended March 2009 amounted to ¥1.366 million. This includes a ¥600 million factory construction subsidy from the Hiroshima Prefectural Government, and ¥54 million from gain on prior period adjustment in the previous fiscal year. There was also a ¥359 million gain on foreign exchange (compared to a loss in the previous year). Other expenses amounted to ¥672 million, including a ¥462 million loss on sale or disposal of property, plant and equipment in connection with the construction of new building at the Kuwabata Plant. As a result, net other income amounted to ¥694 million, compared with a net other loss of ¥882 million in the previous year.

Income before Income Tax and Net Income

Net income before provision for income taxes amounted to ¥771 million, a year-on-year decline of 95.8%. Income taxes were 92.6% lower year on year at ¥547 million, but the effective tax rate was 30.9 percentage points above the previous year's level at 70.2%. Reasons for this change include an increase in the number of items that cannot be included in expenses, such as entertainment expenses, and an increase in valuation reserves.

There was a loss of ¥21 million attributable to minority interests. This relates to minority shareholdings in consolidated subsidiaries, including DISCO Technology (Shanghai) Co., Ltd. and DSD, Ltd.

Net income for the year ended March 31, 2009 amounted to ¥251 million, a year-on-year decline of 97.7%. Net income per share was ¥7.41, compared with ¥327.07 in the previous year.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥4,605 million. Inflows included ¥4,656 million from depreciation and ¥15,863 from the reduction of trade receivables. These items were offset by outflows, including ¥9,454 million for accounts payable, ¥3,802 million for accrued liabilities, and ¥2,918 million for income taxes.

Cash Flows from Investing Activities

Net cash used for investing activities amounted to ¥13,586 million. This resulted mainly from expenditure of ¥13,677 million on the acquisition of tangible fixed assets, including construction payments relating to the expansion of the head office and R&D Center and the construction of new buildings at the Kuwabata and Chino Plants.

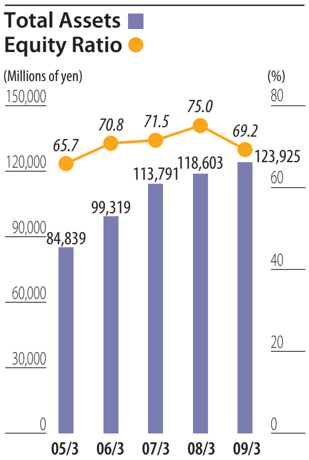
As a result, free cash flows, which are calculated by adding cash flows from operating activities to cash flows from investing activities, were negative ¥9,002 million, compared with negative ¥2,529 million in the previous year.

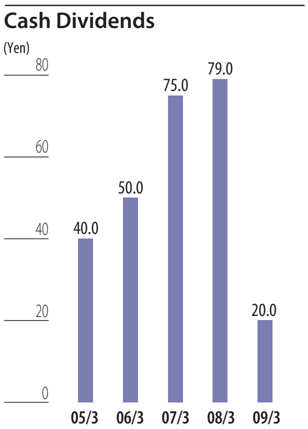
Cash Flows from Financing Activities

Despite dividend payments of ¥1,834 million by the parent company, net cash provided by financing activities amounted to ¥24,363 million. This includes net inflows of ¥1,048 million from short-term bank loans and ¥26,046 million from proceeds from long-term debt, including corporate bonds.

Cash and Cash Equivalents

Cash and cash equivalents amounted to ¥33,418 million as of March 31, 2009. This represents an increase of ¥15,355 million from the position a year earlier.





Financial Position

Assets

Total assets amounted to ¥123,925 million as of March 31, 2009, an increase of ¥5,321 million from the position a year earlier. Despite a ¥14,355 million increase in cash and cash equivalents, current assets declined by ¥3,574 million. Reasons include a ¥16,134 million reduction in bills and accounts receivable and a ¥1,224 million decline in deferred tax assets. Fixed assets increased by ¥8,989 million because of factors that included increases of ¥6,716 million in buildings and structures, ¥2,655 million in machinery and equipment. Accumulated depreciation increased by ¥1,684 million, to ¥23,004 million. As a result, net property, plant and equipment was ¥48,542 million, an increase of ¥7,305 million.

Liabilities

Total Liabilities increased by ¥8,658 million year on year to a total of ¥37,596 million as of March 31, 2009. Despite a ¥1,011 million increase in short-term bank loans, current liabilities were ¥14,493 million lower year on year. Reasons include reductions of ¥9,357 million in notes and accounts payable–trade, ¥5,187 million in other current liabilities, and ¥1,519 million in accrued income taxes. Long-term liabilities increased by ¥23,151 million because of factors that included increases of ¥23,847 million in long-term debt, including corporate bonds.

These borrowings were procured in advance of requirements to provide the funds needed to ensure continuing business stability even if the present recession lasts for five years. Interest-bearing debt increased by ¥27,122 million from the position as of March 31, 2008 to ¥27,723 million. The interest-bearing debt ratio now stands at 22.4%.

Net Assets

Net assets amounted to ¥86,328 million as of March 31, 2009. This represents a decline of ¥3,336 million from the position a year earlier. Changes affecting net assets included reductions of ¥1,581 million in retained earnings and ¥747 million in foreign currency translation adjustments, and an ¥801 million increase in treasury stock.

The shareholders' equity ratio as of March 31, 2009 was 69.2%, a decline of 5.8 percentage points from the position at the end of the previous consolidated accounting year. The ratio of net income to shareholders' equity was 0.3%, a decline of by 12.8 percentage points from the previous year's ratio of 13.1%.

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 annual dividend for the year ended March 2009 has been set at ¥20, consisting of interim and final dividend payments of ¥10 each.

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’s main products are based on the diamond wheel cutting method, which has been established as the optimal method after extensive evaluations by numerous manufacturers of semiconductors and electronic components. The business performance of the DISCO Group could be adversely affected by the emergence of an alternative technology in the future.

The DISCO Group also develops and sells laser saws. Laser cutting technology can be used with materials that are difficult to cut with precision diamond saws.

(3) Disasters

The DISCO Group has its corporate headquarters and R&D Center in Ota Ward, Tokyo and its production facilities in Hiroshima Prefecture and Nagano Prefecture. Corporate functions and production activities could be affected if any of these areas are affected in the future by major earthquakes, outbreaks of new strains of influenza or other contingencies.

The Group implements business continuity management (BCM). It has also completed anti-seismic measures in new buildings at its Kure Plant in October 2007, and in its head office and R&D Center in November 2008. These measures will enhance the ability of corporate functions and production operations to withstand the effects of earthquakes. We plan to complete anti-seismic measures in the new building at the Kuwabata Plant in the summer of 2009. We are also strengthening the ability of the DISCO Group to cope with disasters by implementing pandemic training and exercises in preparation for outbreaks of new strains of influenza.

(4) Exchange Rate Fluctuations

The DISCO Group trades with manufacturers of semiconductors and electronic components in Japan and worldwide. In principle, these transactions are conducted in yen, but it is necessary to settle some export transactions in other currencies, such as the U.S. dollar, euro or Singapore dollar. Because the Group’s products are mostly manufactured in Japan, production costs are denominated in yen. This means that the Group’s business performance could be affected by currency fluctuations affecting certain transactions denominated in foreign currencies.

(5) Other Risks

In addition to the risk factors described above, the business activities of the DISCO Group could also be affected by global or regional economic crises, natural disasters, wars, terrorism, financial and capital market trends, laws and government regulations, product defects, problems with the supply systems of suppliers, and infringements of intellectual property rights. The business performance of the DISCO Group could be adversely affected by any of these contingencies.

Consolidated Balance Sheets

March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2009	2008	2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 33,419	¥ 18,063	$ 340,212
Notes and accounts receivable-trade:			
Trade	10,801	27,050	109,956
Unconsolidated subsidiaries and associated companies	162	48	1,649
Allowance for doubtful receivables	(71)	(38)	(723)
Inventories (note 5)	18,778	19,931	191,164
Deferred tax assets (note 10)	980	2,205	9,977
Prepaid expenses and other current assets	2,237	2,622	22,773
Total current assets	66,306	69,881	675,008
PROPERTY, PLANT AND EQUIPMENT:			
Land	12,787	12,804	130,174
Buildings and structures	27,552	20,836	280,484
Machinery and equipment	20,216	17,561	205,803
Tools, furniture and fixtures	4,133	3,945	42,075
Construction in progress	6,858	7,411	69,816
Total	71,546	62,557	728,352
Accumulated depreciation	(23,004)	(21,320)	(234,185)
Net property, plant and equipment	48,542	41,237	494,167
INVESTMENTS AND OTHER ASSETS:			
Investment securities (note 4)	728	543	7,411
Investments in unconsolidated subsidiaries and associated companies (note 6)	173	188	1,761
Leasehold land	215	215	2,189
Long-term deposits (note 7)	5,200	5,000	52,937
Deferred tax assets (note 10)	1,522	321	15,494
Bond issuance cost	20	—	204
Other	1,256	1,283	12,786
Allowance for doubtful receivables	(37)	(65)	(377)
Total investments and other assets	9,077	7,485	92,405
TOTAL	¥123,925	¥118,603	$1,261,580

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2009	2008	2009
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Notes and accounts payable-trade	¥ 3,603	¥ 12,960	$ 36,679
Short-term bank loans (note 7)	1,073	61	10,923
Current portion of long-term debt	2,203	122	22,427
Accrued expenses	1,949	3,472	19,841
Accrued income taxes (note 10)	215	1,734	2,189
Other current liabilities (note 10)	2,828	8,015	28,790
Total current liabilities	11,871	26,364	120,849
LONG-TERM LIABILITIES:			
Long-term debt (note 7)	24,447	600	248,875
Accrued retirement benefits (note 8)	536	1,001	5,456
Negative goodwill	210	299	2,138
Other long-term liabilities (note 10)	532	674	5,416
Total liabilities	37,596	28,938	382,734
NET ASSETS (notes 9 and 18):			
SHAREHOLDERS' EQUITY:			
Common stock, authorized 72,000,000 shares; issued and outstanding, 34,004,418 shares in 2009 and 33,995,418 shares in 2008.	14,517	14,517	147,786
Additional paid-in capital	15,599	15,599	158,801
Retained earnings	57,343	58,924	583,762
Treasury stock - at cost, 399,666 shares in 2009 and 59,254 shares in 2008.	(1,071)	(270)	(10,903)
Total	86,388	88,770	879,446
VALUATION AND TRANSLATION ADJUSTMENTS:			
Other securities valuation difference	0	24	0
Translation adjustments	(610)	137	(6,210)
Total	(610)	161	(6,210)
SHARE SUBSCRIPTION RIGHTS	421	208	4,286
MINORITY INTERESTS	130	526	1,324
Total net assets	86,329	89,665	878,846
CONTINGENT LIABILITIES			
TOTAL	¥123,925	¥ 118,603	$ 1,261,580

Consolidated Statements of Income

Years Ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2009	2008	2009
NET SALES	¥ 53,108	¥ 91,618	$ 540,649
COST OF SALES (notes 8 and 11)	28,034	44,758	285,391
Gross profit	25,074	46,860	255,258
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (notes 8, 10, 11 and 12)	24,998	27,526	254,484
Operating income	76	19,334	774
OTHER INCOME (EXPENSES):			
Interest and dividend income	142	255	1,446
Interest expense	(52)	(24)	(529)
Foreign exchange gain (loss)	359	(1,254)	3,654
Equity in earnings gain of associated companies	30	68	305
Amortization of negative goodwill	124	90	1,262
Subsidy income	600	—	6,108
Reversal of provisions for bad debt	6	50	61
Loss on sale or disposal of property, plant and equipment	(462)	(19)	(4,703)
Loss on disposal of inventories	—	(90)	—
Gain on prior period adjustment	54	—	550
Lay off expenses	(158)	—	(1,608)
Other, net	51	42	519
	694	(882)	7,065
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	770	18,452	7,839
INCOME TAXES (note 10)			
Income taxes - Current	639	6,071	6,505
Income taxes - Deferred	(99)	1,186	(1,008)
	540	7,257	5,497
INCOME BEFORE MINORITY INTERESTS	230	11,195	2,342
MINORITY INTERESTS	21	(83)	213
NET INCOME	¥ 251	¥ 11,112	$ 2,555

	Yen		U.S. dollars (note 3)
	2009	2008	2009
AMOUNT PER SHARE OF COMMON STOCK:			
Net income			
Basic	¥ 7.41	¥ 327.07	$ 0.08
Diluted	7.40	326.27	0.08
Cash dividends applicable to the year	20.00	79.00	0.20

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Years Ended March 31, 2009 and 2008

	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, 2007	33,982,518	¥14,485	¥15,567	¥50,553	¥ (53)	¥ 59	¥696	¥ 66	¥451	¥81,824
Increase due to issuance of common stock	12,900	32	32							64
Cash dividend paid				(2,718)						(2,718)
Net income				11,112						11,112
Purchases of treasury stock					(218)					(218)
Disposal of treasury stock				0	1					1
Net increase (decrease) during the year				(23)		(35)	(559)	142	75	(400)
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)
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

	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, 2008	33,995,418	$147,786	$158,801	$599,857	$(2,749)	$244	$1,395	$2,117	$5,355	$912,806
Increase due to issuance of common stock	9,000	0								0
Cash dividend paid				(18,650)						(18,650)
Net income				2,555						2,555
Purchases of treasury stock					(8,154)					(8,154)
Net increase (decrease) during the year						(244)	(7,605)	2,169	(4,031)	(9,711)
BALANCE at MARCH 31, 2009	34,004,418	$147,786	$158,801	$583,762	$(10,903)	$0	$(6,210)	$4,286	$1,324	$878,846

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2009	2008	2009
OPERATING ACTIVITIES:			
Net income	¥ 251	¥ 11,112	$ 2,555
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,657	3,652	47,409
Loss on sale or disposal of property, plant and equipment	417	19	4,245
Loss on disposal of inventories	—	90	—
Amortization of negative goodwill	(124)	(90)	(1,262)
Devaluation loss on investment securities	24	0	244
Equity in earnings of associated companies	(30)	(68)	(305)
Decrease in notes and accounts receivable-trade	15,863	46	161,488
Decrease (Increase) in inventories	1,024	(4,267)	10,425
Increase (Decrease) in notes and accounts payable-trade	(9,454)	705	(96,244)
Decrease in accrued income taxes	(2,378)	(1,614)	(24,209)
Increase(Decrease) in accrued bonus	(972)	370	(9,895)
Increase(Decrease) in allowance for doubtful receivables	14	(365)	143
Increase(Decrease) in allowance for warranty cost	8	(226)	81
Decrease in accrued retirement benefits	(468)	(402)	(4,764)
Increase(Decrease) in accounts payable-non trade	(3,803)	911	(38,715)
Other, net	(424)	(577)	(4,316)
Net cash provided by operating activities	4,605	9,296	46,880
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(13,677)	(9,449)	(139,234)
Proceeds from sales of property, plant and equipment	40	54	407
Purchases of investment securities	(578)	(120)	(5,884)
Decrease(Increase) of time deposits over one year	800	(2,000)	8,144
Increase in other assets	(171)	(311)	(1,741)
Net cash used in investing activities	(13,586)	(11,826)	(138,308)
FINANCING ACTIVITIES:			
Short-term bank loans, net	1,048	(236)	10,668
Proceeds from long-term debt	26,046	600	265,153
Repayment of long-term debt	(96)	(700)	(977)
Cash dividends paid	(1,834)	(2,717)	(18,670)
Issuance of common stock	0	64	0
Purchases of treasury stock	(801)	(218)	(8,154)
Other	—	27	—
Net cash provided by (used in) financing activities	24,363	(3,180)	248,020
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(26)	(272)	(265)
NET CHANGE IN CASH AND CASH EQUIVALENTS	15,356	(5,982)	156,327
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,063	24,045	183,885
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 33,419	¥ 18,063	$ 340,212

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2009 and 2008

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.

In years prior to the year ended March 31, 2009, the accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

Adoption of Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements -"Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan ("ASBJ") PITE No.18 issued on May 17, 2006) was adopted for the year ended March 31, 2009 and the necessary adjustments are reflected in the consolidated financial statements. As a result of this adoption, the accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 are prepared in accordance with Japanese GAAP. The adoption had no effect.

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, 2009 and 2008, 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, 2009 and 2008, 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— As of March 31, 2008, inventories of the Companies are stated at the cost or the lower of cost or market value. 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 determined by the moving average method.

As of March 31, 2009, 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.

Change in Valuation Method for Inventories

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9 issued on July 5, 2006) was adopted in year ended March 31, 2009. As a result of the adoption, operating income and income before income taxes both decreased by ¥39 million ($397 thousand).

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.

Additional Information

The range of useful lives for machinery and equipment was changed from 2 to 12 years by the effect of the revision of Corporation Tax Act and reassessment of the economic useful lives. (The former range of useful lives was from 3 to10 years.)

Accordingly, operating income and income before income taxes of this fiscal year reduced ¥318 million ($3,237 thousand).

g. Deferred Assets—Bond insurance 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.

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.

Additional Information

With the enforcement of the Defined Contribution Pension Law, on November 1, 2007, the Company and two consolidated domestic subsidiaries changed certain portions defined benefit pension plan to a defined contribution pension plan. The Company and consolidated domestic subsidiaries have adopted "Accounting for Transfer between Retirement Benefit Plans" (the Financial Accounting Standard Implementation Guidance No.1).

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 33,901,704 shares and 33,975,631 shares in 2009 and 2008, 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 33,956,951 shares and 34,059,409 shares in 2009 and 2008, 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 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.

Change in Accounting for Leases

"Accounting Standard for Lease Transactions" (ASBJ Statement No.13) and "Guidance on Accounting Standard for Lease Transactions (ASBJ Guidance No.16) were adopted for the year ended March 31, 2009. The adoption had no effect.

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 ¥98.23=U.S.$1, the approximate exchange rate prevailing on the Tokyo Exchange Market on March 31, 2009. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

4. INVESTMENT SECURITIES

The cost and carrying amounts of securities with fair market values at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cost	¥ 68	¥ 77	$ 692
Aggregate market value (carrying amount)	69	118	702

5. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Merchandise	¥ 2,963	¥ 2,392	$ 30,164
Finished goods	2,570	2,475	26,163
Work in process	5,139	6,843	52,316
Raw materials and supplies	8,106	8,221	82,521
Total	¥18,778	¥19,931	$191,164

6. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in unconsolidated subsidiaries and associated companies at March 31, 2009 and 2008 were as follows:

	Equity Ownership percentage *1	Millions of yen		Thousands of U.S. dollars
		2009	2008	2009
Unconsolidated subsidiaries:				
DISCO HI-TEC MOROCCO SARL *2	100.0%	¥ 1	¥ 1	$ 10
KKM INVESTMENT Co.,Ltd.*3	100.0	30	20	305
Associated companies:				
Dura Systems Corporation*4	43.1	10	10	102
APPLIED PRECISION, INC.*5	39.1	38	38	387
DHK Solution Corporation*6	30.0	94	119	957
Total		¥ 173	¥ 188	$ 1,761

*1 Direct and indirect ownership at March 31, 2009.
*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.

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

Short-term bank loans at March 31, 2009 and 2008 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.1% to 7.3% and 6.4% at March 31, 2009 and 2008, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
0.8% yen bond, due 2013	¥ 3,000	—	$ 30,541
Loans from banks and other financial institutions, due through 2014 with interest rates ranging from 1.2% to 4.0% and from 1.6% to 6.2% at March 31, 2009 and 2008	23,650	722	240,761
Total	26,650	722	271,302
Less current portion	2,203	122	22,427
Long-term debt, less current portion	¥ 24,447	¥ 600	$ 248,875

The pledged assets as collateral for long-term debt at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Time deposits	¥ 5,000	—	$ 50,901

Liabilities corresponding to the pledged assets above:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current portion of long-term debt	¥ 500	—	$ 5,090
Long-term debt	4,800	—	48,865
Total	¥ 5,300	—	$ 53,955

Annual maturities of long-term debt at March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2010	¥ 2,203	$ 22,427
2011	2,243	22,834
2012	2,204	22,437
2013	16,000	162,883
2014	4,000	40,721
Total	¥ 26,650	$ 271,302

The Company and the consolidated subsidiaries maintains credit lines of ¥13,132 million ($133,686 thousand) in the aggregate with five banks. At March 31, 2009, the used line of credit was ¥1,000 million ($10,180 thousand) and the unused line of credit was ¥12,132 million ($123,506 thousand).

The Company and the subsidiaries maintains long-term debt commitments of 10,000 million ($101,802 thousand) with four banks. At March 31, 2009, the unused line of credit was ¥10,000 million ($101,802 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 maintains a syndicate loan agreement of ¥12,000 million ($122,162 thousand) in the aggregate with The Bank of Tokyo-Mitsubishi UFJ, Ltd. This program has certain debt covenants and if the Company violates 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 Company's balance sheet must equal or exceed 75% of the larger of the total amount of net assets at the end of the most recent year or the fiscal year ended March 31, 2008.
- Ordinary profit in the stand alone income statement must not be negative for two consecutive years.

The Company maintains a loan agreement of ¥5,000 million ($50,901 thousand) with Mizuho Bank, Ltd. This program has certain debt covenants and if the Company violates 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 Company's balance sheet must equal or exceed 75% of the total amount of net assets at the end of fiscal year ended March 31, 2008.
- Ordinary profit in the stand alone income statement must not be negative for two consecutive years.

8. 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, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost - benefits earned during the year	¥ 371	¥ 440	$ 3,777
Interest cost on projected benefit obligation	95	106	967
Expected return on plan assets	(93)	(94)	(947)
Amortization of actuarial loss	(117)	(303)	(1,191)
Amortization of prior service cost	(419)	—	(4,265)
Other	229	88	2,331
Net periodic costs	¥ 66	¥ 237	$ 672

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Benefit obligations at end of year	¥5,283	¥4,817	$53,782
Fair value of plan assets at end of year	(4,211)	(4,664)	(42,869)
Unrecognized actuarial gain and loss	(1,403)	(439)	(14,283)
Unrecognized prior service cost	839	1,259	8,541
Prepaid expense	—	5	—
Accrued retirement benefits	¥ 508	¥ 978	$ 5,171

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 ¥28 million ($285 thousand) and ¥23 million at March 31, 2009 and 2008, respectively. Amounts payable to them upon retirement are subject to shareholders' approval.

9. 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 23, 2009, the shareholders approved cash dividends amounting to ¥336 million ($3,421 thousand). Such appropriations have not been accrued in the consolidated financial statement as of March 31, 2009. 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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred gain on sales of property, plant and equipment	¥ 34	¥ 38	$ 346
Contribution gain from a local government	4	4	41
Total	¥ 38	¥ 42	$ 387

10. 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, 2009 and 2008.

For the year ended March 31, 2009 and 2008, respectively, the value-added input and capital input portions of enterprise tax amounting to ¥98 million ($998 thousand) and ¥195 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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Property, plant and equipment, leasehold land and other assets - intercompany profits	¥ 195	¥ 186	$ 1,985
Inventories - intercompany profits	232	623	2,362
Devaluation loss on inventories	177	182	1,802
Retirement benefits for employees	210	397	2,138
Long-term prepaid expenses	29	72	295
Accrued business taxes	4	197	41
Accrued bonuses	523	871	5,324
Allowance for warranty costs	18	43	183
Net operating loss carryforwards	1,268	128	12,909
Long-term liabilities	189	189	1,924
Devaluation loss on investment securities	384	440	3,909
Impairment loss on fixed assets	128	128	1,303
Others	540	632	5,497
Total deferred tax assets	3,897	4,088	39,672
Valuation allowance	(854)	(903)	(8,694)
Net deferred tax assets	3,043	3,185	30,978
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	457	730	4,652
Others	90	74	916
Total deferred tax liabilities	547	804	5,568
Net deferred tax assets	¥2,496	¥ 2,381	$ 25,410

Net deferred tax assets were included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current assets - Deferred tax assets	¥ 980	¥ 2,205	$ 9,977
Investments and other assets - Deferred tax assets	1,522	321	15,494
Current liabilities - Other current Liabilities	(0)	(0)	(0)
Long-term liabilities - Other long-term Liabilities	(6)	(145)	(61)
Total	¥2,496	¥ 2,381	$ 25,410

The effective tax rate differs from the normal tax rate at March 31, 2009 and 2008 for the following reasons:

	2009	2008
Japanese normal income tax rate	40.7%	40.7%
Expenses not deductible /income not assessable for tax purposes	14.4	1.4
Increase of valuation allowance	15.3	(0.1)
Nondeductible foreign withholding tax	12.4	—
Tax credit in relation to research and development costs	—	(2.3)
Income taxes for prior period	(12.9)	2.3
Other, net	0.3	(2.7)
Effective income tax rate	70.2	39.3

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the years ended March 31, 2009 and 2008 were ¥8,532 million ($86,857 thousand) and ¥8,332 million, respectively.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of "Selling, general and administrative expenses" for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Packing and freight costs	¥ 893	¥ 1,235	$ 9,091
Sales commissions	772	1,753	7,859
Provision for product guarantees	826	525	8,409
Salaries and bonuses	5,935	6,391	60,419
Provision for bonuses	668	893	6,800
Provision of allowance for doubtful accounts	35	58	356
Depreciation and amortization	971	863	9,885
Research and development expenses	¥ 8,517	¥ 8,314	$ 86,705

13. 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, 2009 and 2008, as if they had been capitalized, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Acquisition cost	¥ 1,486	¥ 1,946	$ 15,128
Accumulated depreciation	666	975	6,780
Net balance	¥ 820	¥ 971	$ 8,348

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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 89	¥ 139	$ 906
Due after one year	731	890	7,442
Total	¥ 820	¥ 1,029	$ 8,348

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 ¥155 million ($1,578 thousand) and ¥181 million for the years ended March 31, 2009 and 2008, respectively.

Obligations under operating leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 123	¥ 128	$ 1,252
Due after one year	800	880	8,144
Total	¥ 923	¥ 1,008	$ 9,396

14. 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, 2009 and 2008 were as follows:

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2009			2008			2009		
	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward - to sell foreign currencies:									
U.S. dollar	¥ 5,282	¥ 5,684	¥ (402)	¥ 7,503	¥ 7,582	¥ (79)	$ 53,772	$ 57,864	$ (4,092)
Singapore dollar	14	15	(1)	1,111	1,118	(7)	143	153	(10)
Euro	612	661	(49)	404	410	(6)	6,230	6,729	(499)
Total	¥ 5,908	¥ 6,360	¥ (452)	¥ 9,018	¥ 9,110	¥ (92)	$ 60,145	$ 64,746	$ (4,601)

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2009			2008			2009		
	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward - to buy foreign currencies:									
U.S. dollar	¥ 2,133	¥ 2,273	¥ 140	¥ —	¥ —	¥ —	$ 21,714	$ 23,139	$ 1,425
Euro	0	0	0	—	—	—	0	0	0
Total	¥ 2,133	¥ 2,273	¥ 140	¥ —	¥ —	¥ —	$ 21,714	$ 23,139	$ 1,425

15. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Interest	¥ 72	¥ 24	$ 733
Income taxes	2,919	8,871	29,716

16. SEGMENT INFORMATION

a. Operations in Different Industries

Information about the Companies' operations in different industries as of and for the years ended March 31, 2009 and 2008 is as follows:

(1) Net sales and operating income

	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

	Millions of yen				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
Year ended March 31, 2008:					
Net sales to external customers	¥ 88,607	¥ 2,684	¥ 327	¥ —	¥ 91,618
Intersegment net sales	140	45	146	(331)	—
Total net sales	88,747	2,729	473	(331)	91,618
Operating expenses	66,858	2,398	381	2,647	72,284
Operating income	¥ 21,889	¥ 331	¥ 92	¥ (2,978)	¥ 19,334

	Thousands of U.S. dollars				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
Year ended March 31, 2009:					
Net sales to external customers	$519,017	$19,861	$ 1,771	$ —	$540,649
Intersegment net sales	—	397	1,049	(1,446)	—
Total net sales	519,017	20,258	2,820	(1,446)	540,649
Operating expenses	491,072	18,996	3,573	26,234	539,875
Operating income	$27,945	$ 1,262	$ (753)	$(27,680)	$ 774

(2) Assets, depreciation and capital expenditures

	Millions of yen				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
As of and for the 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**

	Millions of yen				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
As of and for the year ended March 31, 2008					
Assets	¥ 82,438	¥ 3,042	¥ 180	¥ 32,943	¥118,603
Depreciation and amortization	3,288	100	2	262	3,652
Capital expenditures	6,841	23	3	3,171	10,038

	Thousands of U.S. dollars				
	Industry A	Industry B	Industry C	Eliminations (Corporate)	Consolidated
As of and for the year ended March 31, 2009					
Assets	**$743,398**	**$ 24,249**	**$ 1,710**	**$ 492,223**	**$ 1,261,580**
Depreciation and amortization	**42,675**	**845**	**20**	**3,869**	**47,409**
Capital expenditures	**126,804**	**255**	**61**	**10,282**	**137,402**

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 ¥2,749 million ($27,985 thousand) and ¥3,006 million for the years ended March 31, 2009 and 2008, respectively.
Corporate assets included in "Eliminations (Corporate)" amounted to ¥48,498 million ($493,719 thousand) and ¥33,009 million at March 31, 2009 and 2008, respectively.

b. Geographic information

Geographic information of the Companies by area of origin for the years ended March 31, 2009 and 2008 is summarized as follows:

	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**

	Millions of yen					
	Japan	North America	Asia	Europe	Eliminations (Corporate)	Consolidated
Year ended March 31, 2008:						
Net sales to external customers	¥ 57,069	¥ 6,912	¥ 17,740	¥ 9,897	—	¥ 91,618
Interarea net sales	24,338	85	882	65	(25,370)	—
Total net sales	81,407	6,997	18,622	9,962	(25,370)	91,618
Operating expenses	62,621	6,868	17,150	8,172	(22,527)	72,284
Operating income	¥ 18,786	¥ 129	¥ 1,472	¥ 1,790	¥ (2,843)	¥ 19,334
Assets	¥ 77,080	¥ 2,919	¥ 10,337	¥ 4,172	¥ 24,095	¥118,603

	Thousands of U.S. dollars					
	Japan	North America	Asia	Europe	Eliminations (Corporate)	Consolidated
Year ended March 31, 2009:						
Net sales to external customers	$ 326,540	$ 38,491	$ 99,155	$ 76,463	—	$ 540,649
Interarea net sales	144,447	509	9,742	81	(154,779)	—
Total net sales	470,987	39,000	108,897	76,544	(154,779)	540,649
Operating expenses	459,330	40,415	105,456	67,454	(132,780)	539,875
Operating income	$ 11,657	$ (1,415)	$ 3,441	$ 9,090	$ (21,999)	$ 774
Assets	$ 693,434	$ 18,304	$ 63,453	$ 28,433	$ 457,956	$1,261,580

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, 2009 and 2008 are summarized as follows:

	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%

	Millions of yen			
	North America	Asia	Europe	Total
Year ended March 31, 2008:				
Net sales to foreign customers	¥ 5,721	¥42,670	¥10,218	¥58,609
Total net sales to domestic and foreign customers				¥91,618
Net sales to foreign customers as a percentage of total net sales	6.2%	46.6%	11.2%	64.0%

	Thousands of U.S. dollars			
	North America	Asia	Europe	Total
Year ended March 31, 2009:				
Net sales to foreign customers	$ 35,794	$229,553	$ 75,944	$341,291
Total net sales to domestic and foreign customers				$540,649
Net sales to foreign customers as a percentage of total net sales	6.6%	42.5%	14.0%	63.1%

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

17. STOCK COMPENSATION

On November 5, 2003, the Board of Directors approved another stock option plan. Under the terms of the plan, new stock acquisition rights were granted on November 13, 2003 to certain directors and employees of the Companies. There were 543 units of outstanding stock acquisition rights at March 31, 2009 and 54,300 new shares of common stock were available for awards. The stock options can be exercised at ¥6,320 per share until November 13, 2009.

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 464 units of outstanding stock acquisition rights at March 31, 2009 and 46,400 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 997 units of outstanding stock acquisition rights at March 31, 2009 and 99,700 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 617 units of outstanding stock acquisition rights at March 31, 2009 and 61,700 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 ¥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 708 units of outstanding stock acquisition rights at March 31, 2009 and 70,800 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 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 820 units of outstanding stock acquisition rights at March 31, 2009 and 82,000 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.

By resolution at the general shareholders' meeting held on June 23, 2009, 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.

18. 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
	2009	
Year-end cash dividends, ¥10 ($0.1) per share	¥ 336	$ 3,421

b. Stock Option Plans

Stock option plans were approved at the annual meeting of shareholders held on June 23, 2009. The details of these stock option plans are described in the note 17 "STOCK COMPENSATION".

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of DISCO CORPORATION:

We have audited the accompanying consolidated balance sheets of DISCO CORPORATION and consolidated subsidiaries as of March 31, 2009 and 2008, 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, 2009 and 2008, 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, 2009 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 23 , 2009

About DISCO

Directors / Corporate Auditors and Operating Officers

(As of June 23, 2009)

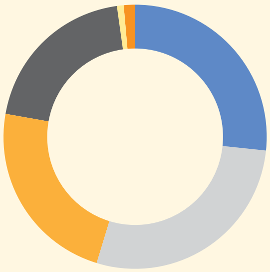
Hitoshi Mizorogi	Chairman and CEO, Representative Director
Kazuma Sekiya	President and COO, Representative Director Chief Information Officer (CIO), General Manager, Engineering R&D Division
Keizo Sekiya	Executive Director Concurrent with President of Tecnisco
Hideyuki Sekiya	Director, Member of the 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
Susumu Tamari	Corporate Auditor
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, 2009)

Shares of Common Stock Issued:	34,004,418
Number of Shareholders:	13,661
Annual Shareholders' Meeting:	June
Stock Listing:	Tokyo Stock Exchange, 1st Section (6146)

Share Ownership by Shareholder Type:



Corporate Data

(As of March 31, 2009)

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): 1,641	
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 TECHNOLOGY (SHANGHAI) 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