



OSG Corporation

Annual Report 2010

Year ended November 30, 2010

Sharper than ever

Recovery achieved: Sharpening our edge for further growth

Founded in 1938, OSG Corporation is one of the world's leading cutting tool manufacturers. We specialize in the manufacture and sales of taps, end mills, drills and other solid tools that are essential to the global manufacturing industry.

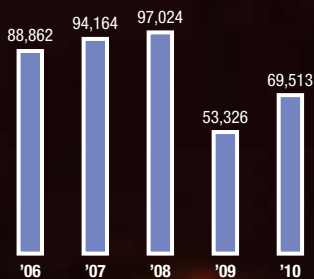
When the global recession struck after the Lehman Shock in 2008, seriously affecting our earnings, we focused all of our resources on building a highly resilient and cost-efficient corporate structure. Our expressed goal was to make a V-shaped recovery to positive results during the year ending November 30, 2010. And we did.

By improving the quality, costs and delivery times of our products, and by drastically improving the efficiency of our operations worldwide, we are now back in black—and on track for growth.

Net Sales

Strong demand in Asia and improved conditions in developed-country markets helped to lift net sales 30% above the previous year's level.

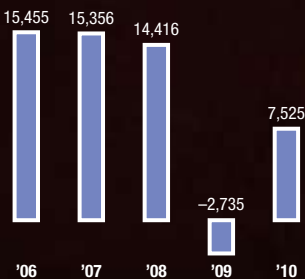
(Millions of yen)



Operating Income

Operating income moved into positive figures, reflecting improved operating rates and cost-cutting efforts in manufacturing operations.

(Millions of yen)



Cash Flow Margin

Operating activities generated cash flow of ¥14,096 million. The cash flow margin was the highest for the past ten years.

(%)



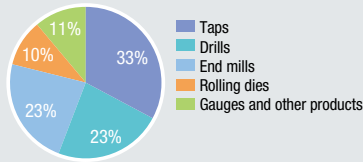
- ➔ **The OSG brand is known worldwide for quality and precision**, and built on high-value-added products that combine top-grade R&D and manufacturing.
- ➔ **We are the undisputed No. 1 in taps, HSS end mills and carbide end mills in Japan and also top-ranked globally.** We supply Japan's major automotive makers with **70% or more** of their taps for engine component manufacturing.
- ➔ To give each customer precisely the tools they need, we have honed extensive proposal capabilities that let us **work closely with customers at all stages from materials development to after-sales services.**
- ➔ We have business sites in 25 countries, and **tailor sales and manufacturing to each local market.** A key focus is the **fast-growing economies of Asia, where the shift in global production drives expanding tool demand.**

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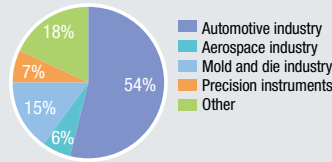
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OSG at a Glance

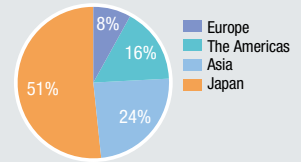
% of Net Sales



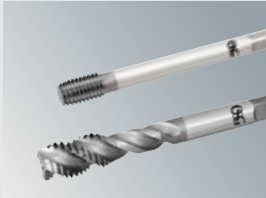
Sales by Industry



Overseas Sales Ratio

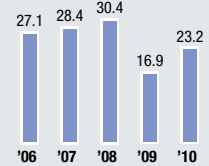


Taps



Taps are used to cut screw threads on the inside surfaces of holes, creating the “female” half (nut) of the screw. High precision is of vital importance, particularly in areas such as automotive engines, which require precision screws. We offer a lineup of taps with diameters ranging from small to large and with specifications suitable for a wide variety of uses. We have the top market share for taps not just in Japan but also in the world.

Net Sales (Billions of yen)

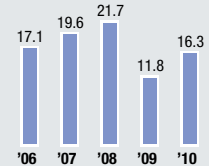


Drills



Drills are used to make holes in a wide range of surfaces. We have received high acclaim for our development of high-precision, high-value-added products for use in automotive and aircraft part manufacture, which demands advanced processing techniques and zero margin of error.

Net Sales (Billions of yen)

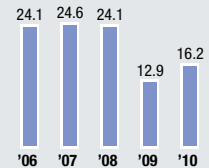


End Mills

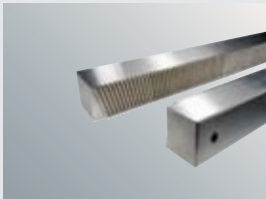


End mills are used to cut and contour molds for plastic parts, for instance for electric home appliances, as well as die-casting dies for automotive parts and stamping molds. To meet today's demanding requirements, such as smaller size, lower weight and reduced cost, we are currently focusing on developing new products that utilize our advanced proprietary coating technology.

Net Sales (Billions of yen)

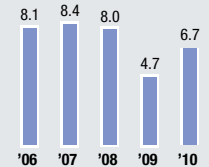


Rolling Dies



Thread rolling dies are used to copy threading onto metal bars to make “male” screws (bolts); the process consists of rolling the bar between two thread rolling dies tightly pressed to each side. OSG manufactures cylindrical and flat rolling dies for screws, worms and serrations, thread rolling planetary dies and counter-flow rolling dies, in accordance with their intended use.

Net Sales (Billions of yen)

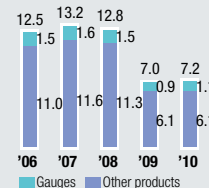


Gauges and Other Products



Gauges are used to inspect the final dimension of holes and threads. We started to market screw thread gauges for ISO-class specifications soon after JIS (Japan Industrial Standards) introduced the ISO gauge standard. OSG provides not only gauges but also a gauge calibration service to meet customer demand.

Net Sales (Billions of yen)



Economic conditions in fiscal 2010 (ended November 30, 2010) were characterized by gradual but sustained growth as economies around the world began to emerge from the global recession. This improvement resulted in part from stimulus measures implemented by their respective governments. The cutting tool industry enjoyed a market recovery driven by buoyant demand from the automotive and electronics industries, especially in the emerging economies of China and South Asia.

Under its three-year management plan, The Next Stage 10, which covers the period from fiscal 2010 to fiscal 2012, the OSG Group worked in this environment to achieve dynamic overseas expansion while expanding sales to key user industries. The entire OSG Group also continued to implement the V2010 Project, which we launched in June 2009 to streamline operations and raise product competitiveness.

Buoyant orders, especially from Asia, were reflected in a strong recovery of consolidated net sales, while efforts to strengthen the financial structure through the V2010 Project resulted in even bigger improvements in both operating income and net income, which moved back into positive figures. Having survived the unprecedented slump of fiscal 2009, the OSG Group was able to build a solid foundation for a new growth phase through group-wide initiatives to strengthen its business structure. As a result of these efforts, we were also able to increase the annual dividend by ¥9 over the previous year's figure to ¥12.

Our goal is to develop the OSG Group into the world's leading manufacturer of hole-making cutting tools. We will improve our corporate value by expanding our marketing activities in overseas markets, which are our main source of growth, and by building a CSR structure that befits our role as a global business group.

We are deeply grateful for the strong support our shareholders have given us in the past, and we look forward to your continuing support in the future.

Under the V2010 Project, we successfully fortified the OSG Group on all fronts. We will now launch dynamic business development to power a new growth phase.



Teruhide Osawa
Chairman and CEO
(on left)

Norio Ishikawa
President and COO
(on right)



Going forward, we will further enhance the competitiveness of our products and technologies, our sales channels and our ability to deliver fine-tuned solutions.

A handwritten signature in black ink that reads "Norio Ishikawa".

Norio Ishikawa
President and COO

Q: How would you assess the fiscal 2010 financial results?
What initiatives did you implement during the period?

➔ The entire OSG Group worked to achieve the goals of the V2010 Project, formulated in June 2009, by streamlining our operations with particular emphasis on cost cutting, and by enhancing the competitiveness of growth products. Our cost-cutting efforts were led by a special project team that targeted savings in all categories.

In June 2010, we expanded our product range with the OSG Phoenix Series, a product series with replaceable blades. We also actively continued to develop new products and technologies at the leading edge of our industry, including diamond-coated drills for use in the machining of carbon fiber reinforced plastics (CFRPs), which are next-generation aerospace materials. In another initiative designed to strengthen our competitiveness, for some products, we also shifted to local production in Asia to be able to precisely meet customers' requests for delivery times.

We enhanced our ability to monitor market trends and customer needs by strengthening communication with users of our products throughout the world. At the same time, we applied our integrated expertise in all aspects of manufacturing, development, production and after-service, to the pursuit of new orders.

The effectiveness of these efforts was manifested in stronger demand for tools from the second quarter onwards. We were able to respond flexibly to this demand growth by raising operating rates at plants where production cutbacks had previously been implemented. We attribute this improvement to a dramatic increase in production in the automotive and electronics industries, especially in emerging markets, which led to higher sales of taps, carbide end mills, carbide drills and other key products.

These trends were reflected in our results for the year. Net sales were 30.4% higher year on year at ¥69,513 million, while operating income increased by ¥10,260 million to ¥7,525 million and net income by ¥7,543 million to ¥3,773 million. We achieved a return to positive income figures in fiscal 2010, thereby fulfilling the aim of the V2010 Project.

Financial Highlights

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
For the Year			
Net sales	¥ 69,513	¥ 53,326	\$ 827,536
Operating income (loss)	7,525	(2,735)	89,583
Net income (loss)	3,773	(3,770)	44,917
EBITDA	12,833	3,114	152,773
At Year-end			
Total assets	¥105,636	¥113,382	\$1,257,571
Total equity	63,163	61,735	751,940
Per Share			
	Yen		U.S. dollars
Net income (loss)	¥39.34	¥(39.22)	\$0.47
Cash dividends applicable to the year	12.00	3.00	0.14

* The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of US\$1=¥84.

Q: How will these performance improvements be reflected in capital policy and the reinforcement of your financial structure?

➡ A healthy financial structure is essential for sustained growth. In the second quarter of fiscal 2010, orders began to recover substantially, resulting in improved operating rates at our factories and higher operating income. There was also a significant increase in cash flow from operating activities, which grew by 133% year on year to ¥14,096 million, with a cash flow margin of 20.3%. As these figures improved, we began to reduce our debt, which had increased the year before last. We made repayments totaling ¥13,913 million on our interest-bearing debt, and also reduced our inventory assets. These and other measures had the effect of lifting our equity ratio to 54.1%, an improvement of 4.8% from the position as of November 2009.

We are determined to make effective use of our restored financial strength through future-focused business policies, including the development of new products, improvement of our facilities and M&A, in preparation for a new growth phase.

Q: Last year the world began to emerge from the global recession. What are your thoughts on the current business environment?

➡ I believe we have reached a major turning point. Emerging economies have grown dramatically in the new economic environment left by the recession. The world map of manufacturing has also been radically altered. Among the emerging economies, China's progress has been especially conspicuous. In addition to being highly cost-competitive, it has significantly improved its production capacity through large-scale installation of modern facilities. This is the market environment in which we must survive.

Our advantages are the excellent quality and precision of our products, and our ability to deliver precisely tailored solutions to customers. However, we face escalating competition, and so must continue to enhance our ability to precisely meet customers' needs. This means we must, first,

strengthen the technologies on which our tool manufacturing depends, specifically our knowledge of materials, surface treatment and grinding technologies, and second, establish rapid local decision-making systems to enable a speedier response to customer needs.

We must also ensure a user-oriented corporate culture that maximizes our sensitivity to local market needs and those of front-line users, so that we can reflect these needs in our product development. This is as important as our technological product development capabilities. To make a home for ourselves in emerging markets, especially in Asia, we must combine our dedication to quality and technology with the ability to adapt to rapidly changing customer needs.

Q: You referred to the rapid growth of emerging markets. Could you provide a more detailed analysis of your activities in Asian emerging markets?

➡ In the medium- to long term, demand for tools will inevitably expand in emerging markets as rising levels of purchasing power drive increased demand for manufactured goods. We regard Asia as our most important growth market, and intend to accelerate the growth of the entire OSG Group through aggressive investment in that market. We will use our group's management resources to capture demand in the region, and create development, manufacturing and sales structures that will support a timely response to customer needs.

We will continue to expand our global presence by strengthening our manufacturing and sales structures in emerging growth markets, including China, India and Thailand.

Q: How do you view the outlook for the year ending November 30, 2011, and what are your priorities for the year?

➡ One priority for the coming year will be to further reinforce our competitiveness in the tap segment. OSG has manufactured taps throughout its history, and today we hold the biggest share of the world market. In fiscal 2011, we will strengthen our global production capacity and expand sales efforts in markets where our share is still low. The entire OSG Group will unite behind this policy, which we see as our path to complete market dominance. By strengthening our competitiveness in the tap segment, we will secure the reliable income streams needed to drive our growth, and we will invest that income in new growth products in the carbide tools segment. This strategy will accelerate our growth and raise our profile as an integrated cutting tool manufacturer. Under our three-year vision, we aim to become a major global player with net sales of ¥100 billion by fiscal 2013.

Another key priority for fiscal 2011 will be to develop customers in the aerospace industry, which we aim to make our second biggest market after the automotive industry. Materials that are difficult to cut, such as CFRPs, titanium alloys and heat-resistant alloys, are becoming increasingly important in the aerospace industry, and there is growing need for tools capable of processing these materials.

We hold basic patents for diamond-coated tools, which are ideal for processing CFRPs, and use this technology to develop new products. We have also strengthened our sales organization, including the establishment of a specialized marketing team for North American aerospace manufacturers, with the aim of expanding our orders from this industry.

In our manufacturing operations, we aim to raise cost-competitiveness through further cost-cutting efforts. We expect the yen to remain on an upward trend, and will therefore increase the percentage of production operations based overseas, especially in emerging markets.

Also, while responding flexibly to the specific needs of individual markets, we will further strengthen OSG's unique global quality assurance systems and continue to optimize the geographical positioning of our manufacturing operations. We will allocate management resources in preparation for the next growth phase, and focus on the training of personnel capable of working successfully in overseas markets.

In fiscal 2011, we expect these initiatives to bring net sales of ¥75,000 million, operating income of ¥10,000 million and net income of ¥5,200 million.




Q: Please tell us about your plans for future dividends and shareholder returns.

➡ Our policy on shareholder returns is to maintain a consolidated dividend payout ratio of at least 30%. Based on our performance forecasts, we plan to pay a final dividend of ¥16 per share in fiscal 2011.

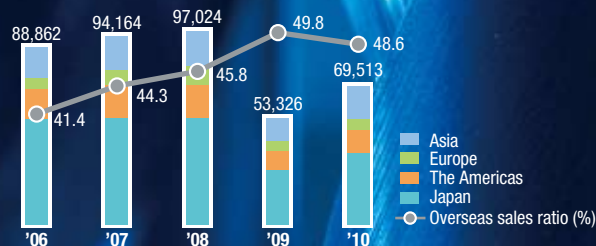
We are determined to provide appropriate dividends to our shareholders. We will continue to make cash flow management, including the provision of funds for future M&A activities, the core focus of our management policies, while also working to maximize operating cash flows.

Overview of The Next Stage 11

LONG-TERM VISION	OSG aims to become the global top manufacturer of hole-making cutting tools by offering total solutions to customers.		
THREE-YEAR VISION	OSG aims to become a major global player with ¥100 billion in net sales by expanding its global business.		
BASIC STRATEGY	By enhancing the competitiveness of taps, OSG will generate stable profits and invest in growing product areas (carbide tools) and growing markets to accelerate future growth.		
FOCUS AREAS	<p>Promotion of Three “Expansion” Policies</p> <ol style="list-style-type: none"> 1. Expansion in industrial markets 2. Expansion of order in-take in Asian markets 3. Expansion of product lineup 		

Expanding local production to meet booming demand in Asia's fast-growing markets

Sales by Geographical Area
(Millions of yen/%)



Production of digital appliances and electronic components is expanding in Asian markets to keep pace with the rapid consumer take-up of smartphones and other new mobile devices.

In the past, most such products used plastic components that could be mass-produced in molds. However, as products become thinner and more compact, manufacturers are switching to stronger materials, such as aluminum alloys and stainless steel. Since these parts need to be processed individually using cutting tools, the quantity of tools used increases.

Also, as these products and components have short life cycles, we must be able to respond flexibly to demand for tools when new models are introduced. In March 2010, we opened a new R&D center in Shanghai to speed up our response to local needs, having previously carried out all product development activities in Japan. By switching to overseas product development, we will improve our capacity to respond

promptly to rapidly changing customer needs.

In 2012, China is expected to produce 21 million motor vehicles, or 25% of world production. We will strengthen our local sales organization so that we can keep pace with sustained demand growth while attracting new customers and contracts. To achieve this goal, we are strengthening our turnkey business and our marketing teams are collaborating globally.

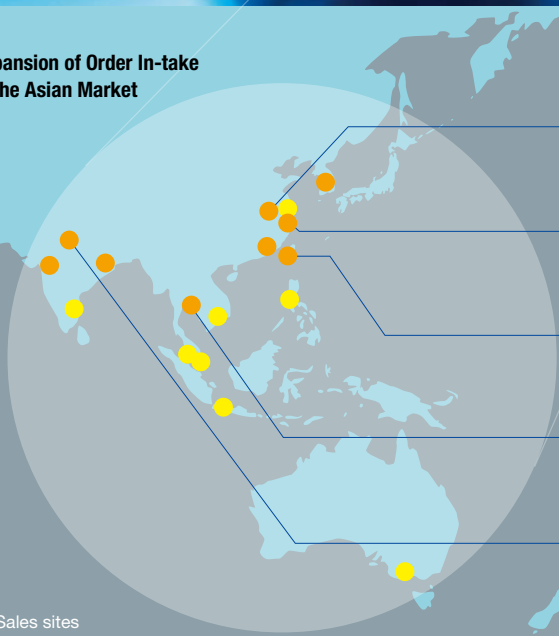
The scope of manufacturing in China continues to expand, and the number of small and medium-sized manufacturers working as subcontractors to major manufacturers is growing. To achieve our long-term vision of building OSG into the global top manufacturer of hole-making cutting tools, we must expand our customer base in China and the wider region, and aggressively promote sales. To this end, we will shift to local production so as to enable highly cost-competitive product offerings of proven OSG quality.

Expansion of Overseas Business



Now in **25** countries

Expansion of Order In-take in the Asian Market



Start of carbide drill production (Shanghai, China)

New factory for regrinding of rolling dies (Ningbo, China)

Expanded production capacity of taps (Taiwan)

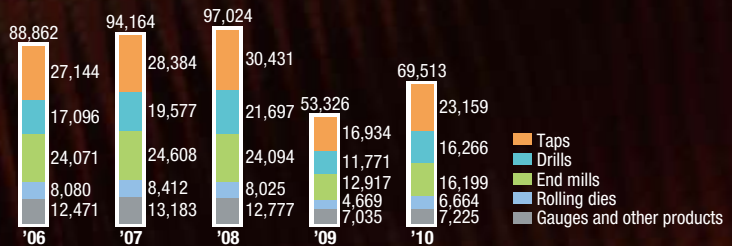
Start of special drill production (Thailand)

New factory for regrinding of rolling dies (India)

- Sales sites
- Production and sales sites

Leveraging fine-tuned proposal capabilities to expand our market reach

Sales by Product Segment
(Millions of yen)



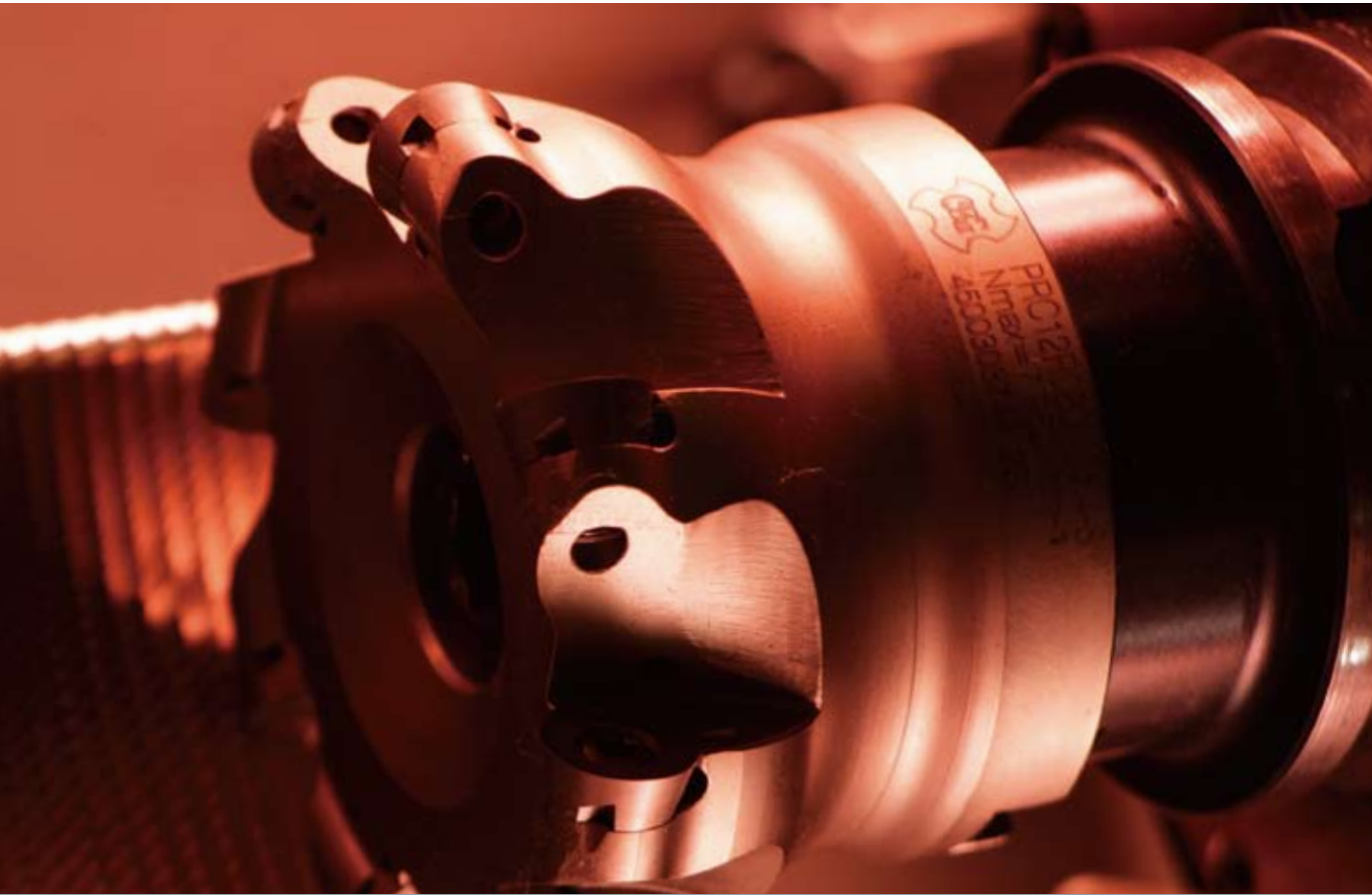
Our sales network covers 25 countries. By being close to our customers, we can monitor needs accurately and propose total solutions that combine the tools and processing methods that each customer needs. We are using our sophisticated proposal capabilities to develop markets and customers in key user industries, including the automotive and aerospace industries, the energy sector, mold and die manufacturers, the construction equipment industry, the IT component and precision parts industries, the medical sector and the forming industry.

We regard the aerospace industry as our second most important customer group after the automotive industry. In October 2010, we merged our American subsidiaries, OSG Tap & Die (OTD) and Quality Carbide Tool (QCT), with the aim of expanding sales to the aerospace industry cluster in North America. QCT manufactures and supplies end mills and drills used to process aluminum alloys, traditionally a key aerospace material, in North America.

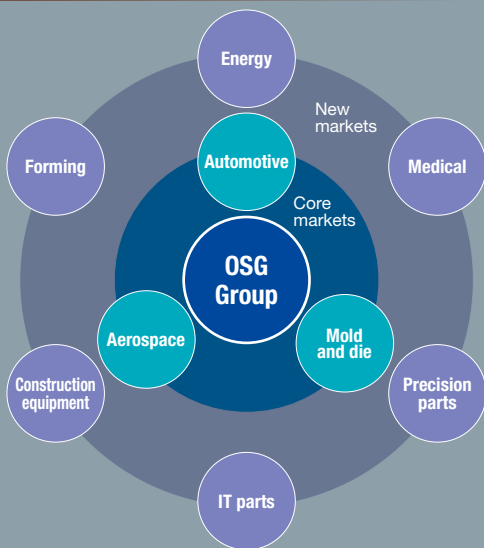
Through this merger, OTD can now use QCT's sales channels to increase orders for the high-value-added tools used to process CFRP and heat-resistant alloys, which are next-generation aerospace materials.

We have also established a specialized aerospace marketing team under the direct control of the President of OTD. This team, which includes Japanese engineers, will link our development and sales organizations to provide a flexible response to customer needs.

In June 2010, we commenced commercial sales of tools with replaceable blades under the new OSG Phoenix Series brand. In fiscal 2011, we will further expand the OSG Phoenix Series range, and actively develop new customers for these products in various industries, including aerospace, energy and mold and die manufacturing.



Business Domains



R&D Strategy

Promotion of product development focusing on the selected industrial markets

Expand product lineup of OSG PHOENIX series

Expand product lineup for machining of precision parts

Strengthen basic technology (material, surface treatment, and grinding technologies)

Make full use of R&D Center in China

The following case studies highlight OSG's ability to create high-value-added technologies, as well as its global human resource development.

Developing CFRP Processing Technology

Light and tough, carbon fiber reinforced plastics (CFRPs) are increasingly used in the aerospace industry. However, these materials create unique problems, not least of which is the rapid wearing of the tools used to process them. OSG has the integrated expertise needed to handle all stages of tool production, from materials to surface treatment, and we have used that knowledge to contribute to the development of processing technology for CFRPs since the material was first used on a significant scale in F2 jet fighters for the Japanese Air Self-Defense Force. We have continued to develop and improve this technology during the two decades that we have been involved in this project.

In 2006, we began to develop CFRP processing tools for the manufacturing of the Boeing 787 aircraft. Compared with fighter aircraft, however, safety is an even higher priority for civilian aircraft, and existing CFRP processing tools were not entirely suitable due to the material's high toughness and viscosity.

After repeated processing tests, we succeeded in commercializing diamond-coated carbide double-angle and triple-angle drills, for which patent applications are now pending. These drills have edge shapes designed to reduce and disperse cutting resistance. Thanks to our patented ultra-fine crystal diamond coating technology, these tools' cutting edges remain sharper, enabling longer life spans. They provide optimal performance in CFRP drilling, the need for which is expected to expand steadily in the future.

OSG has also developed the world's first stripping and recoating system for diamond-coated tools. This new technology will facilitate the regrinding of diamond-coated tools, thereby providing users with a flexible way to reduce total costs and protect the environment.



Improving the Technical Skills of Overseas Engineering Personnel

To expand our market share, we must be able to meet the diverse and rapidly changing needs of tool users, especially in Asia. This requires not only local manufacturing resources, but also local design, development and manufacturing technicians capable of responding quickly to customer requirements.

OSG is training overseas engineering personnel at our design facilities in Japan. They are taught how to make effective use of 3D CAD and technical database systems, and how to use multiple approaches to quickly resolve problems and meet the needs of a wide range of customers. We will continue to expand our human resource development with the aim of transferring Japanese manufacturing, quality and management expertise to overseas employees, and foster skills that allow them to succeed and contribute in foreign markets.



Managing with a commitment to sound, responsible growth

Corporate Governance

Basic Philosophy

Our fundamental management policy calls for fair and transparent business activities in compliance with regulatory requirements and guided by a social conscience. We believe that this approach to business contributes to sustainable corporate growth and the enhancement of corporate value.

Good corporate governance is essential to the achievement of this goal, and we regard the continuing improvement of governance as a vital management priority. Related policies include the establishment of efficient and transparent management structures, and the development of systems to ensure the prompt and fair disclosure of accurate information.

One of the tools that we use to strengthen our corporate governance is the OSG Philosophy, a specific code of conduct designed to raise our corporate ethical standards. We improve compliance awareness and contribute to society in general by disseminating the OSG Philosophy to all directors, auditors, executive officers and employees of OSG Group companies, including OSG Corporation itself.

Development of Corporate Governance and Internal Control Systems

1. Corporate Governance Structure

OSG is structured as a company with auditors. We have nine directors and four corporate auditors, including two appointed from outside of the Company. The Board of Directors normally convenes once a month, but special meetings may be held if required.

Directors deliberate on important matters and make management decisions. They also supervise the performance of business operations. We have set the term of office for directors at one year to maintain the vitality of the Board.

We have introduced an executive officer system to clarify operational executive functions and responsibilities, ensure an appropriate response to changing business conditions, and improve speed and flexibility in the performance of business operations.

Monthly meetings of the Management Committee, which consists of directors, executive officers and heads of divisions, are forums for lively discussion. The meetings are used to disseminate management policies and business plans adopted by the Board of Directors, and to receive reports about business operations from executive officers and heads of divisions.

2. Reasons for Adopting this Structure

By establishing these systems, we have enhanced the decision-making functions of the Board of Directors and its capacity to supervise operational performance. The resulting structure has also improved management efficiency and given us the capacity to make management decisions that are both appropriate and strategic.

Management supervision is provided by four corporate auditors, who audit the performance of directors' duties and business operations, as well as the financial situation. Two of the four auditors are appointed from outside of the Company. Both have submitted notifications as independent officers under the listing rules. The presence of these outside

auditors creates an environment in which there is effective management supervision from outside of the Company. On this basis, we believe that our corporate governance structure is capable of verifying and ensuring appropriate and transparent management.

3. Internal Control Systems

To strengthen OSG's internal control systems, in June 2006 we established a Management Audit Section that reports directly to the President. We have also taken steps to ensure compliance with laws, regulations and the Articles of Incorporation by developing internal regulations, including rules on corporate ethics and risk management under the Basic Policy on Internal Control Systems, which was adopted by the Board of Directors in May 2006. Through these efforts, we maintain internal control systems capable of earning and retaining the confidence of our stakeholders.

4. Risk Management Systems

We strive to maintain high standards of management transparency and fairness through timely disclosure. We have also established risk management regulations as a framework for our efforts to maintain financial soundness and good business ethics. To ensure effective and efficient risk management under these regulations, we have established a Risk and Compliance Management Committee, which formulates basic risk management policies and systems, assesses the significance and urgency of risks, and considers, adopts and implements timely countermeasures.

Internal Audits, Audits by Corporate Auditors, Independent Audits

1. Internal Audits

The mission of the two-member Management Audit Section is to verify that the business operations of the OSG Group are performed in an appropriate manner. It regularly checks compliance with management policies, internal regulations and other requirements.

The Management Audit Section also works with the Corporate Auditors and independent auditors to improve internal control functions by ensuring the soundness of business activities and the reliability of financial reports.

2. Audits by Corporate Auditors

The corporate auditors attend important meetings, including meetings of the Board of Directors, to audit decisions and monitor the performance of directors. They formulate audit policies and plans based on standards established by the Board of Corporate Auditors and audit the Company's operational and financial situation. When necessary, the corporate auditors also obtain business reports from subsidiaries.

The task of the two outside auditors is to strengthen management supervision and ensure transparent and appropriate management. They also enhance management supervision by sharing information with the standing auditors and independent auditors.

3. Independent Audits

We have an audit agreement with Deloitte Touche Tohmatsu, which provides independent audit services. In accordance with the audit plan, the independent auditors audit the accounts of the parent company and subsidiaries and discuss their findings with management. Reports are regularly submitted to the corporate auditors.

Business Risks and Other Risks

Demand Risks Arising from the Economic Situation in the Market

The products of the OSG Group are used in a wide range of industries, and sold in Japan, other Asian countries, Europe and the Americas. The Group's business performance and financial position could therefore be affected by reduced demand in the relevant industries, and by economic recessions in Japan and other parts of the world.

Risks Relating to Exchange Rate Fluctuations

The OSG Group uses forward exchange contracts to hedge against the risk of exchange rate fluctuations. However, it is possible that the Group's business performance and financial position could be affected by exchange rate fluctuations.

Risks Relating to Changes in Raw Material Prices

The main products of the OSG Group are cutting tools, made primarily from carbide alloys, high-speed steel and die steel. The raw materials used include rare metals, such as cobalt, vanadium, molybdenum and tungsten. Rare metals must be obtained from a limited range of sources and suppliers, and market prices can

fluctuate dramatically. Such fluctuations may affect the procurement costs of the OSG Group.

We endeavor to reflect raw material price increases in our product prices. However, this could affect the Group's business performance, since there may be a time lag between increases in raw material prices and adjustments to selling prices, and because it is not always possible to fully pass on increases in raw material prices.

Risks Relating to Overseas Business Expansion

Major users in automotive industries and other sectors are relocating operations overseas. The OSG Group is responding by developing business operations in the Americas, Europe, Asia and elsewhere, and by establishing production and sales systems in optimal locations close to its markets. The business performance and financial position of the OSG Group could be affected if its operations are impeded as a result of changes to legal and tax systems or shifts in social and political conditions in other countries.

OSG's Corporate Slogan—"TOKO-TON SPIRIT"

Ever since our company's foundation in 1938, we have made the fulfillment of customer needs our top priority, and we continue to offer products and services that play a key role in society.

Our corporate slogan "TOKO-TON SPIRIT" (English: TOTAL COMMITMENT) expresses our commitment to always deliver precisely the solutions that our customers need.



Committed to Customer Needs
Anytime and Anywhere, assisting customers in machining improvements and cost reduction.



Committed to the Environment
Striving in the development of environmentally safe products.



Committed to Communication
The motto is Tool Communication. Assisting in the selection and application of the proper tool as well as providing excellent after-sales service.

Social Contribution and Environmental Protection

Following the establishment of a three-point declaration in 1996, in which the Company set out to become a “Global Presence,” an “Environment-friendly Company” and a “Company Enjoying Sound Growth,” OSG has actively engaged in environmental protection activities.

OSG Obtains ISO 9001 Certification for All Products

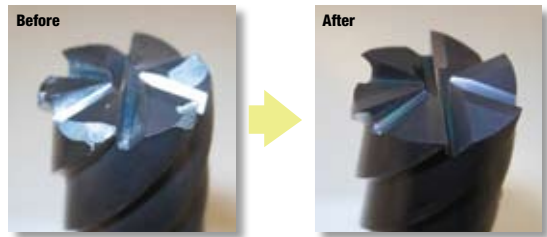
As of October 2007, all OSG products are ISO 9001-certified. OSG has thereby completed the creation of a quality management system that in all regards, including efficiency, fully meets ISO 9001 requirements.



OSG has obtained ISO 9001 certification for all products

Regrinding and Recoating

OSG provides regrinding and recoating services to turn used, dull tools into fully sharpened cutting tools that can operate at full efficiency. These services make for more efficient use of rare metals and cutting tool materials, and reduce industrial waste. Demand for these services is growing annually and we aim to expand this business further.



OSG Receives Environmental Grand Prize

OSG won the grand prize in the 4th Environmental Performance Awards of the Japan Solid Cutting Tools' Association (JSCTA). These awards were established to acknowledge environmental initiatives by members. The prize presented to OSG was in recognition of its continuing efforts to reduce energy consumption and waste, and its achievement of consistently excellent results under its environmental policy.

There were two other environment-related awards in the year under review. The Oike Plant won an award in the Eco-Factory category of the Environmental Contribution Awards, while the Design Center Development Group was selected in the Eco-Products category.



The 4th Environmental Performance Awards ceremony

Financial Section

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Five-year Summary

For the Year	Millions of yen					Thousands of U.S. dollars
	2006	2007	2008	2009	2010	2010
Net sales	¥88,862	¥94,164	¥97,024	¥53,326	¥69,513	\$827,536
Domestic	52,097	52,448	52,549	26,745	35,701	425,012
Overseas	36,765	41,716	44,475	26,581	33,812	402,524
Cost of sales	54,376	58,160	60,450	39,203	44,605	531,012
Selling, general and administrative expenses	19,031	20,647	22,158	16,858	17,383	206,941
Operating (loss) income	15,455	15,357	14,416	(2,735)	7,525	89,583
Net (loss) income	7,917	8,014	7,376	(3,770)	3,773	44,917
At Year-end						
Total assets	122,451	127,044	122,384	113,382	105,636	1,257,571
Total equity	66,961	71,824	70,454	61,735	63,163	751,940
Per Share						
	Yen					U.S. dollars
Equity	615.07	667.01	666.71	582.19	601.44	7.16
Net (loss) income	81.00	82.42	76.53	(39.22)	39.34	0.47
Cash dividends	26.00	26.00	24.00	3.00	12.00	0.14
EBITDA						
	Millions of yen					Thousands of U.S. dollars
EBITDA	21,575	22,800	21,551	3,114	12,833	152,774
EBITDA margin (%)	24.3%	24.2%	22.2%	5.8%	18.5%	
Major Operating Ratio						
Equity ratio (%)	49.1%	50.6%	52.5%	49.3%	54.1%	
Return on equity (%)	13.8%	12.9%	11.5%	(6.3%)	6.7%	
Sales by Products						
Cutting tools:						
Taps	27,144	28,384	30,431	16,934	23,159	275,702
End mills	24,071	24,608	24,094	12,917	16,199	192,845
Drills and other cutting tools	17,096	19,577	21,697	11,771	16,266	193,643
Total	68,311	72,569	76,222	41,622	55,624	662,190
Rolling dies	8,080	8,412	8,025	4,669	6,664	79,334
Gauges	1,483	1,580	1,476	877	1,085	12,917
Other products	10,989	11,603	11,301	6,158	6,140	73,095
Total	¥88,862	¥94,164	¥97,024	¥53,326	¥69,513	\$827,536

Overview

Net Sales

While the economic outlook remained uncertain in fiscal 2010 (December 1, 2009 to November 30, 2010), there was a sustained recovery trend driven mainly by growth in emerging economies, notably China and India. The cutting tool industry also benefited from improved market conditions, including increased production in the automotive and IT industries and other key user industries, as well as progress toward the completion of inventory corrections.

Improving market conditions have been accompanied by a sustained upward trend in the OSG Group's sales. While fiscal 2010 sales still fell short of the level before the economic crisis, they were substantially higher than the previous year's result, thanks to the impetus provided by strong demand in China and other Asian markets.

As a result, consolidated net sales increased by 30.4% year on year to ¥69,513 million. Overseas sales were 27.2% higher at ¥33,812 million, but the overseas sales ratio was 1.2% below the previous year's level at 48.6%. Reasons for the lower ratio include the rapid pace of recovery in domestic sales and the impact of the rising value of the yen, and the underlying trend toward a larger contribution from overseas sales remains unchanged.

Costs and Profits

Factory operating rates improved dramatically with the recovery in orders. We also worked relentlessly to minimize costs, including packaging costs, communication costs, and internal and external logistics costs.

Higher net sales were reflected in a 13.8% year-on-year increase in the cost of sales, which amounted to ¥44,605 million. However, the cost of sales ratio was reduced by 9.3 percentage points to 64.2%.

Despite a reduction in depreciation, SG&A expenses increased by 3.1% to ¥17,383 million. This was mainly due to higher labor costs and sales incentive payments.

Operating income amounted to ¥7,525 million, compared with an operating loss of ¥2,735 million in the previous year.

Regional Overview

Japan

Sales in Japan were substantially higher than in the previous year. Reasons for this improvement include increased production by the automotive industry, which is a major user of our products, and the fact that trends were no longer affected by inventory corrections. Higher sales allowed us to maintain higher operating rates at our Japanese production facilities, which account for about 70% of our total capacity. This pushed our operating income position back into positive figures.

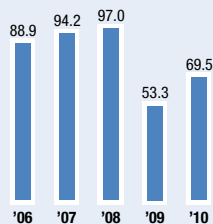
Sales in Japan increased by 41.1% over the previous year's result to ¥47,161 million. Operating income reached ¥2,858 million, compared with an operating loss of ¥4,532 million in the previous year.

The Americas

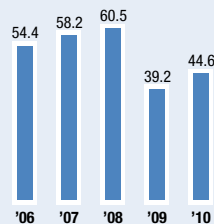
In North America, our main market in the Americas, conditions continued to improve despite a delayed recovery in the aerospace industry. This was due to the impetus of increased production by other user industries, especially automotive manufacturing.

Increased production in automotive-related industries was first reflected in increased demand for rolling dies. This was followed by a recovery in demand in key product categories, including taps, carbide end mills, carbide drills and other cutting tools. Both sales and operating income were higher compared with the previous year's results.

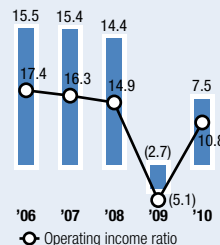
Net Sales
(Billions of yen)



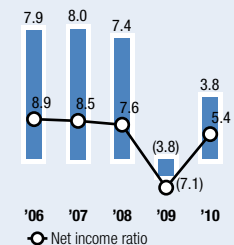
Cost of Sales
(Billions of yen)



Operating Income (Loss)
(Billions of yen/%)



Net Income (Loss)
(Billions of yen/%)



Sales in the Americas increased by 19.1% year on year to ¥11,450 million. Operating income was 250.5% higher at ¥1,027 million.

Europe

Despite concerns about the impact of the fiscal crisis in Europe, market conditions continued to follow a gradual recovery trend, mainly because of the positive effect of a weakening euro on the performance of external demand industries. The OSG Group's sales in Europe were only marginally higher in yen terms because of the rising value of the Japanese currency. However, operating income was substantially higher thanks to efficiency improvements and cost savings resulting from the integration of subsidiaries in the previous fiscal year.

Sales in Europe amounted to ¥5,549 million, an increase of 2.9% over the previous year's result. Operating income was 470.1% higher at ¥525 million.

Asia

Leading the market recovery in this region were the Chinese and South Korean markets. Sales in China reached the pre-crisis level by the second quarter of the fiscal year and remained on a steep growth trend thereafter. There was also a sustained recovery trend in the markets of Taiwan and Southeast Asia, thanks to improving production trends in a number of industries, including automotive, electronics and electrical appliances. Both sales and operating income were substantially higher in this segment.

Sales increased by 42.5% year on year to ¥17,198 million. Operating income was 170.9% higher at ¥3,086 million. In local currency terms, sales and operating income both set new records for this segment.

Net Income

In fiscal 2010, other expenses increased by ¥86 million to ¥1,278 million. Reasons for the higher figure include a ¥268 million system cancellation loss and a ¥801 million year-on-year decline in grants received, both of which are included in other income.

On this basis, net income before income taxes and minority interests amounted to ¥6,247 million, compared with a net loss of ¥3,927 million in the previous year.

Minority interests, which consist mainly of income attributable to minority shareholders in Japanese and Asian subsidiaries, increased by ¥352 million over the previous year's total to ¥587 million.

As a result of the above, we recorded net income of ¥3,773 million, up from a net loss of ¥3,770 million in the previous year.

Financial Position

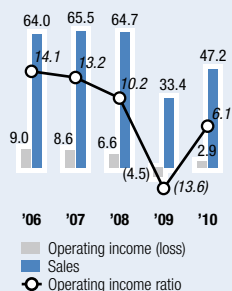
Assets

Total assets amounted to ¥105,636 million as of November 30, 2010, a decline of ¥7,746 million from the position at the previous fiscal year-end. Current assets were reduced by ¥6,129 million to ¥51,716 million, mainly because of lower figures for cash and cash equivalents and inventories. Property, plant and equipment were ¥2,220 million below the previous year's figure at ¥40,246 million because of reduced investment. Despite reductions in deferred tax assets and other items, total investments and other assets were ¥603 million higher at ¥13,674 million because of increases in investment securities and other intangible assets.

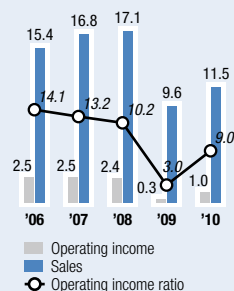
Liabilities and Equity

Total liabilities amounted to ¥42,473 million as of November

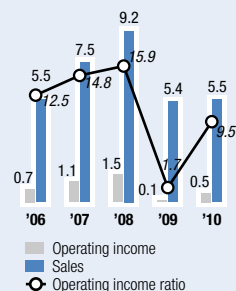
Sales and Operating Income (Loss) in Japan
(Billions of yen/%)



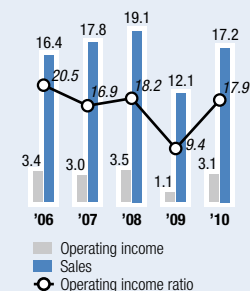
Sales and Operating Income in the Americas
(Billions of yen/%)



Sales and Operating Income in Europe
(Billions of yen/%)



Sales and Operating Income in Asia
(Billions of yen/%)



30, 2010, a reduction of ¥9,174 million from the position at the previous fiscal year-end. Despite increases in notes and accounts payable and accrued expenses, current liabilities were ¥4,654 million lower year on year at ¥22,975 million, in part because of reductions in short-term debt. Long-term liabilities were ¥4,520 million lower at ¥19,498 million, mainly because of a reduction in long-term debt. Interest-bearing debt totaled ¥27,317 million at the end of the fiscal year, a reduction of ¥13,913 million from the previous year-end figure.

Total equity increased by ¥1,428 million to ¥63,163 million as of November 30, 2010 because of higher retained earnings and other factors. As a result, the equity ratio rose by 4.8 percentage points to 54.1%, compared with 49.3% at the previous fiscal year-end.

Cash Flows

Consolidated cash and cash equivalents amounted to ¥13,525 million as of November 30, 2010, a decline of ¥7,292 million from the figure at the previous fiscal year-end.

Net Cash Provided by Operating Activities

Net cash provided by operating activities totaled ¥14,096 million, an increase of ¥8,047 million year on year. The main factors were ¥6,247 million in net income before income taxes and minority interests; depreciation of ¥5,308 million; a ¥3,092 million reduction in inventories; a ¥1,793 million increase in accounts payable; a ¥4,521 million increase in accounts receivable, and ¥1,191 million in income tax payments.

Net Cash Used in Investing Activities

Net cash used for investing activities amounted to ¥5,523

million, an increase of ¥889 million year on year. The main factors were a ¥2,288 million inflow from time deposit redemptions; a ¥3,016 million outflow for new time deposits; expenditure of ¥3,568 million on the acquisition of tangible fixed assets, and expenditure of ¥1,123 million for the acquisition of intangible fixed assets.

Net Cash Used in Financing Activities

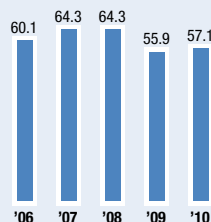
Net cash used in financing activities amounted to ¥15,562 million, compared with a net inflow of ¥5,470 million in the previous year. The main factors were a ¥1,607 million inflow from long-term debt; an ¥11,660 million net reduction in short-term debt; expenditure of ¥3,700 million on the repayment of long-term debt, and expenditure of ¥957 million for share repurchasing.

Basic Policy on Income Distribution, Dividends for the Current and Next Fiscal Year

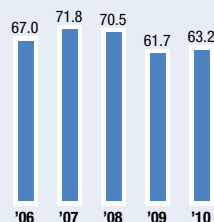
We regard the distribution of income to shareholders as a core management priority. We aim to maintain a payout ratio of 30% or higher at the consolidated level, while also taking into account cash flows, the financial position and other factors.

The annual cash dividend for fiscal 2010 was ¥12 per share, an increase of ¥9 from the previous year's figure. In the next fiscal year, we plan to pay a cash dividend of ¥16 per share, consisting of an interim dividend of ¥6 and a final dividend of ¥10.

Total Shareholders' Equity
(Billions of yen)



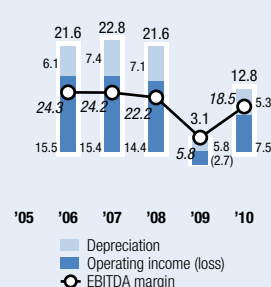
Total Equity
(Billions of yen)



Equity Ratio
(%)



EBITDA
(Billions of yen/%)



Consolidated Balance Sheets

OSG CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOVEMBER 30, 2010 AND 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 13,525	¥ 20,817	\$ 161,012
Time deposits (Note 6)	2,789	2,178	33,202
Marketable securities (Note 3)	—	0	—
Notes and accounts receivable:			
Trade notes	3,233	2,490	38,488
Trade accounts	12,127	9,054	144,369
Other	527	451	6,274
Allowance for doubtful accounts	(170)	(154)	(2,024)
	15,717	11,841	187,107
Inventories (Note 4)	16,972	20,575	202,048
Deferred tax assets (Note 9)	1,105	640	13,155
Prepaid expenses and other current assets	1,608	1,794	19,143
Total current assets	51,716	57,845	615,667
Property, Plant and Equipment (Note 6):			
Land	10,909	10,962	129,869
Buildings and structures	32,194	32,311	383,262
Machinery and equipment	69,261	69,457	824,536
Tools, furniture and fixtures	4,885	5,037	58,155
Construction in progress	993	627	11,821
Other	223	226	2,655
Total	118,465	118,620	1,410,298
Accumulated depreciation	(78,219)	(76,154)	(931,179)
Net property, plant and equipment	40,246	42,466	479,119
Investments and Other Assets:			
Investment securities (Note 3)	3,334	2,566	39,690
Investments in unconsolidated subsidiaries and associated companies	792	982	9,429
Goodwill	624	813	7,429
Other intangible assets	3,009	2,069	35,821
Deferred tax assets (Note 9)	4,556	5,233	54,238
Other assets	1,359	1,408	16,178
Total investments and other assets	13,674	13,071	162,785
TOTAL	¥105,636	¥113,382	\$1,257,571

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term borrowings (Notes 5 and 6)	¥ 4,654	¥ 16,396	\$ 55,405
Current portion of long-term debt (Notes 5 and 6)	5,831	3,632	69,417
Notes and accounts payable (Note 6):			
Trade notes	669	435	7,964
Trade accounts	3,062	1,982	36,452
Other	918	546	10,928
	4,649	2,963	55,344
Income taxes payable	1,359	407	16,179
Accrued expenses	5,515	3,667	65,655
Deferred tax liabilities (Note 9)	1	5	12
Other current liabilities	966	559	11,500
Total current liabilities	22,975	27,629	273,512
Long-Term Liabilities:			
Long-term debt (Notes 5 and 6)	17,987	22,446	214,131
Liability for employees' retirement benefits (Note 7)	228	272	2,714
Retirement allowances for directors and corporate auditors	49	54	583
Deferred tax liabilities (Note 9)	120	175	1,429
Other long-term liabilities	1,114	1,071	13,262
Total long-term liabilities	19,498	24,018	232,119
Contingent Liabilities (Note 14)			
Equity (Notes 8 and 16):			
Common stock:			
Authorized—			
200,000 thousand shares at November 30, 2010 and 2009			
Issued—			
98,955 thousand shares at November 30, 2010 and 2009	10,404	10,404	123,857
Capital surplus	14,198	14,198	169,024
Retained earnings	45,622	42,471	543,119
Unrealized gains on available-for-sale securities	577	103	6,869
Deferred losses on derivatives under hedge accounting	(1)	—	(12)
Foreign currency translation adjustments	(8,854)	(7,374)	(105,405)
Treasury stock—at cost			
3,986 thousand and 2,884 thousand shares at November 30, 2010 and 2009, respectively	(4,828)	(3,871)	(57,476)
Total	57,118	55,931	679,976
Minority interests	6,045	5,804	71,964
Total equity	63,163	61,735	751,940
TOTAL	¥105,636	¥113,382	\$1,257,571

See notes to consolidated financial statements.

Consolidated Statements of Operations

OSG CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED NOVEMBER 30, 2010 AND 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net Sales:	¥69,513	¥53,326	\$827,536
Cost of Sales:	44,605	39,203	531,012
Gross profit	24,908	14,123	296,524
Selling, General and Administrative Expenses	17,383	16,858	206,941
Operating income (loss)	7,525	(2,735)	89,583
Other Income (Expenses):			
Interest and dividend income	221	268	2,631
Interest expense	(516)	(638)	(6,143)
Foreign exchange loss	(250)	(239)	(2,976)
Sales discounts	(469)	(353)	(5,583)
(Loss) gain on sales of property, plant and equipment—net	(5)	34	(60)
Loss on disposals of property, plant and equipment	(115)	(88)	(1,369)
Loss on impairment of long-lived assets (Note 2(g))	(21)	—	(250)
Gain on sales of securities—net	2	0	24
Write-down of securities	(2)	(12)	(24)
Equity in earnings (loss) of an associated company	5	(2)	60
Grants received	29	830	345
Software development loss	—	(948)	—
Loss on cancellation of system development agreement	(268)	—	(3,190)
Other—net	111	(44)	1,321
Other expenses—net	(1,278)	(1,192)	(15,214)
Income (loss) before income taxes and minority interests	6,247	(3,927)	74,369
Income Taxes (Note 9):			
Current	2,064	970	24,571
Deferred	(177)	(1,362)	(2,107)
Total income taxes	1,887	(392)	22,464
Minority Interests in Net Income (Loss)	587	235	6,988
Net income (loss)	¥ 3,773	¥ (3,770)	\$ 44,917
		Yen	U.S. dollars
Per Share of Common Stock (Notes 2(r) and 15):			
Net income (loss)	¥39.34	¥(39.22)	\$0.47
Cash dividends applicable to the year	12.00	3.00	0.14

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

OSG Corporation Annual Report 2010

OSG CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED NOVEMBER 30, 2010 AND 2009

	Thousands		Millions of yen			
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized (Losses) Gains on Available-for-sale Securities	Deferred Losses on Derivatives under Hedge Accounting
Balance, December 1, 2008	96,372	¥10,404	¥14,351	¥47,666	¥(141)	¥(62)
Adjustment of retained earnings due to the adoption of PITF No.18 (Note 2(b))	—	—	(153)	(275)	—	—
Net loss	—	—	—	(3,770)	—	—
Cash dividends, ¥12 per share	—	—	—	(1,156)	—	—
Net change in unrealized gain on available-for-sale securities	—	—	—	—	244	—
Net change in foreign currency translation adjustments	—	—	—	—	—	—
Purchase of treasury stock	(301)	—	—	—	—	—
Other	—	—	—	6	—	62
Net change in the year	—	—	—	—	—	—
Balance, November 30, 2009	96,071	10,404	14,198	42,471	103	—
Net income	—	—	—	3,773	—	—
Cash dividends, ¥7 per share	—	—	—	(672)	—	—
Net change in unrealized gain on available-for-sale securities	—	—	—	—	474	—
Net change in foreign currency translation adjustments	—	—	—	—	—	—
Purchase of treasury stock	(1,102)	—	—	—	—	—
Other	—	—	—	50	—	(1)
Net change in the year	—	—	—	—	—	—
Balance, November 30, 2010	94,969	¥10,404	¥14,198	¥45,622	¥ 577	¥ (1)

	Millions of yen				
	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, December 1, 2008	¥(4,268)	¥(3,698)	¥64,252	¥6,202	¥70,454
Adjustment of retained earnings due to the adoption of PITF No.18 (Note 2(b))	—	—	(428)	—	(428)
Net loss	—	—	(3,770)	—	(3,770)
Cash dividends, ¥12 per share	—	—	(1,156)	—	(1,156)
Net change in unrealized gain on available-for-sale securities	—	—	244	—	244
Net change in foreign currency translation adjustments	(3,106)	—	(3,106)	—	(3,106)
Purchase of treasury stock	—	(173)	(173)	—	(173)
Other	—	—	68	—	68
Net change in the year	—	—	—	(398)	(398)
Balance, November 30, 2009	(7,374)	(3,871)	55,931	5,804	61,735
Net income	—	—	3,773	—	3,773
Cash dividends, ¥7 per share	—	—	(672)	—	(672)
Net change in unrealized gain on available-for-sale securities	—	—	474	—	474
Net change in foreign currency translation adjustments	(1,480)	—	(1,480)	—	(1,480)
Purchase of treasury stock	—	(957)	(957)	—	(957)
Other	—	—	49	—	49
Net change in the year	—	—	—	241	241
Balance, November 30, 2010	¥(8,854)	¥(4,828)	¥57,118	¥6,045	¥63,163

	Thousands of U.S. dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Deferred Losses on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, November 30, 2009	\$123,857	\$169,024	\$505,607	\$1,226	—	\$ (87,786)	\$(46,083)	\$665,845	\$69,095	\$734,940
Net income	—	—	44,917	—	—	—	—	44,917	—	44,917
Cash dividends, \$0.08 per share	—	—	(8,000)	—	—	—	—	(8,000)	—	(8,000)
Net change in unrealized gain on available-for-sale securities	—	—	—	5,643	—	—	—	5,643	—	5,643
Net change in foreign currency translation adjustments	—	—	—	—	—	(17,619)	—	(17,619)	—	(17,619)
Purchase of treasury stock	—	—	—	—	—	—	(11,393)	(11,393)	—	(11,393)
Other	—	—	595	—	\$(12)	—	—	583	—	583
Net change in the year	—	—	—	—	—	—	—	—	2,869	2,869
Balance, November 30, 2010	\$123,857	\$169,024	\$543,119	\$6,869	\$(12)	\$(105,405)	\$(57,476)	\$679,976	\$71,964	\$751,940

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

OSG CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED NOVEMBER 30, 2010 AND 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Operating Activities:			
Income (loss) before income taxes and minority interests	¥ 6,247	¥ (3,927)	\$ 74,369
Adjustments:			
Income taxes—paid	(1,191)	(2,135)	(14,179)
Income taxes—refund	466	3,837	5,548
Depreciation and amortization	5,308	5,849	63,190
Amortization of goodwill	129	337	1,536
Loss (gain) on sales of property, plant and equipment—net	5	(34)	60
Loss on disposals of property, plant and equipment	115	88	1,369
Loss on impairment of long-lived assets	21	—	250
Gain on sales of securities—net	(2)	(0)	(24)
Write-down of securities	2	12	24
Equity in (earnings) loss of an associated company	(5)	2	(60)
Software development loss	—	948	—
Loss on cancellation of system development agreement	268	—	3,190
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(4,521)	6,004	(53,821)
Decrease in inventories	3,092	889	36,810
Increase (decrease) in notes and accounts payable	1,793	(2,776)	21,345
Increase (decrease) in accrued expenses	1,874	(2,202)	22,310
Decrease in liability for employees' retirement benefits	(56)	(24)	(667)
(Decrease) increase in retirement allowances for directors and corporate auditors	(4)	10	(48)
Increase in interest and dividends receivable	(11)	(13)	(131)
Increase (decrease) in allowance for doubtful accounts	28	(22)	333
(Decrease) increase in interest payable	(38)	39	(452)
Other—net	576	(833)	6,858
Net cash provided by operating activities	14,096	6,049	167,810
Investing Activities:			
Payments for time deposits	(3,016)	(1,545)	(35,905)
Proceeds from refunds of time deposits	2,288	18	27,238
Proceeds from sales of marketable securities	0	5	0
Purchases of investment securities	(11)	(8)	(131)
Proceeds from sales of investment securities	24	1	286
Acquisitions of property, plant and equipment	(3,568)	(2,547)	(42,476)
Acquisitions of intangible assets	(1,123)	(513)	(13,369)
Proceeds from sales of property, plant and equipment	78	201	929
Payments for purchases of subsidiaries' stock	(97)	(147)	(1,155)
Other—net	(98)	(99)	(1,167)
Net cash used in investing activities	(5,523)	(4,634)	(65,750)
Financing Activities:			
(Decrease) increase in short-term borrowings—net	(11,660)	3,183	(138,809)
Proceeds from issuance of long-term debt	1,607	7,685	19,131
Repayments of long-term debt	(3,700)	(3,873)	(44,048)
Dividends paid	(675)	(1,163)	(8,036)
Dividends paid to minority shareholders	(177)	(189)	(2,107)
Purchases of treasury stock	(957)	(173)	(11,393)
Net cash (used in) provided by financing activities	(15,562)	5,470	(185,262)
Foreign currency translation adjustments on cash and cash equivalents	(378)	(626)	(4,500)
Net (decrease) increase in cash and cash equivalents	(7,367)	6,259	(87,702)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	75	—	893
Cash and cash equivalents, beginning of year	20,817	14,558	247,821
Cash and cash equivalents, end of year	¥ 13,525	¥20,817	\$ 161,012

See notes to consolidated financial statements.

OSG CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED NOVEMBER 30, 2010 AND 2009

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared and maintained by OSG CORPORATION (the "Company"), and its domestic and foreign consolidated subsidiaries (together, the "Group") in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act 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 the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2009 financial statements to conform to the classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥84 to \$1, the approximate rate of exchange at November 30, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of November 30, 2010 include the accounts of the Company and its significant 48 (49 in 2009) subsidiaries.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

An investment in one associated company was accounted for by the equity method in 2010. Investments in the remaining 9 (11 in 2009) unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The differences between the cost and the fair value of the net assets of the acquired subsidiaries at the date of the acquisition are accounted for as goodwill. Goodwill arising from domestic consolidated companies is amortized by the straight-line method over five years and that from foreign consolidated companies over ten years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The accounts of those subsidiaries that have fiscal periods differing from that of the parent company have been adjusted for significant transactions to properly reflect their financial positions at November 30 of each year and their results of operations for the years then ended.

(b) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". PITF No.18 prescribes: (1) that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gains or losses of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No.18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective December 1, 2008. In addition, the Company adjusted the beginning balance of retained earnings at December 1, 2008 as if this accounting standard had been retrospectively applied.

(c) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit and investment trusts that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(d) Inventories

The inventories of the Company and domestic consolidated subsidiaries are stated at the lower of cost, as determined principally by the average method, or net selling value.

The inventories of foreign consolidated subsidiaries are stated at the lower of cost, determined principally by the average method or first-in first-out method, or net selling value.

(e) Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

- (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings;
- (2) held-to-maturity debt securities, which are expected to be held to maturity with the intent and ability to hold to maturity, are reported at amortized cost; and
- (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and domestic consolidated subsidiaries is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. Foreign consolidated subsidiaries mainly utilize the straight-line method. The range of useful lives is principally 3 to 50 years for buildings and structures and principally 4 to 12 years for machinery and equipment.

(g) Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. In 2010, a subsidiary recognized an impairment loss on investment property in the amount of ¥21 million (\$250 thousand). In 2009, the Group did not recognize any impairment losses.

(h) Other Intangible Assets

Intangible assets are amortized by the straight-line method.

(i) Bonuses to Directors and Corporate Auditors

Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

(j) Liability for Employees' Retirement Benefits

The Company had a defined contribution plan for a majority of employees and an unfunded retirement benefit plan for other employees. Subsidiaries had non-contributory funded defined benefit pension plans, unfunded retirement benefit plans and defined contribution plans. The Company and subsidiaries, which have defined benefit pension plans, applied the simplified method to state the liability at the amount which would be paid if employees retired, less plan assets at the balance sheet date.

(k) Retirement Allowances for Directors and Corporate Auditors

Certain domestic consolidated subsidiaries provide for retirement allowances to directors and corporate auditors to state the liability at the amount which would be paid if they retired at each balance sheet date in accordance with internal policies.

(l) Research and Development Costs

Research and development costs are charged to costs and expenses as incurred.

(m) Leases

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions

is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

(Lessee)

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

(Lessor)

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information is disclosed in the notes to the lessor's financial statements. The revised accounting standard requires that all finance leases that were deemed to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that were deemed not to transfer ownership of the leased property to the lessee should be recognized as investments in leases.

All other leases are accounted for as operating leases.

(n) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(o) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations.

(p) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" and minority interests in separate components of equity. The revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rates.

(q) Derivatives and Hedging Activities

The Company and certain subsidiaries use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of operations and b) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until the maturity of the hedged transactions.

Foreign exchange forward contracts and foreign currency option contracts are utilized to hedge foreign exchange exposures in export sales and procurement from overseas suppliers.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not revalued at market value but the differential paid or received under the swap arrangements is recognized and included in interest expense or income.

(r) Per Share Information

Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years and include dividends to be paid after the end of the year.

(s) New Accounting Pronouncements

Business Combinations—On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, “Accounting Standard for Business Combinations”. Major accounting changes under this accounting standard are as follows:

- (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires companies to account for such business combinations by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) The current accounting standard accounts for research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.
- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—The current accounting standard requires companies to unify accounting policies within the consolidation group. However, the current guidance allows companies to apply the equity method for the financial statements of its foreign associated companies which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No.16 (Revised 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments”. The new standard requires adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- 1) amortization of goodwill; 2) scheduled amortization of actuarial gains or losses of pensions that have been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting; 5) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No.18, “Accounting Standard for Asset Retirement Obligations”, and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations”. Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Accounting Changes and Error Corrections—In December 2009, ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections”, and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections”. Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures—In March 2008, the ASBJ revised ASBJ Statement No. 17, “Accounting Standard for Segment Information Disclosures”, and issued ASBJ Guidance No.20, “Guidance on Accounting Standard for Segment Information Disclosures”. Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at November 30, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current:			
Debt securities	¥ —	¥ 0	\$ —
Total	¥ —	¥ 0	\$ —
Non-current:			
Marketable equity securities	¥3,330	¥2,541	\$39,643
Debt securities	4	4	47
Investment trusts and other	—	21	—
Total	¥3,334	¥2,566	\$39,690

The carrying amounts and aggregate fair values of the securities classified as available for sale and held to maturity at November 30, 2010 and 2009 were as follows:

November 30, 2010	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,215	¥1,228	¥186	¥3,257
Debt securities	4	0	—	4

November 30, 2010	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$26,369	\$14,619	\$2,214	\$38,774
Debt securities	47	0	—	47

November 30, 2009	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,208	¥503	¥245	¥2,466
Investment trusts and other	22	—	1	21

Available-for-sale and held-to-maturity securities whose fair values were not readily determinable as of November 30, 2010 and 2009 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Available-for-sale:			
Equity securities	¥73	¥75	\$869
Others	—	4	—
	¥73	¥79	\$869

Proceeds from sales of available-for-sale securities for the year ended November 30, 2009 were ¥1 million. Gross realized gains and losses on these sales, computed on a moving average cost basis, were ¥0 million and nil, respectively, for the year ended November 30, 2009.

Information on available-for-sale securities which were sold during the year ended November 30, 2010 was as follows:

November 30, 2010	Millions of yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Investment trusts and other	¥24	¥2	¥—
Total	¥24	¥2	¥—

November 30, 2010	Thousands of U.S. dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Investment trusts and other	\$286	\$24	\$—
Total	\$286	\$24	\$—

Impairment losses on available-for-sale equity securities for the years ended November 30, 2010 and 2009 were ¥2 million (\$24 thousand) and ¥12 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at November 30, 2010 were as follows:

November 30, 2010	Millions of yen	Thousands of U.S. dollars
	Available-for-Sale	Available-for-Sale
Due in one year or less	¥0	\$ 0
Due after one year through five years	4	48
Total	¥4	\$48

4. INVENTORIES

Inventories at November 30, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Merchandise	¥ 3,769	¥ 3,956	\$ 44,869
Finished products	7,160	10,418	85,238
Work-in-process	2,741	2,251	32,631
Raw materials	2,486	3,181	29,595
Supplies	816	769	9,715
Total	¥16,972	¥20,575	\$202,048

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at November 30, 2010 and 2009 mainly consisted of notes to banks. The weighted average interest rate on short-term bank loans was 0.8% as of November 30, 2010 and 1.1% as of November 30, 2009.

Long-term debt at November 30, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Borrowings from banks and other financial institutions	¥22,664	¥24,836	\$269,810
Lease obligations	33	51	393
Other	1,121	1,191	13,345
Total	23,818	26,078	283,548
Less: Portion due within one year	(5,831)	(3,632)	(69,417)
Long-term debt, less current portion	¥17,987	¥22,446	\$214,131

The annual maturities of long-term debt at November 30, 2009 for the next five years and thereafter were as follows:

Year ending November 30	Millions of yen	Thousands of U.S. dollars
2011	¥ 5,831	\$ 69,417
2012	3,494	41,595
2013	3,383	40,274
2014	9,803	116,702
2015	235	2,798
2016 and thereafter	1,072	12,762
Total	¥23,818	\$283,548

6. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for notes and accounts payable of ¥2 million (\$24 thousand), short-term borrowings of ¥1,300 million (\$15,476 thousand) and long-term debt (including current portion) of ¥591 million (\$7,036 thousand), as of November 30, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 1	\$ 12
Property, Plant and Equipment		
Land	3,660	43,571
Buildings and structures	6,580	78,333
Machinery and equipment	379	4,512
Tools, furniture and fixtures	148	1,762
Total	¥10,768	\$128,190

7. LIABILITY FOR EMPLOYEES' RETIREMENT BENEFITS

The Company and certain domestic subsidiaries have defined contribution plans for the majority of employees. Other subsidiaries have non-contributory and contributory funded defined benefit pension plans and unfunded retirement benefit plans. Contributions to the defined contribution plans for the years ended November 30, 2010 and 2009 were ¥445 million (\$5,298 thousand) and ¥454 million, respectively.

The contributory funded defined benefit pension plan is a multiemployer plan and the Company and domestic subsidiaries recognize as net pension cost the required contribution for the period. Contributions for the years ended November 30, 2010 and 2009 for this plan were ¥443 million (\$5,274 thousand) and ¥507 million, respectively.

The liability for employees' retirement benefits at November 30, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥ 855	¥ 799	\$10,179
Fair value of plan assets	(732)	(658)	(8,715)
Net liability	123	141	1,464
Prepaid pension cost	105	131	1,250
Amount recognized as liability	¥ 228	¥ 272	\$ 2,714

The components of net periodic benefit costs for the years ended November 30, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥164	¥150	\$1,952
Net periodic benefit costs	¥164	¥150	\$1,952

8. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of the legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 39.9% for the years ended November 30, 2010 and 2009. The tax effects of significant temporary differences and loss carry forwards which resulted in deferred tax assets and liabilities at November 30, 2010 and 2009 were as follows:

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2010	2009	2010
Deferred Tax Assets:			
Retirement benefits for employees	¥ 116	¥ 82	\$ 1,381
Retirement allowances for directors and corporate auditors	20	19	238
Unrealized gains on inventories and property, plant and equipment	279	250	3,321
Tax loss carryforwards	4,264	4,538	50,762
Enterprise taxes payable	85	30	1,012
Bad debt allowance	47	59	560
Depreciation	63	76	750
Write-down of inventories	227	269	2,702
Write-down of golf memberships	120	113	1,429
Write-down of securities	603	625	7,179
Other	1,455	1,282	17,321
Deferred tax assets sub-total	7,279	7,343	86,655
Less: valuation allowance	(947)	(1,193)	(11,274)
Deferred tax assets total	¥6,332	¥ 6,150	\$ 75,381
Deferred Tax Liabilities:			
Revaluation of property, plant and equipment of foreign consolidated subsidiaries	¥1	¥1	\$12
Deferred gains on property, plant and equipment	124	134	1,476
Unrealized gains on available-for-sale securities	420	103	5,000
Other	247	219	2,941
Deferred tax liabilities total	¥ 792	¥ 457	\$ 9,429
Net deferred tax assets	¥5,540	¥ 5,693	\$ 65,952

A reconciliation between the normal effective statutory tax rates for the years ended November 30, 2010 and 2009 and the actual effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

	2010	2009
Normal effective statutory tax rate	39.9%	(39.9)%
Expenses not deductible for income tax purposes	2.0	1.2
Income not taxable for income tax purposes	(0.3)	(0.6)
Per capita tax	0.7	1.2
Lower income tax rates applicable to income in certain foreign countries	(10.1)	(7.7)
Amortization of goodwill	0.8	3.4
Unrecognized deferred taxes on unrealized intercompany profit	1.2	2.6
Net change in valuation allowance	(4.0)	34.4
Tax effect on unutilized foreign tax credit carryforward	—	(5.8)
Other—net	0.0	1.2
Actual effective tax rate	30.2%	(10.0)%

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to costs and expenses were ¥868 million (\$10,333 thousand) and ¥926 million for the years ended November 30, 2010 and 2009, respectively.

11. LEASES

(As Lessee)

The Group leases certain machinery, equipment, tools, furniture, fixtures and other assets as a lessee. As discussed in Note 2 (m), the Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Total lease payments under finance leases accounted for as operating lease transactions for the years ended November 30, 2010 and 2009 were ¥630 million (\$7,500 thousand) and ¥737 million, respectively.

Pro forma information of such finance leases which existed at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense, on a "as if capitalized" basis for the years ended November 30, 2010 and 2009 was as follows:

	Millions of yen			
November 30, 2010	Machinery and Equipment	Tools, Furniture and Fixtures	Other	Total
Acquisition cost	¥3,626	¥174	¥8	¥3,808
Accumulated depreciation	2,361	124	5	2,490
Net leased property	¥1,265	¥ 50	¥3	¥1,318

	Thousands of U.S. dollars			
November 30, 2010	Machinery and Equipment	Tools, Furniture and Fixtures	Other	Total
Acquisition cost	\$43,167	\$2,071	\$95	\$45,333
Accumulated depreciation	28,107	1,476	60	29,643
Net leased property	\$15,060	\$ 595	\$35	\$15,690

	Millions of yen			
November 30, 2009	Machinery and Equipment	Tools, Furniture and Fixtures	Other	Total
Acquisition cost	¥4,584	¥252	¥87	¥4,923
Accumulated depreciation	2,574	158	75	2,807
Net leased property	¥2,010	¥ 94	¥12	¥2,116

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 868	¥ 815	\$10,333
[amount of sub-lease]	[3]	[4]	[36]
Due after one year	482	1,337	5,738
[amount of sub-lease]	[1]	[4]	[12]
Total	¥1,350	¥2,152	\$16,071
[amount of sub-lease]	[4]	[8]	[48]

Depreciation expense and interest expense under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Depreciation expense	¥567	¥705	\$6,750
Interest expense	32	44	381

Depreciation expenses are computed by the straight-line method and interest expenses are computed by the interest method.

Minimum rental payments under non-cancelable operating leases subsequent to November 30, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 129	¥ 178	\$1,536
[amount of sub-lease]	[15]	[24]	[179]
Due after one year	126	285	1,500
[amount of sub-lease]	[16]	[24]	[190]
Total	¥ 255	¥ 463	\$3,036
[amount of sub-lease]	[31]	[48]	[369]

(As Lessor)

A consolidated subsidiary leases certain machinery and equipment as a lessor. As discussed in Note 2 (m), the Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

Total lease revenue under finance leases accounted for as operating lease transactions for the years ended November 30, 2010 and 2009 was ¥4 million (\$48 thousand) and ¥7 million, respectively.

Pro forma information of such leases which existed at the transition date on a "as if sold" basis for the years ended November 30, 2010 and 2009 was as follows:

Leased property under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost	¥21	¥47	\$250
Accumulated depreciation	16	35	190
Net leasing property	¥ 5	¥12	\$ 60

Expected revenues:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 9	¥ 11	\$107
[amount of sub-lease]	[5]	[7]	[59]
Due after one year	2	9	24
[amount of sub-lease]	[2]	[6]	[24]
Total	¥11	¥ 20	\$131
[amount of sub-lease]	[7]	[13]	[83]

Depreciation expense and interest revenue under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Depreciation expense	¥2	¥3	\$24
Interest revenue	0	0	0

Interest revenue is computed by the interest method.

Expected lease revenues to be received under the non-cancelable operating lease subsequent to November 30, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 76	¥ 84	\$ 905
[amount of sub-lease]	[76]	[84]	[905]
Due after one year	102	109	1,214
[amount of sub-lease]	[102]	[109]	[1,214]
Total	¥ 178	¥ 193	\$ 2,119
[amount of sub-lease]	[178]	[193]	[2,119]

12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective November 30, 2010.

(a) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt including bank loans, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(b) Nature and Extent of Risks Arising from Financial Instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, the positions are hedged by using forward foreign currency contracts. Marketable and investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts.

Although a part of bank loans are exposed to risks from changes in variable interest rates, those risks are mitigated by using interest-rate swaps.

Derivatives mainly include forward foreign currency contracts and interest-rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and from changes in interest rates of bank loans. Please see Note 13 for more detail about derivatives.

(c) Risk Management for Financial Instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of customers to identify default risk of customers in early stage. Please see Note 13 for more detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of November 30, 2010.

Market Risk Management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to risks resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risks are hedged principally by forward foreign currency contracts. In addition, when foreign currency trade receivables and payables are expected from forecasted transactions, forward foreign currency contracts may be used under the limited contract term of one year.

Interest-rate swaps are used to manage exposure to risks from changes in interest rates of loan payables.

Marketable and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

Basic principles of derivative transactions have been prepared by following the internal guidelines. Reconciliation of the

transactions and balances with customers are made, and the transaction data is reported to the director in charge of the operation and the management meeting on a monthly basis.

Liquidity Risk Management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets along with adequate financial planning by the finance group.

(d) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Please see Note 13 for the detail of the fair value of derivatives.

(1) Fair value of financial instruments

November 30, 2010	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gains (Losses)
Cash and cash equivalents	¥13,525	¥13,525	¥ —
Time deposits	2,789	2,789	—
Trade notes and accounts receivable	15,360	15,360	—
Investment securities	3,261	3,261	—
Total	¥34,935	¥34,935	¥ —
Short-term borrowings	¥ 4,654	¥ 4,654	¥ —
Trade notes and accounts payable	3,731	3,731	—
Income taxes payable	1,359	1,359	—
Long-term debt including current portion	23,818	24,153	335
Total	¥33,562	¥33,897	¥335

November 30, 2010	Thousands of U.S. dollars		
	Carrying Amount	Fair Value	Unrealized Gains (Losses)
Cash and cash equivalents	\$161,012	\$161,012	\$ —
Time deposits	33,202	33,202	—
Trade notes and accounts receivable	182,857	182,857	—
Investment securities	38,821	38,821	—
Total	\$415,892	\$415,892	\$ —
Short-term borrowings	\$ 55,405	\$ 55,405	\$ —
Trade notes and accounts payable	44,416	44,416	—
Income taxes payable	16,179	16,179	—
Long-term debt including current portion	283,548	287,536	3,988
Total	\$399,548	\$403,536	\$3,988

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the present value of the amounts to be received, that are discounted at the current rate for equivalent debt for certain debt instruments. Information about the fair value of marketable and investment securities by classification is included in Note 3.

Trade Notes and Accounts Receivable and Payable and Income Taxes Payable

The fair values of trade notes and accounts receivables and payables and income taxes payable approximate fair value because of their short maturities.

Short-term Borrowings and Long-term Debt

The fair values of short-term borrowings and long-term debt including loans hedged by interest rate swaps, are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

Information on the fair value for derivatives is included in Note 13.

(2) Financial instruments whose fair value cannot be reliably determined

November 30, 2010	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 73	\$ 869
Investments in non-consolidated subsidiaries and an affiliated company	¥157	\$1,869

(e) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

November 30, 2010	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥13,525	—	—	—
Time deposits	2,789	—	—	—
Trade notes and accounts receivable	15,360	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	0	¥ 3	—	—
Total	¥31,674	¥ 3	—	—

November 30, 2010	Thousands of U.S. dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	\$161,012	—	—	—
Time deposits	33,202	—	—	—
Trade notes and accounts receivable	182,845	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	0	\$36	—	—
Total	\$377,059	\$36	—	—

Please see Note 5 for annual maturities of long-term debt.

13. DERIVATIVES

The Company and certain subsidiaries enter into derivative financial instruments ("derivatives"), including foreign exchange forward contracts and interest rate swap contracts. The foreign exchange forward contracts are utilized by the Company and certain subsidiaries to reduce foreign currency exchange risk related to exports and imports. The interest rate swap contracts are utilized to manage its interest rate exposures on its floating rate borrowings. The Group does not enter into derivatives for trading or speculative purposes, and applies hedge accounting for all derivatives.

The Company holds foreign exchange forward contracts associated with exports, only up to the estimated amount of sales to subsidiaries. The Company and certain subsidiaries hold such derivative contracts and foreign currency receivables and payables, associated with imports, only up to the estimated amount of purchases from overseas suppliers. The Company and certain subsidiaries have purchased interest rate swaps to limit the unfavorable impact from an increase in interest rates on floating rate long-term debt.

Although foreign exchange forward contracts and interest rate swaps are subject to market risk, the counterparties to these derivatives are limited to major domestic financial institutions and the Company and certain subsidiaries do not anticipate any losses arising from market risk.

The Company and certain subsidiaries have internal policies for derivative transactions. Under these internal policies, according to the commission from the department related to exports and imports, derivative transactions are carried out by the finance group of the Company. The finance group receives notification of the balances of derivatives on a monthly basis from

financial institutions. After confirming the finance group's balance with the amount recorded on the list of derivatives, the finance group reports to the director in charge of the operation periodically. The consolidated domestic subsidiaries manage derivative transactions by the method that is followed by the Company.

As noted in Note 12, the Group applied ASBJ Statement No. 10, "Accounting Standard for Financial Instruments", and ASBJ Guidance No.19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

Derivative transactions to which hedge accounting is not applied at November 30, 2010

		Millions of yen			
November 30, 2010		Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gains (Losses)
Foreign currency forward contracts:					
Buying U.S.\$		¥280	—	¥ (2)	¥ (2)
YEN		62	—	(1)	(1)
EURO		14	—	(0)	(0)
Selling U.S.\$		¥385	—	¥ 5	¥ 5
EURO		269	—	10	10
		Thousands of U.S. dollars			
November 30, 2010		Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gains (Losses)
Foreign currency forward contracts:					
Buying U.S.\$		\$3,333	—	\$ (24)	\$ (24)
YEN		738	—	(12)	(12)
EURO		167	—	(0)	(0)
Selling U.S.\$		\$4,583	—	\$ 60	\$ 60
EURO		3,202	—	119	119

Derivative transactions to which hedge accounting is applied at November 30, 2010

		Millions of yen			
November 30, 2010		Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:					
Buying EURO		Payables	¥ 88	¥ —	¥(2)
Selling U.S.\$		Receivables	¥ 42	¥ —	1
Interest rate swaps:					
(fixed rate payment, floating rate receipt)		Long-term debt	¥1,515	¥68	(Note)
		Thousands of U.S. dollars			
November 30, 2010		Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:					
Buying EURO		Payables	\$ 1,048	\$ —	\$ (24)
Selling U.S.\$		Receivables	\$ 500	\$ —	\$ 12
Interest rate swaps:					
(fixed rate payment, floating rate receipt)		Long-term debt	\$18,036	\$810	(Note)

Note: The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 12 is included in that of the hedged items (i.e. long-term debt).

14. CONTINGENT LIABILITIES

At November 30, 2010, the Group had contingent liabilities for notes endorsed with recourse of ¥21 million (\$250 thousand) and guarantees on the bank borrowings of employees of ¥2 million (\$24 thousand).

15. NET INCOME (LOSS) PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended November 30, 2010 and 2009 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net Income (Loss)	Weighted Average Shares	EPS	EPS
For the year ended November 30, 2010:				
Basic EPS				
Net income available to common shareholders	¥3,773	95,905	¥39.34	\$0.47

Diluted EPS was not disclosed as the Company did not have any dilutive shares.

For the year ended November 30, 2009:

Basic EPS				
Net loss attributable to common shareholders	¥(3,770)	96,130	¥(39.22)	

Diluted EPS was not disclosed as the Company did not have any dilutive shares and due to the loss position.

16. SUBSEQUENT EVENT

The following appropriations of retained earnings at November 30, 2010 were approved at the Company's shareholders' meeting held on February 19, 2011:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥8 (\$0.10) per share	¥760	\$9,048

17. SEGMENT INFORMATION

The Group's business is specialized in the production and selling of cutting tools for industrial applications. Since the amount of sales, operating income (loss) and total assets of the cutting tools business exceeds 90% of the amount of sales, operating income (loss) and total assets of the Group, the information on operations by line of business is not disclosed.

Information about operations by geographical segment and sales to foreign customers of the Group for the years ended November 30, 2010 and 2009 is as follows:

(a) Operations by Geographical Segment

The Group's operations by geographical segment for the years ended November 30, 2010 and 2009 are summarized as follows:

	Millions of yen						
2010	Japan	The Americas	Europe	Asia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥36,197	¥11,295	¥5,536	¥16,485	¥ 69,513	—	¥ 69,513
Interarea transfers	10,964	155	13	713	11,845	¥(11,845)	—
Total sales	47,161	11,450	5,549	17,198	81,358	(11,845)	69,513
Operating expenses	44,303	10,423	5,024	14,112	73,862	(11,874)	61,988
Operating income	¥ 2,858	¥ 1,027	¥ 525	¥ 3,086	¥ 7,496	¥ 29	¥ 7,525
Assets	¥79,451	¥11,201	¥5,191	¥25,636	¥121,479	¥(15,843)	¥105,636

	Thousands of U.S. dollars						
2010	Japan	The Americas	Europe	Asia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$430,917	\$134,464	\$65,905	\$196,250	\$ 827,536	—	\$ 827,536
Interarea transfers	130,524	1,845	155	8,488	141,012	\$(141,012)	—
Total sales	561,441	136,309	66,060	204,738	968,548	(141,012)	827,536
Operating expenses	527,417	124,083	59,810	168,000	879,310	(141,357)	737,953
Operating income	\$ 34,024	\$ 12,226	\$ 6,250	\$ 36,738	\$ 89,238	\$345	\$ 89,583
Assets	\$945,845	\$133,346	\$61,798	\$305,190	\$1,446,179	\$(188,608)	\$1,257,571

Millions of yen							
2009	Japan	The Americas	Europe	Asia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥27,116	¥ 9,437	¥5,383	¥11,390	¥ 53,326	—	¥ 53,326
Interarea transfers	6,319	174	7	680	7,180	¥ (7,180)	—
Total sales	33,435	9,611	5,390	12,070	60,506	(7,180)	53,326
Operating expenses	37,967	9,318	5,298	10,931	63,514	(7,453)	56,061
Operating (loss) income	¥ (4,532)	¥ 293	¥ 92	¥ 1,139	¥ (3,008)	¥ 273	¥ (2,735)
Assets	¥89,483	¥10,622	¥5,262	¥22,952	¥128,319	¥(14,937)	¥113,382

(b) Sales to Foreign Customers

Millions of yen					
2010	The Americas	Europe	Asia	Other	Total
Foreign sales	¥11,225	¥5,617	¥16,969	¥1	¥33,812
Net sales					69,513
Ratio of foreign sales to net sales	16.1%	8.1%	24.4%	0.0%	48.6%

Thousands of U.S. dollars					
2010	The Americas	Europe	Asia	Other	Total
Foreign sales	\$133,631	\$66,869	\$202,012	\$12	\$402,524
Net sales					827,536
Ratio of foreign sales to net sales	16.1%	8.1%	24.4%	0.0%	48.6%

Millions of yen					
2009	The Americas	Europe	Asia	Other	Total
Foreign sales	¥9,337	¥5,517	¥11,724	¥3	¥26,581
Net sales					53,326
Ratio of foreign sales to net sales	17.5%	10.3%	22.0%	0.0%	49.8%

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
OSG CORPORATION:

We have audited the accompanying consolidated balance sheets of OSG CORPORATION (the "Company") and consolidated subsidiaries (together, the "Group") as of November 30, 2010 and 2009, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 OSG CORPORATION and consolidated subsidiaries as of November 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

February 19, 2011

Member of
Deloitte Touche Tohmatsu Limited

Board of Directors

(February 19, 2011)

Directors

Chairman Chief Executive Officer	Teruhide Osawa
President Chief Operating Officer	Norio Ishikawa
Managing Director	Tokushi Kobayashi
Managing Director	Norio Yamasaki
Managing Director	Gohei Osawa
Managing Director	Masatoshi Sakurai
Managing Director	Koji Sonobe
Managing Director	Toru Endo
Managing Director	Nobuaki Osawa

Executive Officers

Executive Officer	Yushiro Osawa
Executive Officer	Dane Winters
Executive Officer	Katsuhiko Ono
Executive Officer	Taeil Chung
Executive Officer	Toshitaka Yoshizaki
Executive Officer	Kenji Matsumoto
Executive Officer	Tetsuro Hayasaka
Executive Officer	Koji Takeo
Executive Officer	Mike Grantham
Executive Officer	Jiro Osawa
Executive Officer	Kazumasa Koike

Corporate Auditors

Standing Corporate Auditor	Kazuhiro Kobayashi
Corporate Auditor	Koji Kato
Corporate Auditor	Hiroyuki Ohmori
Corporate Auditor	Kyoshiro Ono

Investor Information

(November 30, 2010)

Corporate Data

Date Established:

March 26, 1938

Capital:

¥10,404,381,114

Headquarters:

3-22, Honnogahara, Toyokawa,
Aichi Prefecture 442-8543, Japan

URL: <http://www.osg.co.jp/>
<http://www.osg-global.jp/>

Telephone: (+81) 533-82-1113

Fax: (+81) 533-82-1131

Number of Employees:

4,843 (Consolidated)

Number of Shares of Common Stock Issued and Outstanding:

98,955,226 shares

Minimum Purchasing Unit of Shares:

100 shares

Number of Shareholders:

11,477

Transfer Agent for Shares:

The Chuo Mitsui Trust and Banking Company, Limited

Major Shareholders

	Number of Shares Held (Thousands)	Percent Ownership (%)
State Street Bank and Trust Company	7,607	8.01
The Norinchukin Bank	2,967	3.12
OSG Agent Association	2,733	2.88
OSG Stock Holding Association	2,632	2.77
The Master Trust Bank of Japan, Co., Ltd. (Trust Account)	2,619	2.76
JUNIPER	2,397	2.52
Japan Trustee Service Bank, Ltd. (Trust Account)	2,343	2.47
Sumitomo Mitsui Banking Corporation	2,100	2.21
Toyota Motor Corporation	2,100	2.21
Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2,097	2.21

Stock Listings

Tokyo Stock Exchange, Nagoya Stock Exchange



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