

**TOKO-
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NEEDS & ECOLOGY & HEART
とことん宣言

Financial Results for FY2010 Semi-Annual

 **OSG CORPORATION**

July, 2010
OSG CORPORATION

OSG at glance

1. Products

- Consumable cutting tools used in machine tools
- World top market share (30%) in taps

2. Strengths

- High-value added cutting tools
- Excellent after-sales service
- Global sales & service network across 25 countries

3. Dividend policy

- Maintain over 30% payout ratio (consolidated)

4. Growth strategies

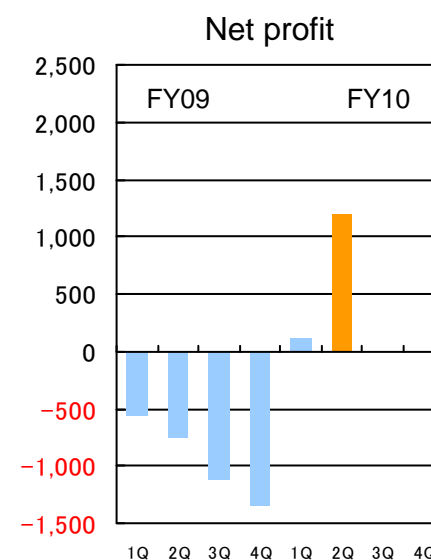
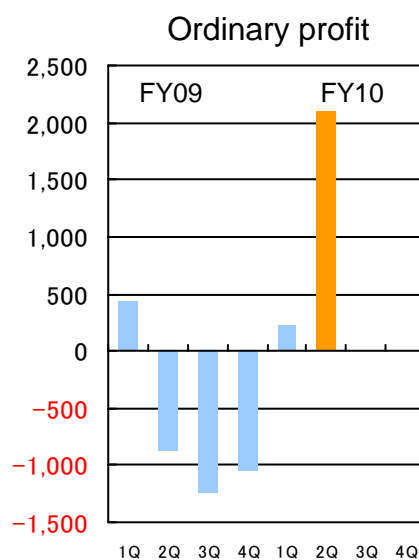
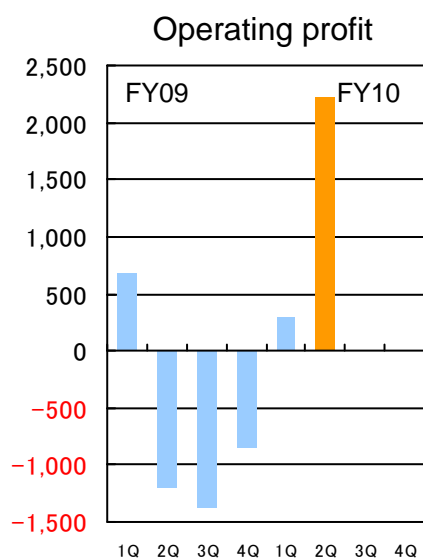
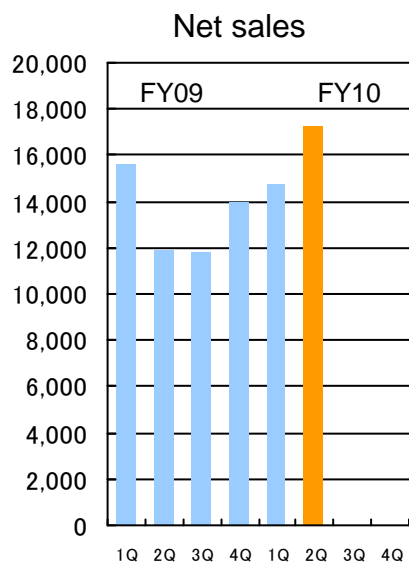
- Global market development
- Industrial market expansion
- Product lineup expansion
- M&A strategies



Financial summary for FY2010-1H

(Millions of yen)

	2009/1H	2010/1H	Change		Forecast	Variance
Net sales	27,539	31,956	4,417	+16.0%	29,200	2,756
Operating profit	-505	2,531	3,036	-	600	1,931
OPM	-	7.9%	-	-	-	-
Ordinary profit	-433	2,327	2,760	-	300	2,027
Net profit	-1,300	1,322	2,622	-	0	1,322
EPS(yen)	-13.52	13.76	27.28	-	0.00	13.76
Operating CF	4,767	7,211	2,444	+51.3%	-	-
Operating CF margin	17.3%	22.6%	-	+5.3%	-	-



Review

- Operating CF margin: 22.6% (Highest in the past 10 years)
 - Operating CF 7.2 billion yen
 - Free CF 5.3 billion yen
 - Decrease in inventory 2.6 billion yen
- Stable financial condition
 - Decrease in debt 11.3 billion yen
 - Increase in net cash 5.0 billion yen
 - Equity ratio 54.5% (49.3% as of 09/11E)
- Improvement of profitability
 - Gross profit ratio 1Q 29.6% → 2Q 36.8%
 - Operating profit 2.5 billion yen
- Review by region
 - Order from automotive, IT, and digital electronics industries increased in Asia, especially China.
 - Production recovery contributed operating profit in Japan for the first time in 6 quarters.
 - Net sales and operating profit in the Americas and Europe are in recovery.
- Annual forecast
 - Forecast revision: Net sales 63 → 66 billion, Operating profit 3.6 → 6.0 billion
 - Forecast revision was made in mainly Asia and Japan.

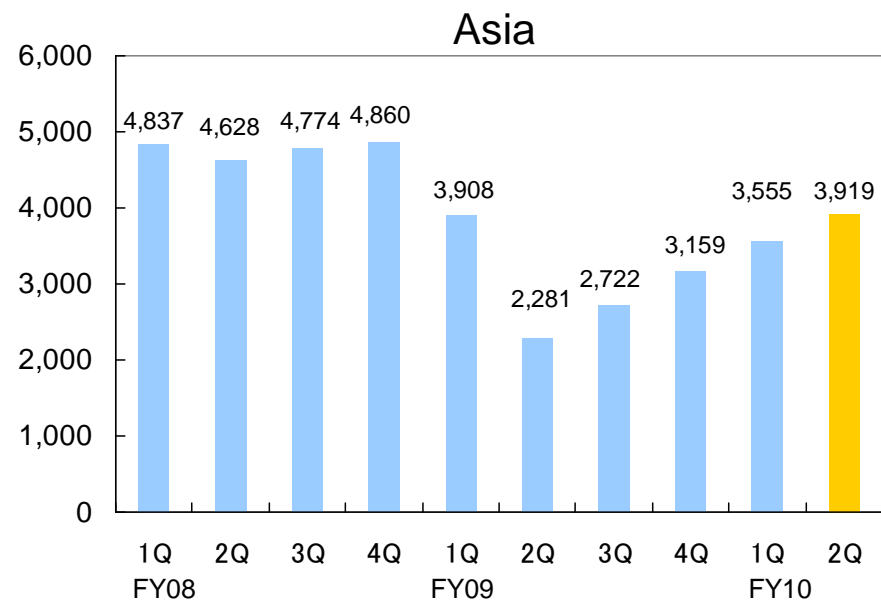
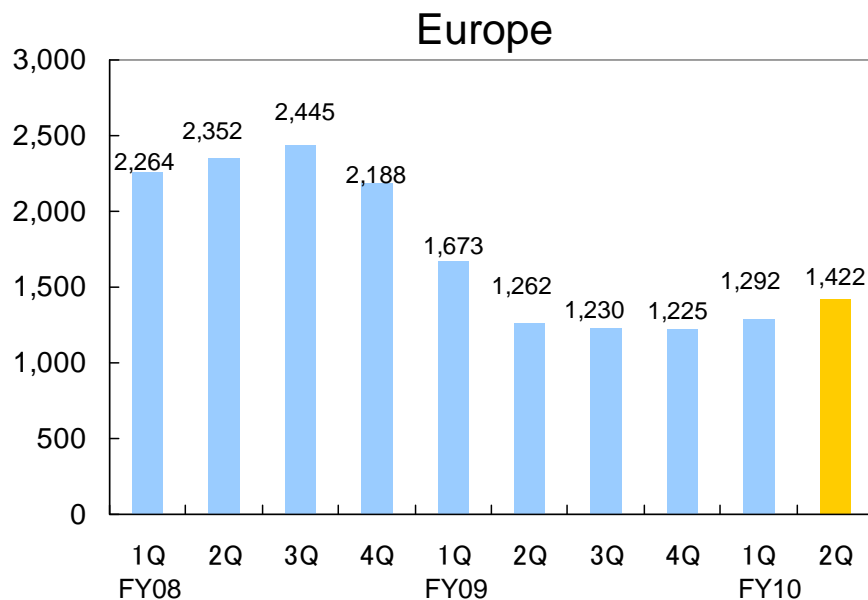
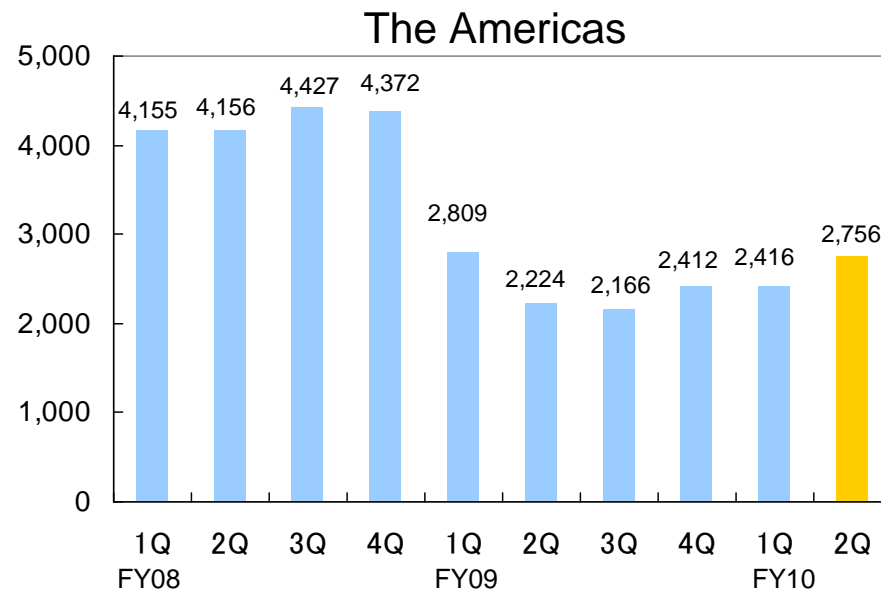
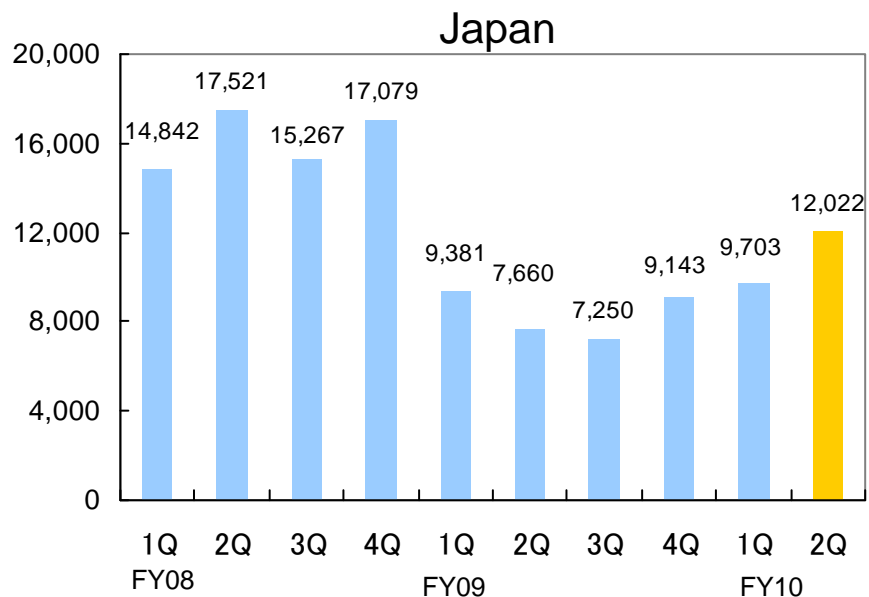
Operations by geographical segment

(Millions of yen)

		2009/1H	2010/1H	Change		Change in local currency
Japan	Net Sales	17,041	21,725	4,684	+27.5%	-
	O.P	-1,821	539	2,360	-	-
	O.P.M	-	2.5%			
The Americas	Net Sales	5,033	5,172	139	+2.8%	+3.4%
	O.P	231	304	73	+31.6%	+40.7%
	O.P.M	4.6%	5.9%			
Europe	Net Sales	2,935	2,714	-221	-7.5%	-10.0%
	O.P	100	228	128	+128.0%	+120.9%
	O.P.M	3.4%	8.4%			
Asia	Net Sales	6,189	7,474	1,285	+20.8%	+19.1%
	O.P	764	1,410	646	+84.6%	+80.8%
	O.P.M	12.3%	18.9%			
Total	Net Sales	31,200	37,086	5,886		
	O.P	-725	2,483	3,208		
Eliminations	Net Sales	-3,660	-5,129	-1,469		
	O.P	220	48	-172		
Consolidated	Net Sales	27,539	31,956	4,417	+16.0%	-
	O.P	-505	2,531	3,036	-	-
	O.P.M	-	7.9%			

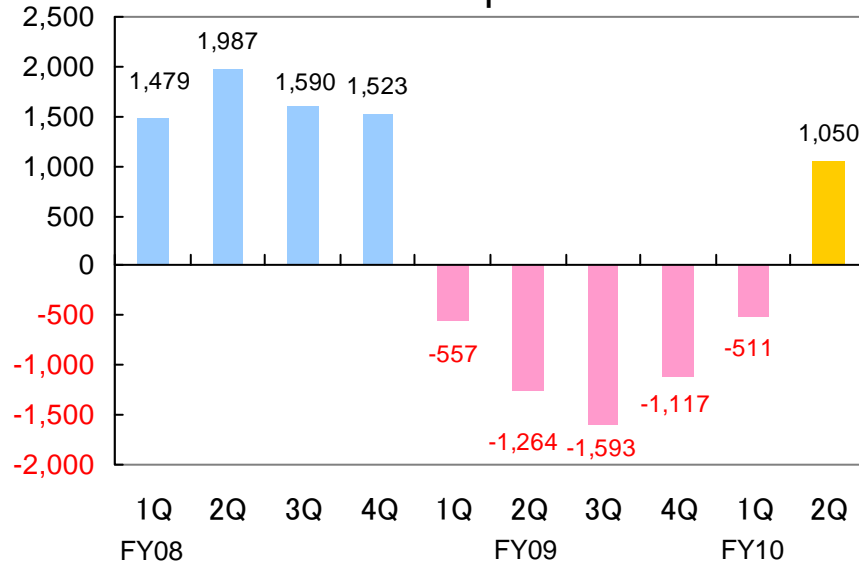
Net sales by geographical segment

(Millions of yen)

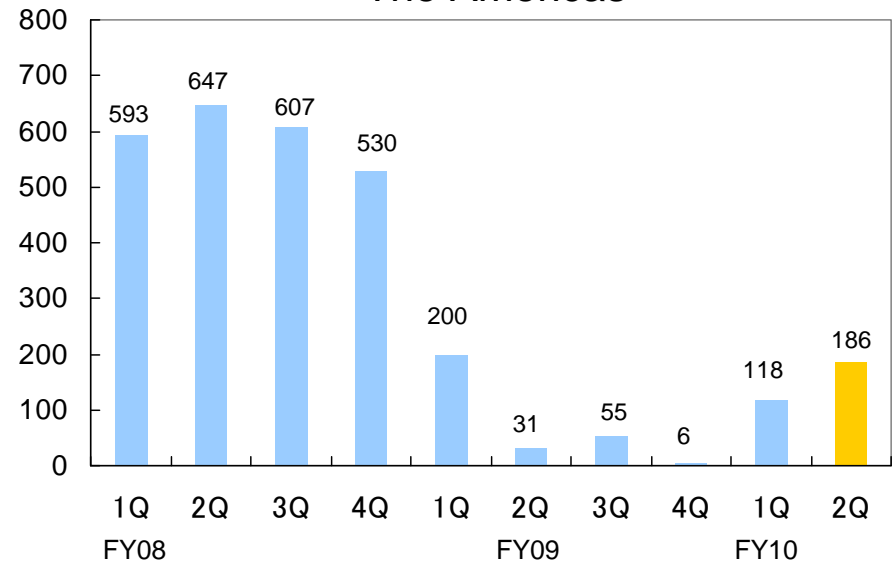


Operating profit by geographical segment

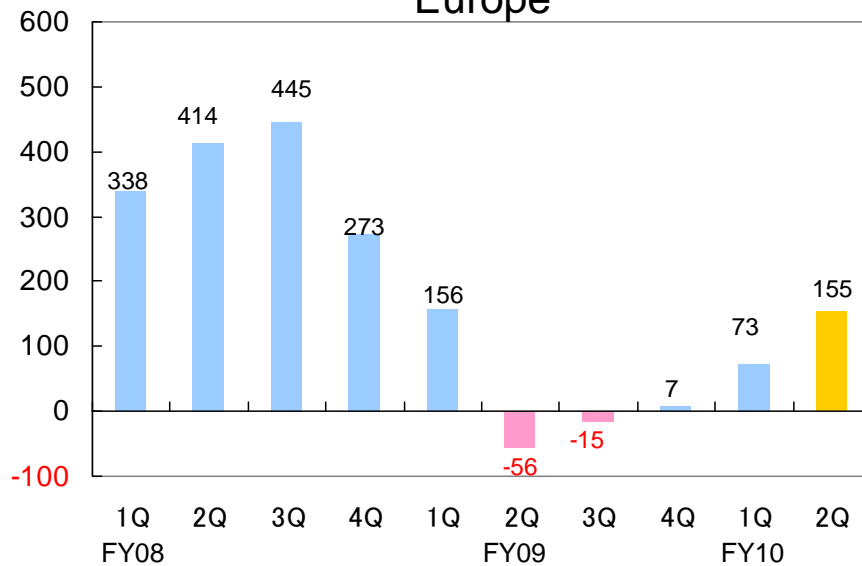
Japan



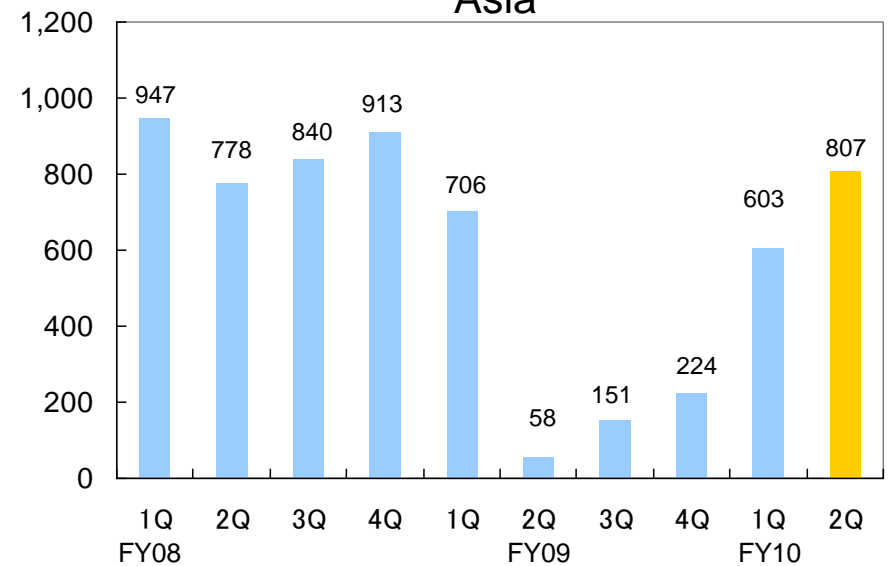
The Americas



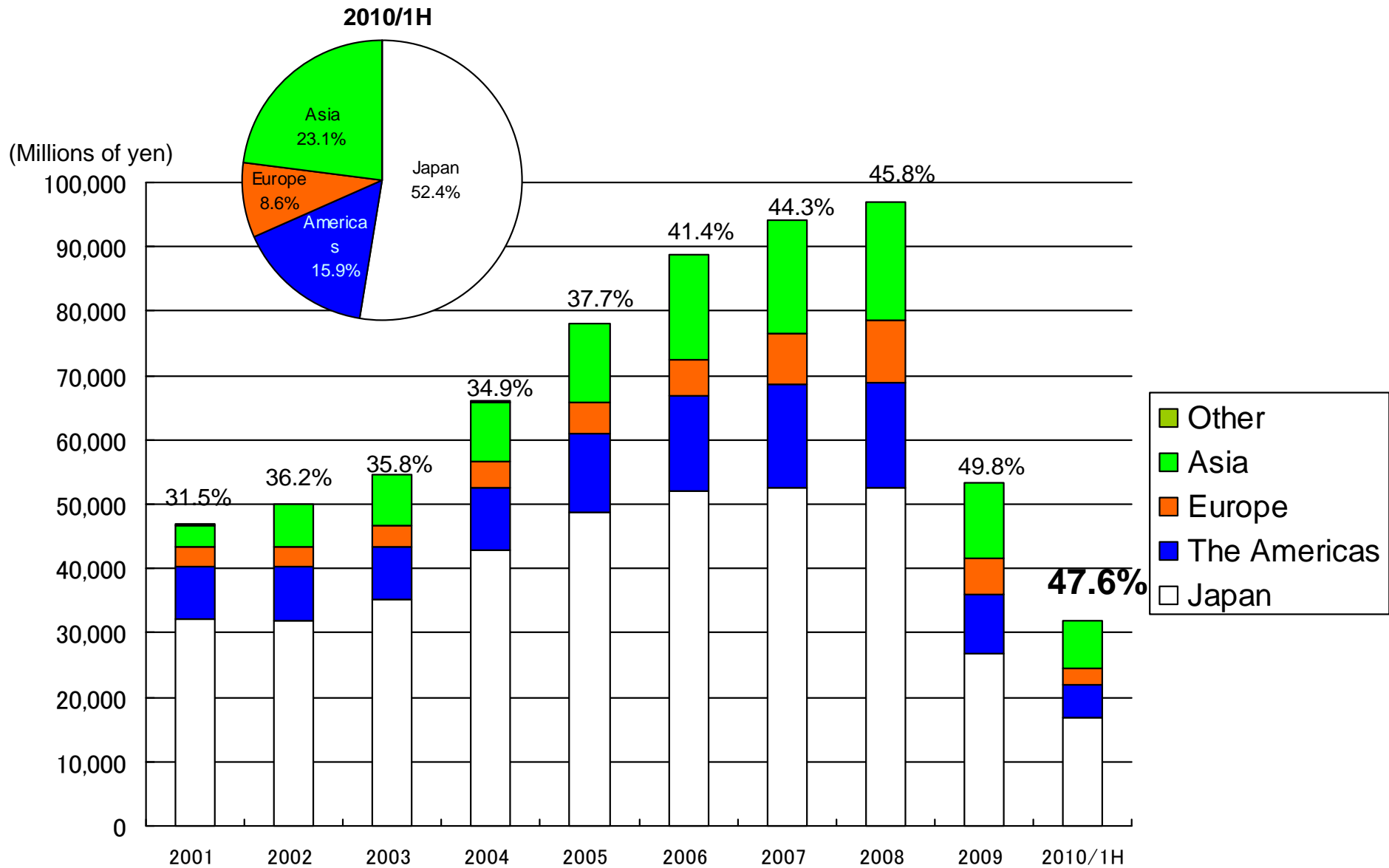
Europe



Asia



Overseas sales ratio



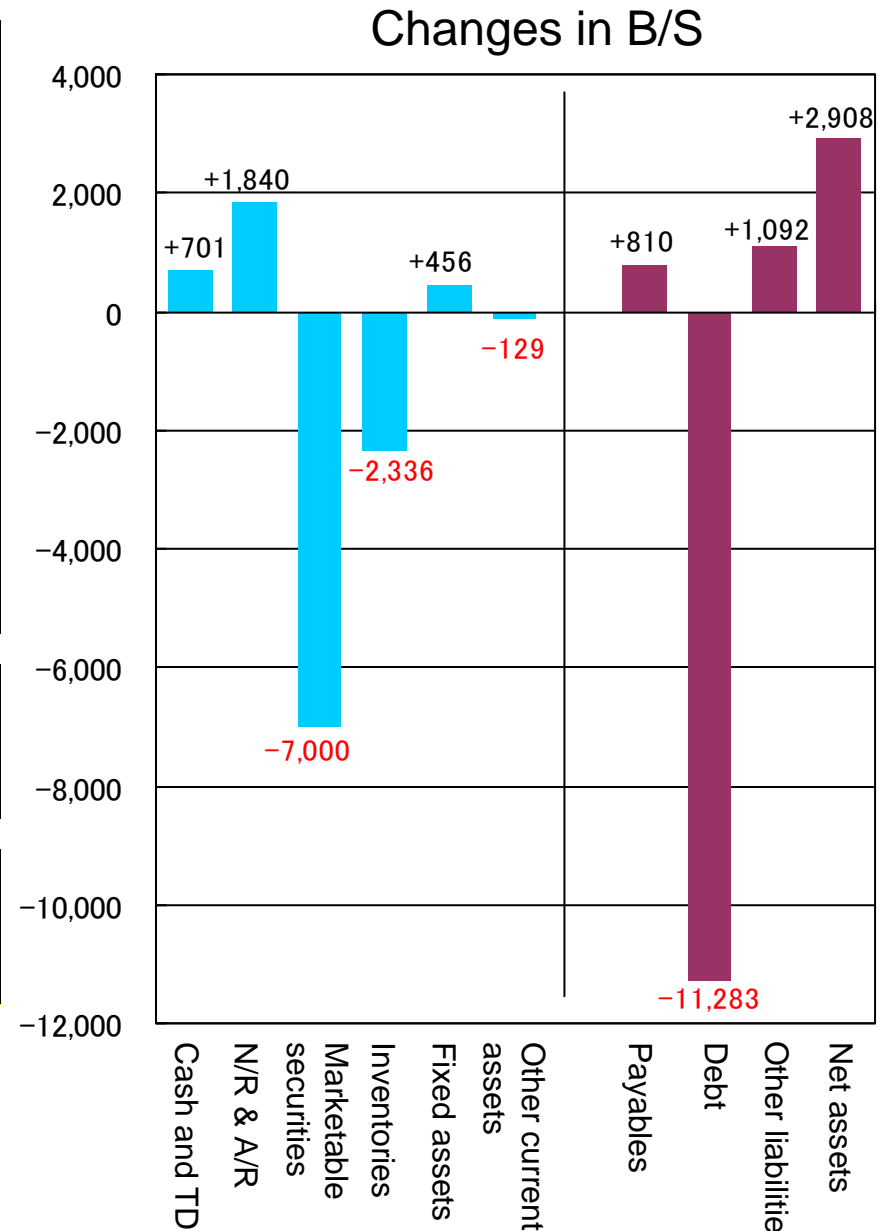
B/S overview

(Millions of yen)

	09/11E	10/5E	Changes
Cash & TD	13,995	14,696	701
N/R & A/R	11,543	13,383	1,840
Marketable securities	9,000	2,000	-7,000
Inventories	20,573	18,237	-2,336
Other current assets	2,731	2,602	-129
Fixed assets	55,536	55,992	456
Total assets	113,382	106,910	-6,472
Total current liabilities	27,628	21,648	-5,980
Total long-term liabilities	24,018	20,618	-3,400
Total net assets	61,734	64,642	2,908
Total liabilities and net assets	113,382	106,910	-6,472

Equity ratio	49.3%	54.5%	
Receivable turnover period	76	76	days
Inventory turnover period	4.5	3.5	months

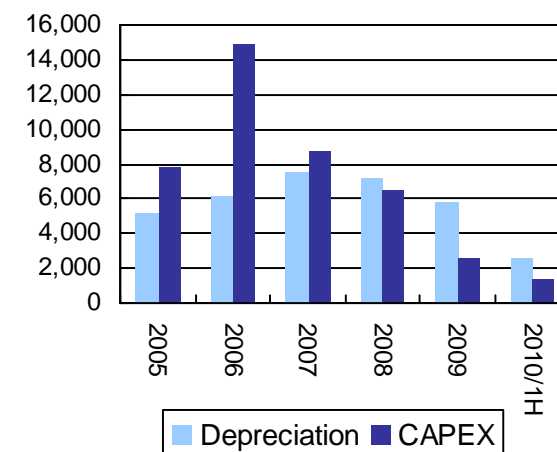
Cash and TD	22,995	16,696	-6,299
Debt	41,230	29,947	-11,283
Net Cash	-18,235	-13,251	4,984



Cash flow overview

	FY07	FY08	FY09	09/1H	10/1H	Change
Income before taxes	14,344	10,204	-3,926	-599	2,289	2,888
Depreciation	7,444	7,135	5,848	2,864	2,606	-258
Loss (gain) on sales of securities	-58	1,796	-0	0	-2	-2
Loss on valuation of securities	0	1,386	11	11	0	-11
Liability for employees' retirement benefits	-227	-92	-23	2	27	25
Change in A/R	-1,360	-702	6,003	6,482	-1,611	-8,093
Change in inventories	-824	-1,497	888	-1,912	2,612	4,524
Change in A/P	-148	1,022	-2,775	-2,335	723	3,058
Other-net	2,128	239	-1,678	-2,024	518	2,542
Income taxes paid	-4,566	-8,838	-2,135	-1,469	-356	1,113
Income Taxes refunded	-	-	3,836	3,747	405	-3,342
Operating cash flow	16,733	10,653	6,049	4,767	7,211	2,444
Capital expenditures	-8,783	-6,455	-2,547	-1,599	-1,377	222
Purchase of subsidiaries' stock	-549	-990	-146	-52	-45	7
Purchase of securities	-73	-3,034	-8	-3	-6	-3
Sales of securities	57	13,888	0	0	23	23
Other-net	329	-1,731	-1,932	-1,124	-501	623
Investing cash flow	-9,019	1,678	-4,633	-2,778	-1,906	872
Free cash flow	7,714	12,331	1,416	1,989	5,305	3,316
Change in interest-bearing debt	-2,272	-1,723	6,994	8,110	-11,431	-19,541
Cash dividends paid	-2,533	-2,502	-1,162	-1,156	-289	867
Purchase of treasury stock	-1,890	-20	-172	-171	-0	171
Other-net	-126	-253	-190	-151	-90	61
Financing cash flow	-6,821	-4,500	5,470	6,632	-11,812	-18,444
Foreign currency translation adjustments	276	-635	-626	-560	157	717
Net increase(decrease) in cash	1,168	7,195	6,259	8,060	-6,349	-14,409
Cash of newly consolidated subsidiaries, beginning of year	0	38	0	0	0	0
Cash, end of year	7,323	14,557	20,816	22,618	14,467	-8,151

CAPEX and depreciation

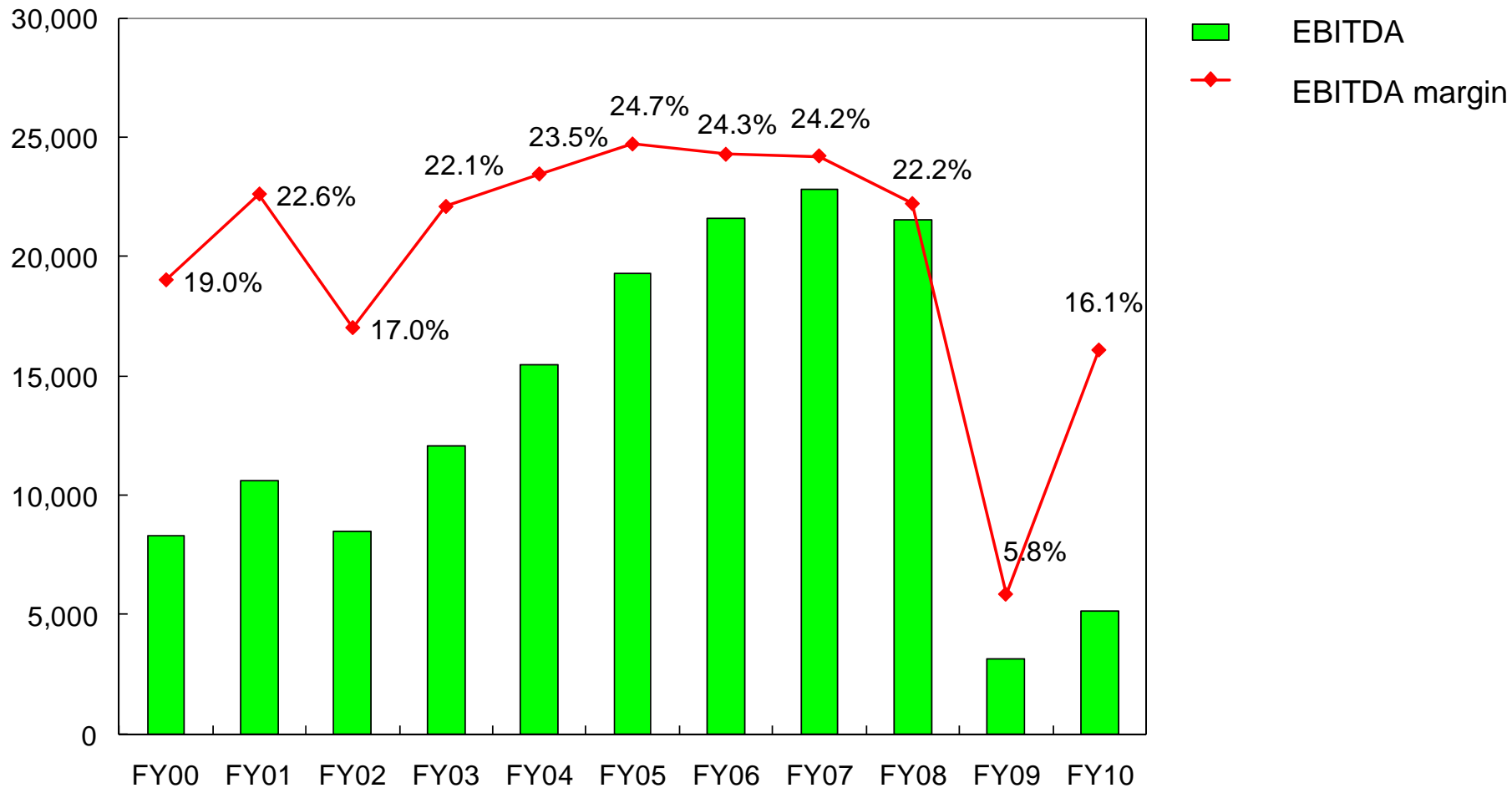


Cash flow management

- Free CF 5,305 mill yen
- Inventory decrease 2,612 mill yen
- Decrease in debt 11,431 mill yen

EBITDA margin

(Millions of yen)



OSG's EBITDA = Operating Profit + Depreciation

Forecast for FY2010

Financial forecast for FY2010

	Original forecast		Revised forecast	
	Amount	Growth	Amount	Growth
Net Sales	63,000	18.1%	66,000	23.8%
Operating profit as % of sales	3,600	-	6,000	-
Ordinary profit as % of sales	2,900	-	5,500	-
Net profit as % of sales	1,200	-	3,300	-
EPS (yen)	12.49		34.35	
CAPEX	2,500		2,500	
Depreciation	5,400		5,400	

Estimated sales growth

Japan +33.6% The Americas +15.8% Europe -3.7% Asia+31.2%

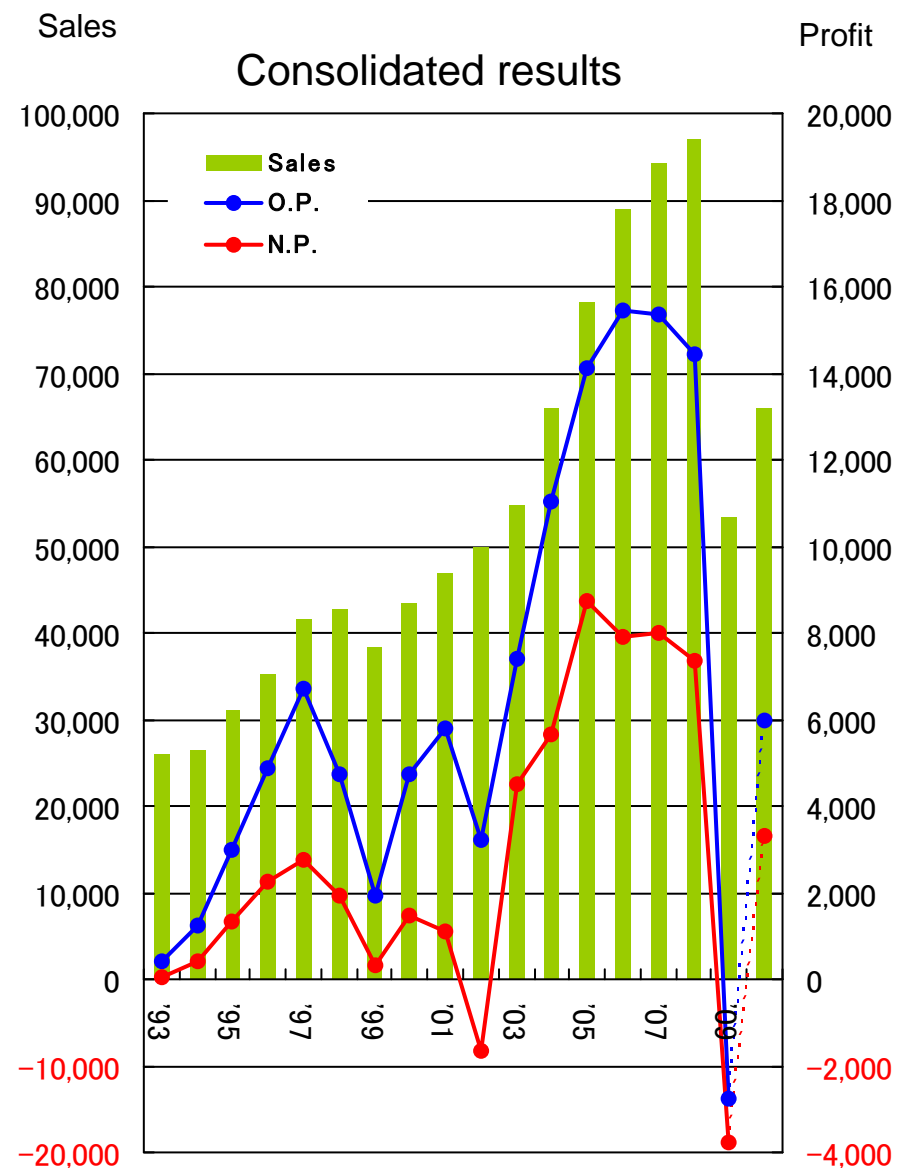
Exchange rate

FY2010/1H result : 1US\$= 90.43yen 1Euro=128.16yen

FY2010 forecast : 1US\$= 90.00yen 1Euro=120.00yen
 (original forecast:130.00 yen)

Dividend forecast

	Interim	Year-end	Annual
Dividend per share (yen)	4.00	6.00	10.00



Management Policy for FY2010-1H



Management Policy for FY2010-2H

Market share increase in carbide products

- Sales reinforcement of carbide end mills and drills
- Launch of indexable tools

Production expansion in Asia

- Expansion of product lineup in China, Thailand, and India
- Establishment of R&D center in Shanghai

Market share increase in aerospace industry

- Tool development and promotion for processing CFRP (carbon fiber reinforced plastic)
- Tool development and promotion for processing difficult-to-cut materials (eg. heat-resistant alloy)

New indexable tools OSG PHOENIX



The first OSG-brand's indexable tools to global market

New R&D center in Shanghai

- Tool design and product development engineers are sent to a new R&D center in Shanghai.
- Demands for cutting tools are various and changes at a fast pace.
- Agile technical proposal and support is essential to expand market share.



Tool design and product development facilities in Japan



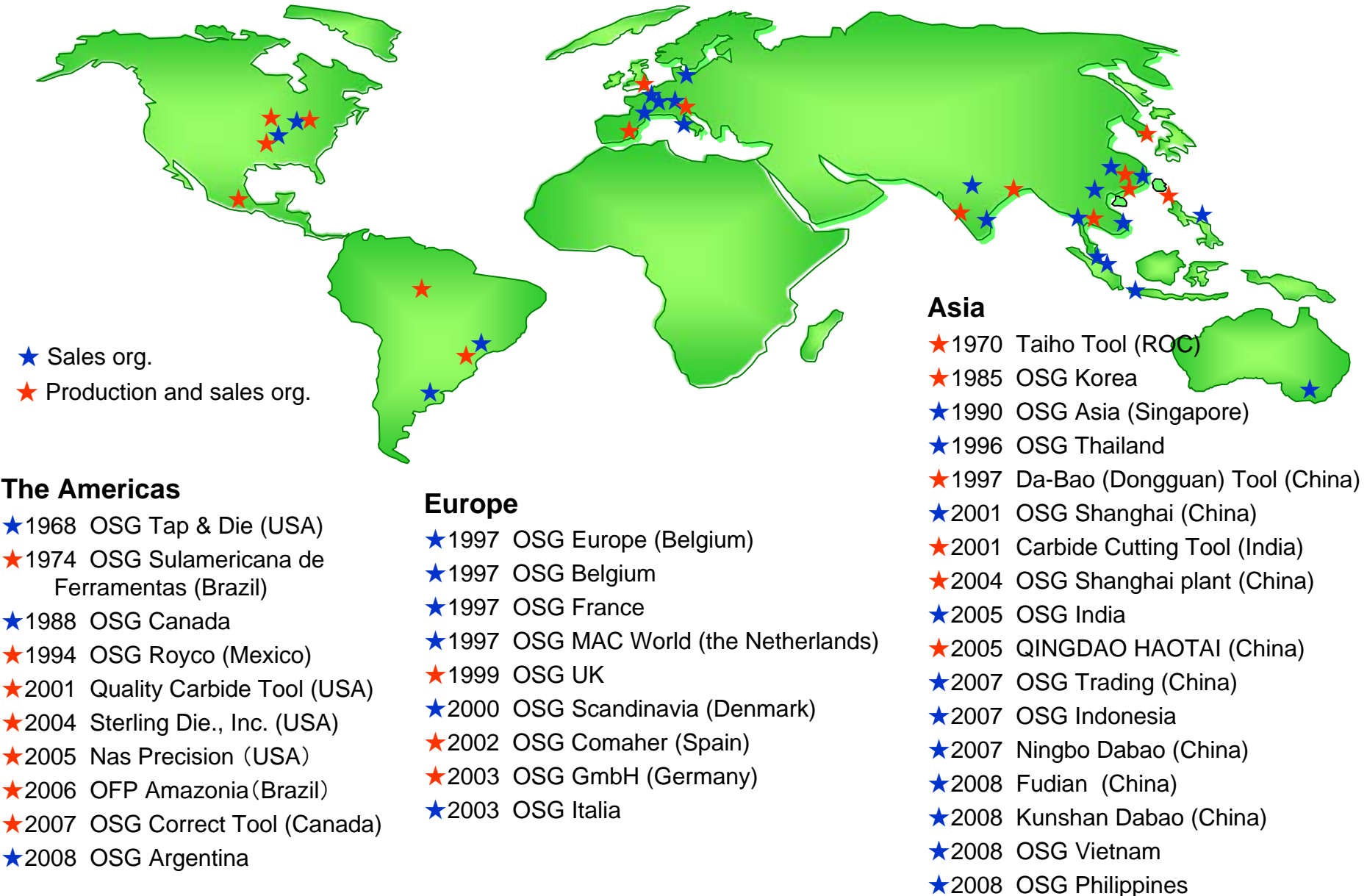
New R&D center established in our Shanghai factory

Production expansion in Asia

Production of new items has started in Shanghai, Thailand, and India.



Expansion of overseas business



Appendix

Appx.1 Consolidated balance sheet

	09/11E	10/05E	Change		09/11E	10/05E	Change
Current Assets	57,845	50,918	-6,927	Current Liabilities	27,628	21,648	-5,980
Cash & time deposits	13,995	14,696	701	N/P & A/P	2,417	3,227	810
N/R & A/R	11,543	13,383	1,840	Short-term borrowings	16,395	6,207	-10,188
Marketable securities	9,000	2,000	-7,000	LT borrowings, current portion	3,581	6,003	2,422
Inventories	20,573	18,237	-2,336	Income taxes payable	406	909	503
Other	2,885	2,754	-131	Accrued expenses	3,486	3,598	112
Allowance for doubtful accounts	-154	-155	-1	Other	1,340	1,704	364
Fixed Assets	55,536	55,992	456	Long-term Liabilities	24,018	20,618	-3,400
PP&E	42,465	41,795	-670	Borrowings	21,254	17,737	-3,517
Intangible assets	2,881	3,326	445	Liabilities for employees' retirement benefits	272	304	32
Investments & other	10,188	10,870	682	Other	2,492	2,577	85
Current ratio	209%	235%		Total Liabilities	51,647	42,267	-9,380
Quick ratio	125%	139%		Total Equity	61,734	64,642	2,908
Equity capital	55,931	58,274	+2,343	Common stock	10,404	10,404	0
Equity ratio	49.3%	54.5%		Cappital surplus	14,197	14,197	0
Equity per share	582.19	606.58	+24.39	Retained earnings	42,471	43,505	1,034
Interest-bearing debt	41,230	29,947	-11,283	Treasury stock	-3,870	-3,871	-1
Net Cash	-18,235	-13,251	+4,984	Unrealized gain on available-for-sale securities	102	679	577
Total	113,382	106,910	-6,472	Foreign currency translation adjustments	-7,374	-6,640	734
				Minority interests	5,803	6,368	565
				Total	113,382	106,910	-6,472

Appx.2 Consolidated income statement

(Millions of yen)

	FY2010						FY2009		1H-1H	
	1Q		2Q		1H		1H			
		%		%		%		%		%
Net sales	14,729	100.0	17,227	100.0	31,956	100.0	27,539	100.0	4,417	+16.0
Cost of sales	10,371	70.4	10,883	63.2	21,254	66.5	19,257	69.9	1,997	+10.4
Gross profit	4,357	29.6	6,345	36.8	10,702	33.5	8,282	30.1	2,420	+29.2
SG&A expenses	4,055	27.5	4,115	23.9	8,170	25.6	8,787	31.9	-617	-7.0
Operating profit	302	2.1	2,229	12.9	2,531	7.9	-505	-1.8	3,036	-
Non-operating profit	232		187		419		812		-393	
Non-operating expenses	311		312		623		740		-117	
Ordinary profit	223	1.5	2,104	12.2	2,327	7.3	-433	-1.6	2,760	-
Extraordinary gain	43		3		46		8		38	
Extraordinary loss	37		47		84		174		-90	
Profit before taxes	229	1.6	2,060	12.0	2,289	7.2	-599	-2.2	2,888	-
Income taxes	-49		650		601		569		32	
Minority interests	153		212		365		131		234	
Net profit	126	0.9	1,196	6.9	1,322	4.1	-1,300	-4.7	2,622	-

Appx.3 Selected financial data (consolidated)

For the year:		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/1H
Net sales	(mill.yen)	43,504	46,842	49,983	54,618	65,975	78,130	88,862	94,164	97,024	53,325	31,956
Sales growth	(%)	13%	8%	7%	9%	21%	18%	14%	6%	3%	-45%	16%
Cost of sales	(mill.yen)	28,717	30,091	34,375	34,499	40,807	47,783	54,376	58,159	60,449	39,203	21,254
Gross profit	(mill.yen)	14,787	16,750	15,607	20,118	25,168	30,346	34,485	36,004	36,574	14,122	10,702
SG&A expenses	(mill.yen)	10,065	10,974	12,383	12,694	14,139	16,220	19,030	20,647	22,158	16,857	8,170
Operating income	(mill.yen)	4,722	5,776	3,224	7,424	11,029	14,125	15,455	15,356	14,416	-2,735	2,531
Ordinary income	(mill.yen)	4,236	5,661	2,465	6,704	10,529	13,887	14,940	14,570	13,505	-2,703	2,327
Net income	(mill.yen)	1,461	1,111	-1,678	4,510	5,647	8,758	7,917	8,013	7,376	-3,769	1,322
Margins:												
Gross profit margin	(%)	34.0%	35.8%	31.2%	36.8%	38.1%	38.8%	38.8%	38.2%	37.7%	26.5%	33.5%
SG&A as % of sales	(%)	23.1%	23.4%	24.8%	23.2%	21.4%	20.8%	21.4%	21.9%	22.8%	31.6%	25.6%
Operating income	(%)	10.9%	12.4%	6.4%	13.6%	16.7%	18.0%	17.4%	16.3%	14.9%	-5.1%	7.9%
Ordinary income	(%)	9.7%	12.1%	4.9%	12.3%	16.0%	17.8%	16.8%	15.5%	13.9%	-5.1%	7.3%
Net income	(%)	3.4%	2.4%	-3.4%	8.3%	8.6%	11.2%	8.9%	8.5%	7.6%	-7.1%	4.1%
Total assets	(mill.yen)	79,681	71,261	74,429	73,886	81,150	93,598	122,451	127,044	122,383	113,382	106,910
Total shareholders' equity	(mill.yen)	42,316	37,683	35,025	37,028	40,464	54,647	60,081	64,295	64,251	55,931	58,274
Per share:												
Net income	(yen)	14.57	11.14	-17.25	46.92	60.32	89.10	81.00	82.42	76.53	-39.22	13.76
Cash dividends (interim)	(yen)	0.00	0.00	0.00	4.00	8.00	10.00	12.00	12.00	12.00	0.00	4.00
(year end)	(yen)	6.00	6.00	6.00	6.00	10.00	16.00	14.00	14.00	12.00	3.00	6.00(fcst)
Total shareholders' equity	(yen)	422.08	381.80	363.89	401.34	442.03	554.90	615.07	667.01	666.71	582.19	606.58
Numbers of shares issued	(ths)	100,255	98,700	96,255	91,933	91,233	98,079	97,681	96,393	96,371	96,071	96,071
Key financial ratios:												
ROE	(%)	3.6%	2.8%	-4.6%	12.5%	14.6%	18.4%	13.8%	12.9%	11.5%	-6.3%	2.3%
Equity ratio	(%)	53.1%	52.9%	47.1%	50.1%	49.9%	58.4%	49.1%	50.6%	52.5%	49.3%	54.5%
Cash flow:												
Operating CF	(mill.yen)	8,649	6,116	6,968	9,239	11,585	7,820	9,546	16,733	10,653	6,049	7,211
Investing CF	(mill.yen)	-1,405	-3,429	-2,493	-2,519	-7,496	-7,200	-30,616	-9,019	1,678	-4,633	-1,906
Financing CF	(mill.yen)	-2,173	-9,651	-2,850	-6,442	-2,870	-897	20,699	-6,821	-4,500	5,470	-11,812
Cash flow margin	(%)	19.9%	13.1%	13.9%	16.9%	17.6%	10.0%	10.7%	17.8%	11.0%	11.3%	22.6%