

# Consolidated Summary Report FY2006 Third Quarter

September 26, 2006

Company name: : OSG Corporation  
 Shares Listed: : Tokyo stock exchange 1st section (Code number 6136)  
 : Nagoya stock exchange 1st section  
 Location of the head office: : Aichi Prefecture  
 Representative: : Teruhide Osawa, President  
 Contact person: : Koji Sonobe, Director, Head of Support Center  
 TEL: 0533-82-1113 URL: <http://www.osg-ir.com>

## 1. Results of FY2006 third quarter (December 1, 2005 - August 31, 2006)

(1) Consolidated operating results (Amounts less than one million yen are omitted)

	Net Sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2006 third quarter	66,374	( 17.2)	12,380	( 19.0)	12,027	( 18.9)	6,807	( 3.1)
FY2005 third quarter	56,650	( 17.7)	10,407	( 24.3)	10,119	( 26.8)	6,600	( 52.3)
FY2005	78,130		14,125		13,887		8,758	

	Net income per share		Net income per share	
	- basic		- diluted	
	Yen		Yen	
FY2006 third quarter	69.63		69.61	
FY2005 third quarter	69.39		67.18	
FY2005	89.10		86.90	

Note: Regarding net sales, operating income, ordinary income, and net income, the right figures show percentage of changes from the corresponding period of the preceding year.

### [Results of Operations]

In the precision machine tools industry, business continued its upward trend thanks to steady demand from the automotive and machine industries. The OSG Group also enjoyed increased sales compared with the same period last year. Although orders in Japan showed signs of a slowdown because of inventory adjustments by distributors, sales growth was supported by the backlog of orders.

Sales growth occurred across all geographical segments: Japan, the Americas, Europe, and Asia. Especially, the Americas and Asia achieved high percentage of growth. Regarding the operating income, Asia showed good results reflected brisk business performance in China and Korea. The Americas, including Mexico and Brazil, also attained high growth in operating income. The overseas sales ratio expanded to 41.8% for this period, compared with 38.0% in the same period last year.

Looking at performance by product, OSG achieved high growth in cutting tool sales. The Company succeeded in increasing tap production capacity and focused on cultivating sales of carbide drills and PCD reamers in the automotive market. Although sales of carbide end mills and HSS end mills expanded, growth rates were low. As a result, net sales for the third quarter FY2006 increased 17.2% to ¥66,374 million. Operating income rose 19.0% to ¥12,380 million. Ordinary income rose 18.9% to ¥12,027 million. Net income advanced 3.1% to ¥6,807 million.

### (2) Consolidated financial condition

	Total assets		Shareholders' equity		Equity ratio		Equity per share	
	Million yen		Million yen		%		yen	
FY2006 third quarter	121,212		65,423		48.3		598.86	
FY2005 third quarter	88,846		51,375		57.8		524.18	
FY2005	93,598		54,647		58.4		554.90	

### (3) Consolidated cash flows

	Operating activities		Investing activities		Financing activities		Cash & cash equivalents at end of period	
	Million yen		Million yen		Million yen		Million yen	
FY2006 third quarter	4,326		(27,747)		23,280		6,296	
FY2005 third quarter	3,484		(5,271)		1,111		5,513	
FY2005	7,820		(7,200)		(897)		6,075	

### (4) Change in scope of consolidation and equity method

Consolidated subsidiaries (increase) 3 (decrease) 0  
 Affiliated companies accounted for under the equity method (increase) 1 (decrease) 1

[Financial position]

Cash Flow

The balance of consolidated cash and cash equivalents at the end of the third quarter was ¥6,296 million, ¥221 million more than at the end of the previous consolidated financial year.

(Net Cash Provided by Operating Activities)

Net cash provided by operating activities totaled ¥4,326 million (¥842 million up from the same period last year). This consists primarily of income before income taxes ¥11,935 million and other non-cash items, such as depreciation and amortization ¥4,392 million, change in liability for employees' retirement benefits ¥2,384 million, and income tax paid ¥5,274 million.

(Net Cash Used in Investing Activities)

Net cash used in investing activities totaled ¥27,747 million (¥22,476 million up from the same period last year). This consists primarily of purchases of marketable securities of ¥15,722 million, and acquisitions of property, plant and plant and equipment of ¥11,823 million. The most of purchases of marketable securities is the acquisition of Tungaloy Corporation stock under the capital and business alliance with that company.

(Net Cash Provided by Financing Activities)

Net cash provided by financing activities totaled ¥23,280 million (¥22,169 million up from the same period last year). This consists primarily of increase in short-term borrowings ¥3,050 million, proceeds from long-term borrowings ¥9,683 million, proceeds from bonds ¥15,500 million, purchase of treasury stock ¥1,013 million, and dividends paid ¥2,729 million. The proceeds from bonds was used for acquisition of Tungaloy Corporation stock.

(Reference: 1)

Unconsolidated financial results

(December 1, 2005 - August 31, 2006)

(Amounts less than one million yen are omitted)

	Net Sales	Operating income	Ordinary income	Net income
	Million yen	Million yen	Million yen	Million yen
FY2006 third quarter	35,031	4,158	4,752	3,208

	Total assets	Shareholders' equity
	Million yen	Million yen
FY2006 third quarter	83,917	43,684

2 . Business forecast for the year ending November 30, 2006

(December 1, 2005 - November 30, 2006)

	Net sales	Operating income	Ordinary income	Net income	Net income per share
	Million yen	Million yen	Million yen	Million yen	yen
FY2006	89,000	15,700	15,400	8,600	88.04

Consolidated business forecast was revised as above according to the business result of FY2006 third quarter.

(Reference: 2)

Unconsolidated business forecast for the year ending November 30, 2006

(December 1, 2005 - November 30, 2006)

	Net sales	Operating income	Ordinary income	Net income	Dividend per share		
					Interim	end of the year	total
	Million yen	Million yen	Million yen	Million yen	yen	yen	yen
FY2006	46,500	5,200	6,000	4,000	12.00	14.00	26.00

Estimation of net income per share (Annual) : ¥40.95

Unconsolidated business forecast was revised as above according to the business result of FY2006 third quarter.

[Note regarding forecast]

The above forecasts for operating results are based on information available at the time this report was released. These forecasts and other forward-looking statements are not guarantees of future performance. Actual operating results may differ from the above forecasts due to known and unknown risks, uncertainties, and other factors.

[Attached documents]

- Consolidated Summary Balance Sheets FY2006 Third Quarter
- Consolidated Summary Statements of Income FY2006 Third Quarter
- Consolidated Summary Statements of Cash Flows FY2006 Third Quarter
- Operations by Geographical Segment
- Sales to Foreign Customers
- Net sales, broken down by Products Segment

Consolidated Summary Balance Sheets  
OSG Corporation

Assets	(Millions of yen : amounts less than one million yen are omitted)			
	FY2006 Third Quarter	FY2005 Third Quarter	Increase (Decrease)	FY2005
<b>Current Assets</b>				
Cash and time deposits	6,419	5,678	740	6,219
Notes and accounts receivable	16,956	15,374	1,582	16,136
Inventories	21,949	18,772	3,177	19,523
Other	4,364	2,459	1,904	3,620
Allowance for doubtful accounts	(205)	(177)	(28)	(206)
<b>Total current assets</b>	<b>49,483</b>	<b>42,107</b>	<b>7,376</b> <b>17.5%</b>	<b>45,294</b>
<b>Fixed Assets</b>				
<b>Tangible Assets</b>				
Building and structures	13,563	12,055	1,508	12,047
Machinery and equipment	17,268	15,067	2,200	15,086
Land	10,098	9,681	416	9,787
Other	7,510	2,859	4,650	3,123
<b>Total tangible assets</b>	<b>48,440</b>	<b>39,664</b>	<b>8,776</b> <b>22.1%</b>	<b>40,045</b>
<b>Intangible Assets</b>				
Goodwill	969	613	355	959
Other	808	691	117	781
<b>Total intangible assets</b>	<b>1,777</b>	<b>1,304</b>	<b>473</b> <b>36.3%</b>	<b>1,741</b>
<b>Investments and Other Assets</b>				
Investment securities	19,325	2,883	16,441	3,771
Other	2,415	3,100	(685)	2,961
Allowance for doubtful accounts	(230)	(212)	(17)	(216)
<b>Total investments and other assets</b>	<b>21,510</b>	<b>5,771</b>	<b>15,739</b> <b>272.7%</b>	<b>6,517</b>
<b>Total fixed assets</b>	<b>71,728</b>	<b>46,739</b>	<b>24,988</b> <b>53.5%</b>	<b>48,303</b>
<b>Total</b>	<b>121,212</b>	<b>88,846</b>	<b>32,365</b> <b>36.4%</b>	<b>93,598</b>

Consolidated Summary Balance Sheets  
OSG Corporation

Liabilities and Capital	(Millions of yen : amounts less than one million yen are omitted)			
	FY2006 Third Quarter	FY2005 Third Quarter	Increase (Decrease)	FY2005
<b>Current Liabilities</b>				
Notes and accounts payable	5,153	5,435	(281)	5,269
Short-term borrowings	8,819	7,793	1,025	5,697
Long-term borrowings, current portion	5,397	547	4,850	571
Income taxes payable	1,111	1,472	(361)	2,983
Accrued expenses	3,869	3,624	244	5,139
Other	2,495	1,479	1,015	1,690
<b>Total current liabilities</b>	<b>26,846</b>	<b>20,353</b>	<b>6,493</b> 31.9%	<b>21,351</b>
<b>long-term Liabilities</b>				
Bonds	15,500	50	15,450	50
Long-term borrowings	11,762	7,627	4,135	7,852
Liabilities for employees' retirement benefits	690	2,935	(2,244)	3,055
Retirement allowance for directors and corporate auditors	32	72	(39)	68
Other	955	824	131	836
<b>Total long-term liabilities</b>	<b>28,941</b>	<b>11,508</b>	<b>17,433</b> 151.5%	<b>11,862</b>
<b>Total liabilities</b>	<b>55,788</b>	<b>31,862</b>	<b>23,926</b> 75.1%	<b>33,213</b>
<b>Minority Interests</b>	-	5,609	-	5,736
<b>Shareholders' Equity</b>				
Common stock	-	10,404	-	10,404
Capital surplus	-	14,156	-	14,380
Retained earnings	-	30,198	-	32,356
Unrealized gain on available-for-sale securities	-	663	-	1,026
Foreign currency translation adjustments	-	(3,134)	-	(2,670)
Treasury stock	-	(913)	-	(850)
<b>Total shareholders' equity</b>	-	<b>51,375</b>	-	<b>54,647</b>
<b>Total</b>	-	<b>88,846</b>	-	<b>93,598</b>
<b>Net Assets</b>				
<b>Shareholders' Equity</b>				
Common stock	10,404	-	-	-
Capital surplus	14,351	-	-	-
Retained earnings	36,184	-	-	-
Treasury stock	(1,783)	-	-	-
<b>Total shareholders' equity</b>	<b>59,156</b>	-	-	-
<b>Other items</b>				
Unrealized gain on available-for-sale securities	1,057	-	-	-
Net unrealized loss on derivative financial instruments	(10)	-	-	-
Foreign currency translation adjustments	(1,705)	-	-	-
<b>Total</b>	<b>(658)</b>	-	-	-
<b>Minority Interests</b>	<b>6,925</b>	-	-	-
<b>Total net assets</b>	<b>65,423</b>	-	-	-
<b>Total liabilities and net assets</b>	<b>121,212</b>	-	-	-

Consolidated Summary Statements of Income  
OSG Corporation

(Millions of yen : amounts less than one million yen are omitted)

	FY2006	FY2005	Increase		FY2005
	Third Quarter	Third Quarter	(Decrease)		
Net Sales	66,374	56,650	9,724	17.2%	78,130
Cost of Sales	40,102	34,266	5,835	17.0%	47,783
Gross profit	26,272	22,383	3,888	17.4%	30,346
Selling, General and administrative expenses	13,892	11,976	1,915	16.0%	16,220
Operating income	12,380	10,407	1,973	19.0%	14,125
Other Income					
Interest income	101	43	58		78
Other - net	442	386	55		737
Total other income	544	429	114	26.5%	815
Other Expenses					
Interest expense	293	150	143		205
Other - net	603	567	36		848
Total other expenses	896	717	179	25.0%	1,054
Ordinary income	12,027	10,119	1,907	18.9%	13,887
Extraordinary gain	146	669	(523)	(78.1%)	748
Extraordinary loss	239	116	122	104.8%	159
Income before income taxes	11,935	10,672	1,262	11.8%	14,476
Income taxes - current	4,190	3,392	797	23.5%	4,882
Minority interests	937	680	256	37.8%	836
Net income	6,807	6,600	207	3.1%	8,758

Consolidated Summary Statements of Cash Flows  
OSG Corporation

(Millions of yen : amounts less than one million yen are omitted)

	FY2006 Third Quarter 2005/12/1- 2006/8/31	FY2005 Third Quarter 2004/12/1- 2005/8/31	FY2005 2004/12/1- 2005/11/30
<b>Operating Activities:</b>			
Income before income taxes	11,935	10,672	14,476
Depreciation and amortization	4,392	3,555	5,182
Loss on impairment	53	-	-
Change in liability for employees' retirement benefits	(2,384)	(66)	51
Change in allowances	172	(213)	(202)
Other noncash items	174	(459)	(569)
Change in notes and accounts receivable	(283)	(1,271)	(1,719)
Change in inventories	(2,008)	(3,441)	(3,977)
Change in notes and account payable	(379)	661	283
Change in accrued expenses	(1,213)	(950)	402
Income taxes - paid	(5,274)	(5,300)	(5,577)
Other	(857)	297	(530)
<b>Net cash provided by operating activities</b>	<b>4,326</b>	<b>3,484</b>	<b>7,820</b>
<b>Investing Activities:</b>			
Purchases of marketable securities	(15,722)	(6)	(7)
Proceeds from sales of marketable securities	67	1,185	1,185
Acquisitions of property, plant and equipment	(11,823)	(6,203)	(7,850)
Proceeds from sales of property, plant and equipment	227	137	430
Proceeds (payment) for purchase of subsidiaries' stock	(406)	(54)	(171)
Other	(89)	(329)	(786)
<b>Net cash used in investing activities</b>	<b>(27,747)</b>	<b>(5,271)</b>	<b>(7,200)</b>
<b>Financing Activities:</b>			
Change in short-term borrowings	3,050	4,486	2,357
Proceeds from long-term debt	9,683	336	744
Repayment of long-term borrowings	(977)	(440)	(707)
Proceeds from bonds	15,500	-	-
Purchase of treasury stock	(1,013)	(604)	(611)
Dividends paid	(2,729)	(1,882)	(1,889)
Other	(232)	(783)	(791)
<b>Net cash provided by (used in) financing activities</b>	<b>23,280</b>	<b>1,111</b>	<b>(897)</b>
Effect of exchange rate change on cash and cash equivalents	259	76	239
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>119</b>	<b>(599)</b>	<b>(36)</b>
Cash and cash equivalents at beginning of year	6,075	6,112	6,112
Cash and cash equivalents of Newly consolidated subsidiaries at beginning of year	101	-	-
<b>Cash and cash equivalents at end of year</b>	<b>6,296</b>	<b>5,513</b>	<b>6,075</b>

## Operations by Geographical Segment

Results for FY2006 Third Quarter (Dec. 1, 2005 through Aug. 31, 2006)

Millions of yen

	Japan	The Americas	Europe	Asia	Total	Eliminations	Consolidated
Sales to customers	39,222	11,172	4,017	11,961	66,374	-	66,374
Interarea transfers	8,334	298	59	691	9,384	(9,384)	-
Total sales	47,557	11,471	4,077	12,652	75,759	(9,384)	66,374
Operating expenses	40,395	9,570	3,502	9,733	63,201	(9,207)	53,994
Operating income	7,162	1,900	575	2,918	12,557	(176)	12,380

(Reference)

Results for FY2005 Third Quarter (Dec. 1, 2004 through Aug. 31, 2005)

Millions of yen

	Japan	The Americas	Europe	Asia	Total	Eliminations	Consolidated
Sales to customers	35,525	8,950	3,430	8,744	56,650	-	56,650
Interarea transfers	6,909	199	47	721	7,878	(7,878)	-
Total sales	42,435	9,149	3,477	9,466	64,528	(7,878)	56,650
Operating expenses	35,622	7,797	2,988	7,727	54,135	(7,892)	46,243
Operating income	6,813	1,351	488	1,739	10,393	14	10,407

## Sales to Foreign Customers

Results for FY2006 Third Quarter (Dec. 1, 2005 through Aug. 31, 2006)

Millions of yen

	The Americas	Europe	Asia	Other	Total
Foreign sales	10,794	4,268	12,607	41	27,711
Net sales					66,374
Ratio of foreign sales to net sales	16.3%	6.4%	19.0%	0.1%	41.8%

(Reference)

Results for FY2005 Third Quarter (Dec. 1, 2004 through Aug. 31, 2005)

Millions of yen

	The Americas	Europe	Asia	Other	Total
Foreign sales	8,928	3,563	8,986	48	21,525
Net sales					56,650
Ratio of foreign sales to net sales	15.7%	6.3%	15.9%	0.1%	38.0%

## Net sales, broken down by Products Segment

Millions of yen

	FY2006 Third Quarter (2005/12/1 - 2006/8/31)	FY2005 Third Quarter (2004/12/1 - 2005/8/31)
Cutting tools:		
Thread-cutting tools	20,453	16,403
Milling cutters	17,934	16,630
Other cutting tools	12,764	9,905
Total	51,152	42,940
Forming tools	6,195	5,470
Measuring tools	1,086	951
Other:		
Machine	2,540	2,133
LHS	939	1,304
Other	4,460	3,849
Total	7,940	7,287
Total	66,374	56,650