

**TOKO-  
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NEEDS & ECOLOGY & HEART  
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# Financial Results for FY2011-3Q

 **OSG CORPORATION**

October, 2011  
**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



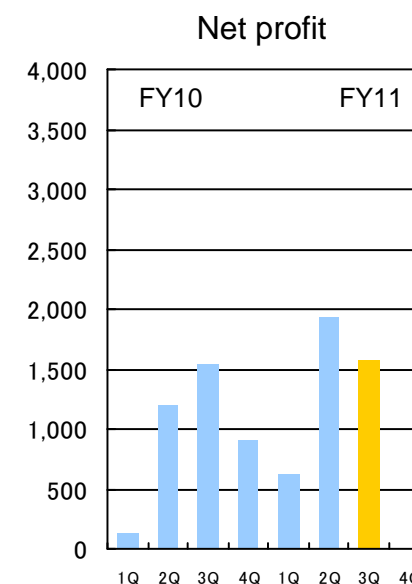
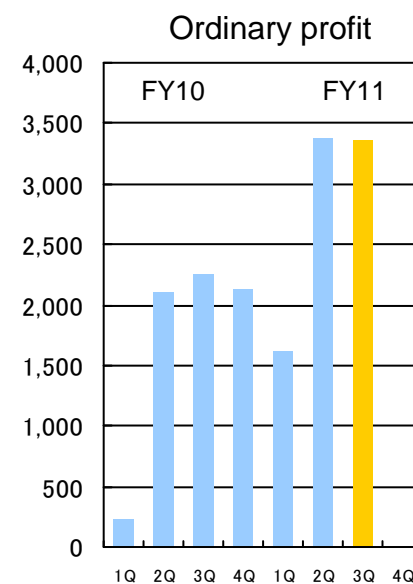
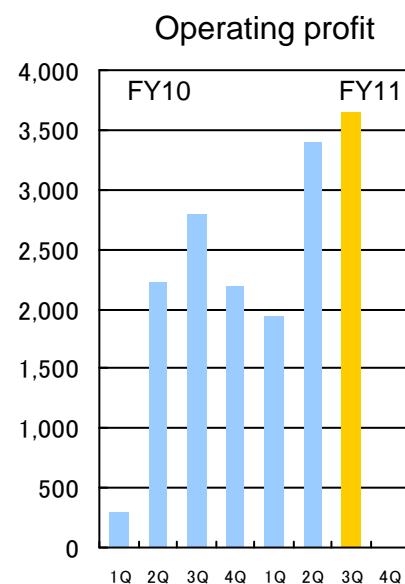
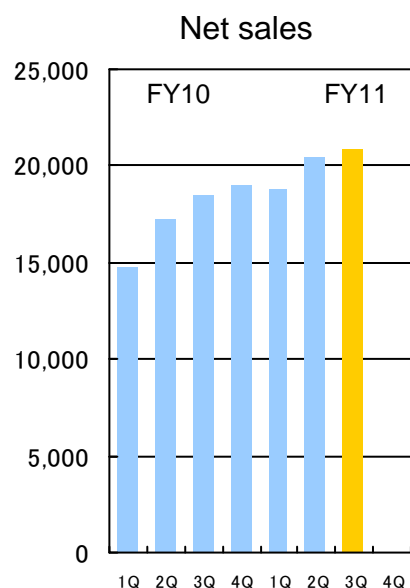
### Note regarding forecast

This material includes forward-looking statements based on information available at the time of release. The forecasts and other forward-looking statements are not guarantees of future performance. Actual financial results may differ from the above forecasts due to known and unknown risks, uncertainties, and other factors.

# Financial summary for FY2011-3Q

(Millions of yen)

	2010/3Q	2011/3Q	Change		FY11 Forecast
Net sales	50,470	60,117	9,647	+19.1%	79,500
Operating profit	5,325	8,977	3,652	+68.6%	11,500
OPM	10.6%	14.9%	-	-	14.5%
Ordinary profit	4,581	8,334	3,753	+81.9%	10,900
Net profit	2,868	4,135	1,267	+44.2%	5,900
Operating CF	9,915	6,556	-3,359	-33.9%	-
EPS(yen)	29.85	43.54	13.69	-	62.13



# Review

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- Increase in sales and profit
  - Improvement in GP margin      40.0% (4.4% increase, yoy)
  - Improvement in OP margin      14.9% (4.3% increase, yoy)
  
- Stable financial condition
  - Decrease in debt      2.5 billion yen
  - Equity ratio      56.9% (2.8% increase from the end of FY2010)
  
- Cash flow generation
  - Operating cash flow    6.5 billion yen (3.3 billion yen decrease, yoy)
    - Inventory and income tax payment comparatively increased.
  
- Review by region
  - Japan
    - Tap production marked the highest ever in June by increasing production capacity.
    - Demand from domestic market has been flat since 2Q.
  - Europe and America
    - Business recovery has been continuing.
  - Asia
    - Net sales and operating profit for 3Q hit record high.

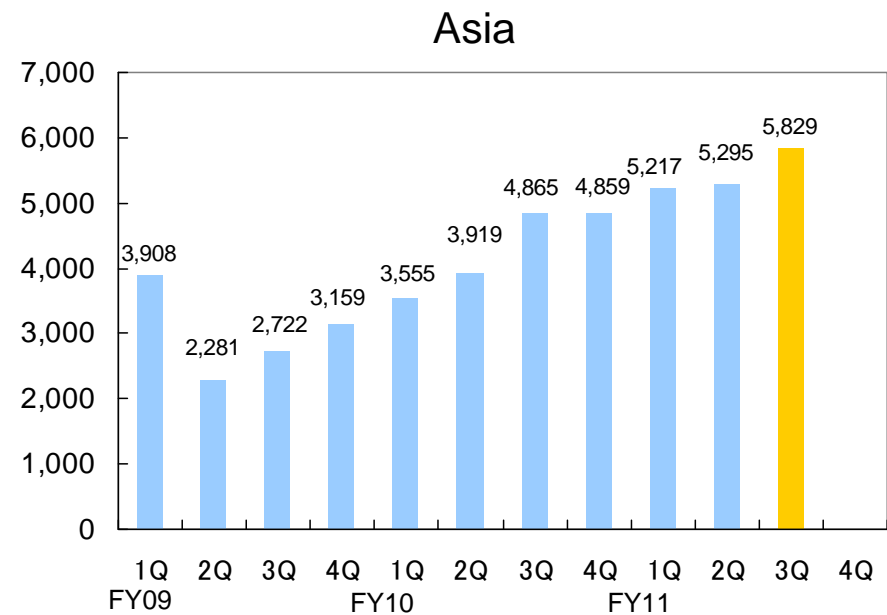
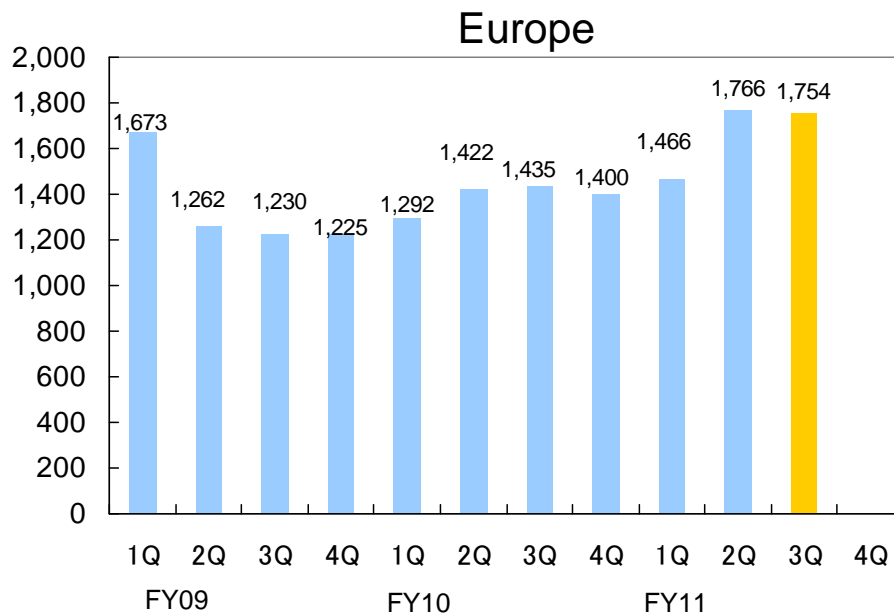
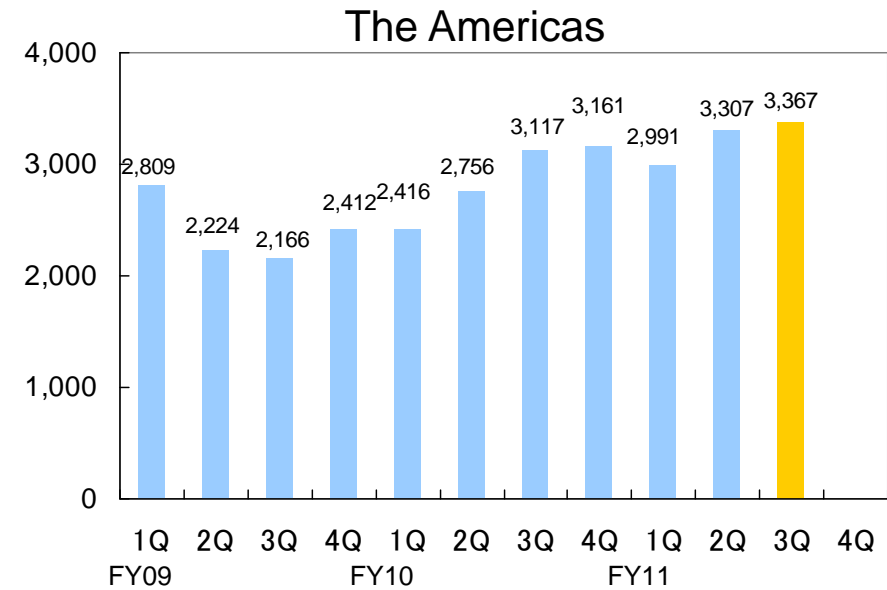
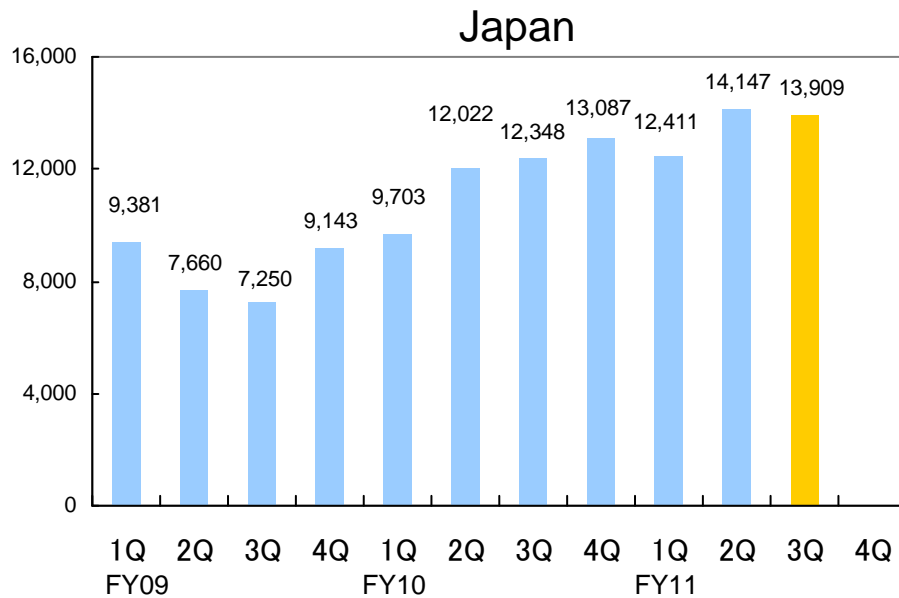
# Operations by geographical segment

(Millions of yen)

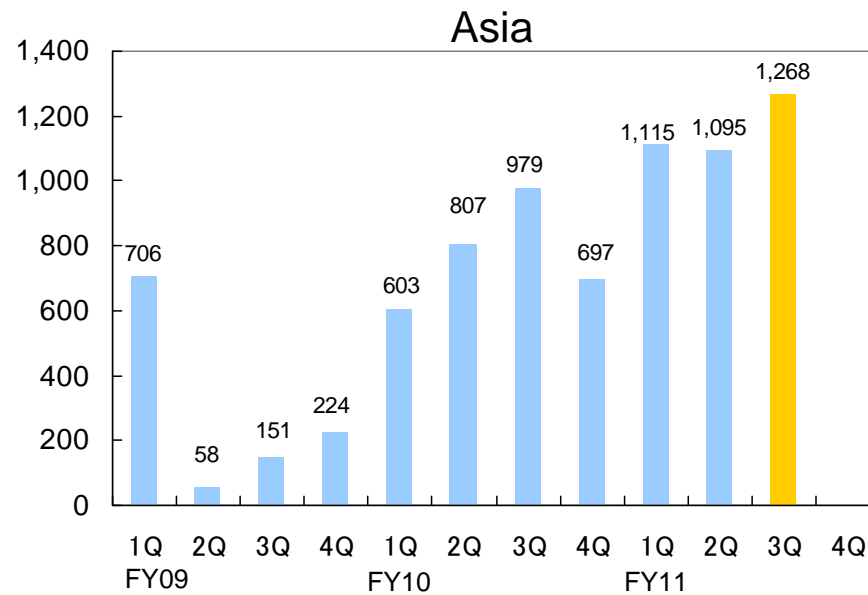
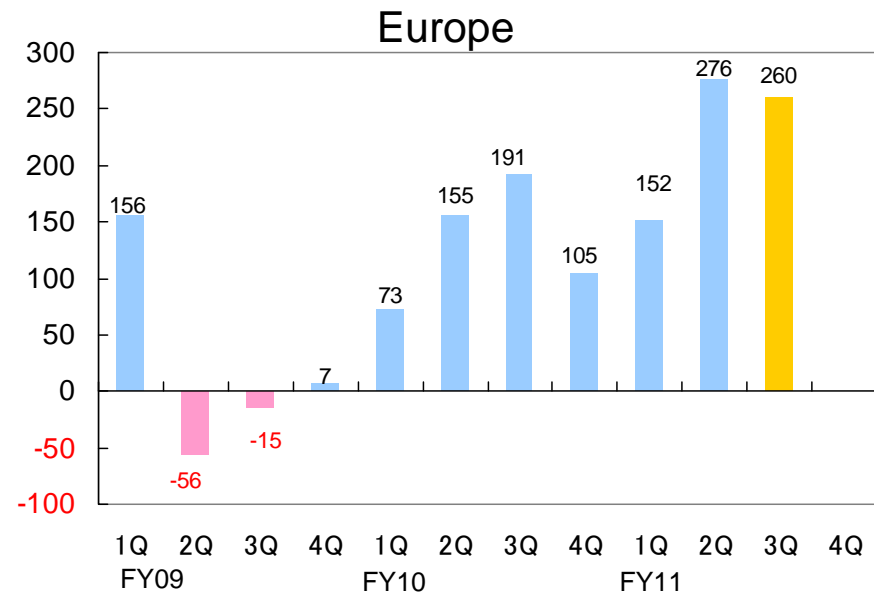
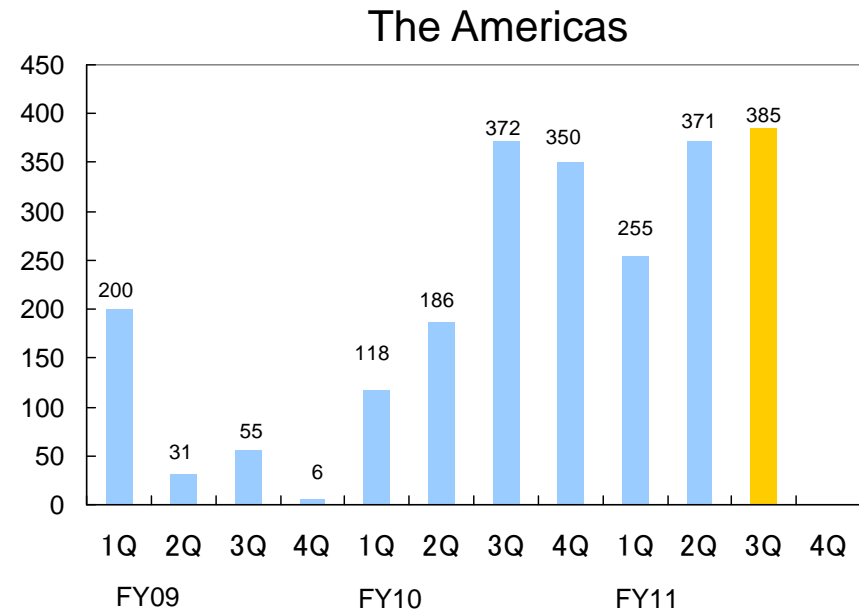
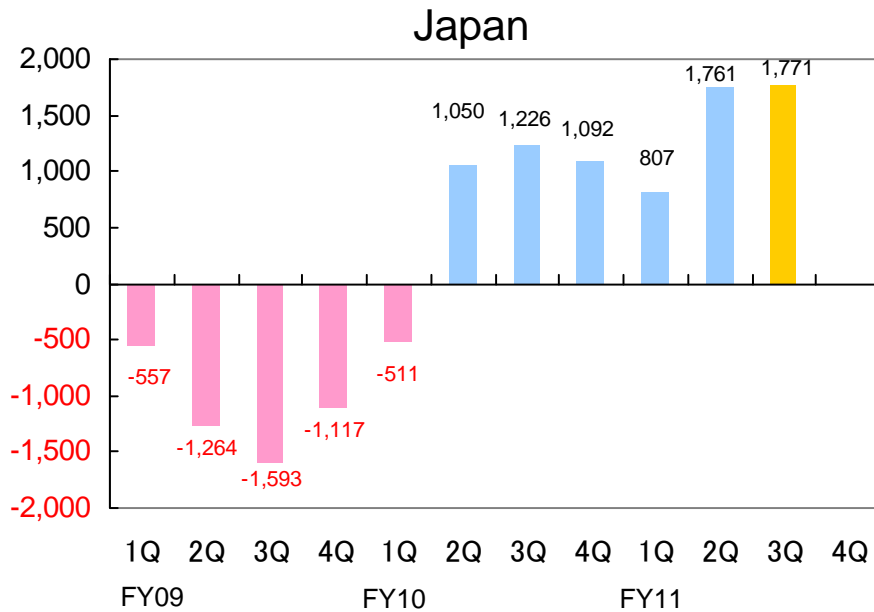
		2010/3Q	2011/3Q	Change		Change in local currency
Japan	Net Sales	34,073	40,467	6,394	+18.8%	-
	O.P	1,765	4,339	2,574	+145.8%	-
	O.P.M	5.2%	10.7%			
The Americas	Net Sales	8,289	9,665	1,376	+16.6%	+27.0%
	O.P	676	1,011	335	+49.6%	+64.5%
	O.P.M	8.2%	10.5%			
Europe	Net Sales	4,149	4,986	837	+20.2%	+30.1%
	O.P	419	688	269	+64.2%	+79.4%
	O.P.M	10.1%	13.8%			
Asia	Net Sales	12,339	16,341	4,002	+32.4%	+40.1%
	O.P	2,389	3,478	1,089	+45.6%	+53.7%
	O.P.M	19.4%	21.3%			
Total	Net Sales	58,852	71,460	12,608		
	O.P	5,251	9,519	4,268		
Eliminations	Net Sales	-8,382	-11,343	-2,961		
	O.P	73	-541	-614		
Consolidated	Net Sales	50,470	60,117	9,647	+19.1%	-
	O.P	5,325	8,977	3,652	+68.6%	-
	O.P.M	10.6%	14.9%			

# Net sales by geographical segment

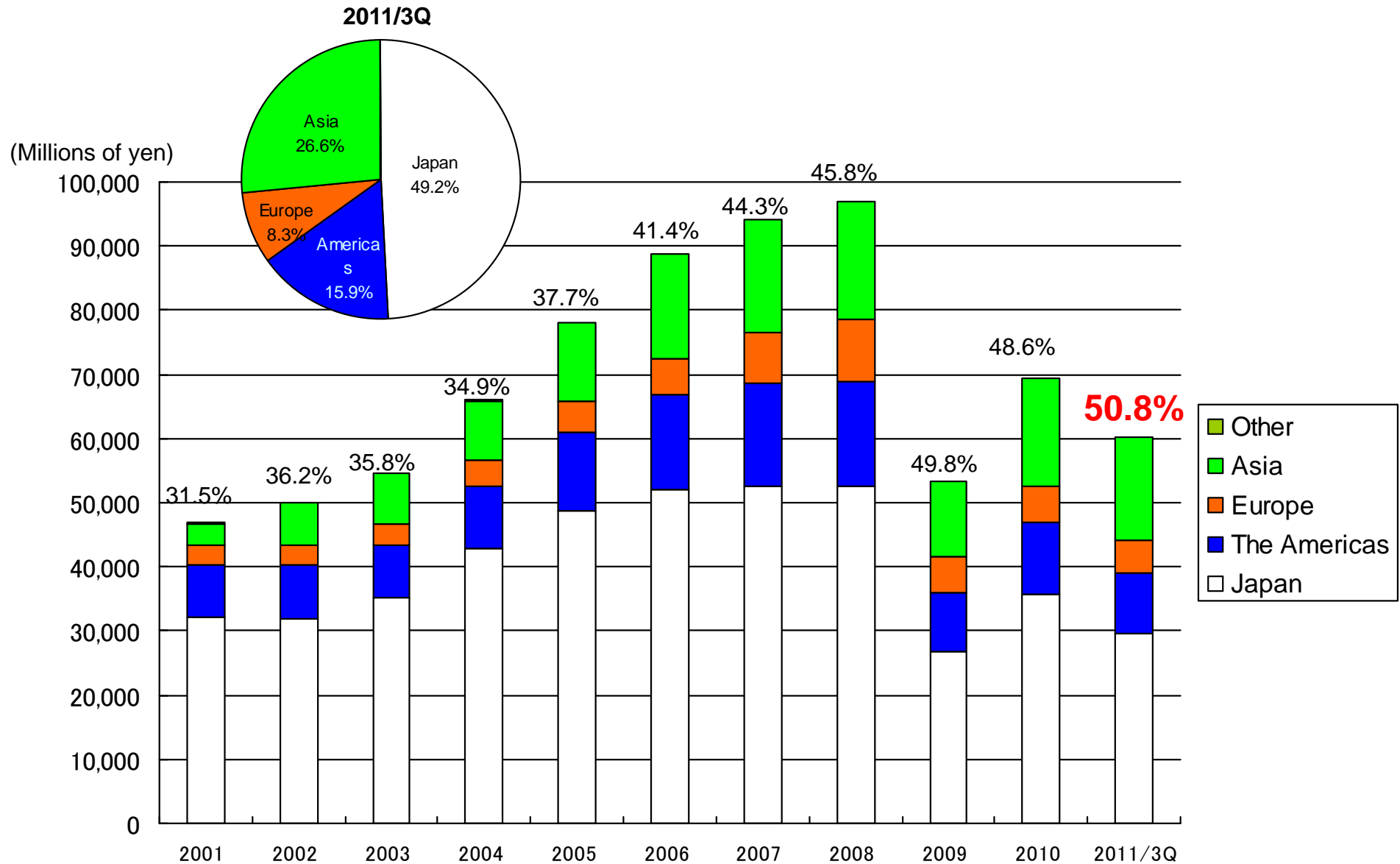
(Millions of yen)



# Operating profit by geographical segment



# Overseas sales ratio



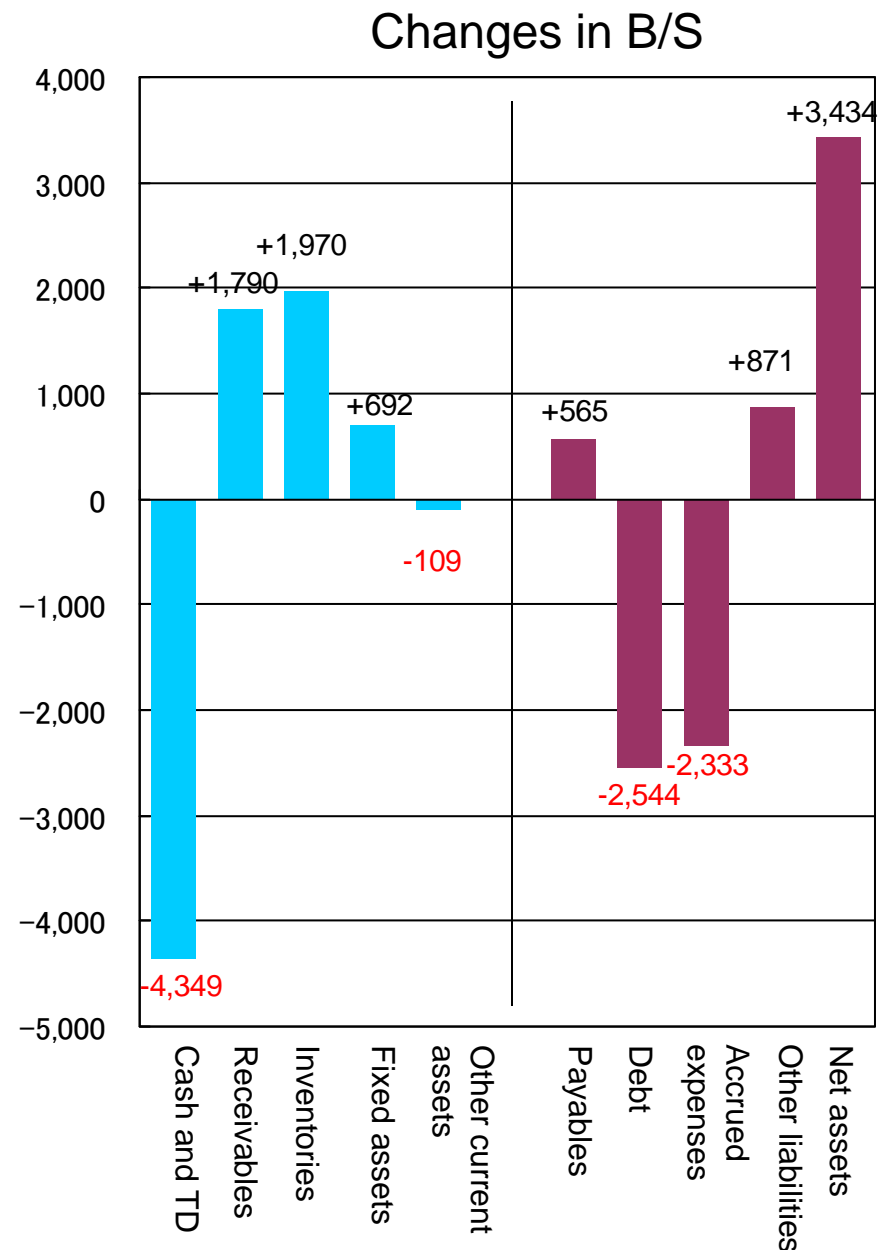
# B/S overview

(Millions of yen)

	10/11E	11/8E	Change
Cash & TD	16,314	11,965	-4,349
Receivables	15,359	17,149	1,790
Inventories	16,970	18,940	1,970
Other current assets	3,072	2,963	-109
Fixed assets	53,919	54,611	692
<b>Total assets</b>	<b>105,635</b>	<b>105,628</b>	<b>-7</b>
Total current liabilities	22,975	22,235	-740
Total long-term liabilities	19,497	16,796	-2,701
Total net assets	63,162	66,596	3,434
<b>Total liabilities and net assets</b>	<b>105,635</b>	<b>105,628</b>	<b>-7</b>

Equity ratio	54.1%	<b>56.9%</b>	
Receivable turnover period	81	78	days
Inventory turnover period	3.0	2.9	months

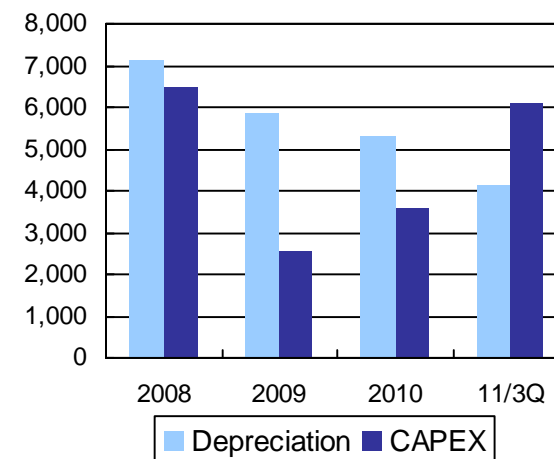
Cash and TD	16,314	11,965	-4,349
Debt	27,317	24,773	-2,544
Net Cash	-11,003	-12,808	-1,805



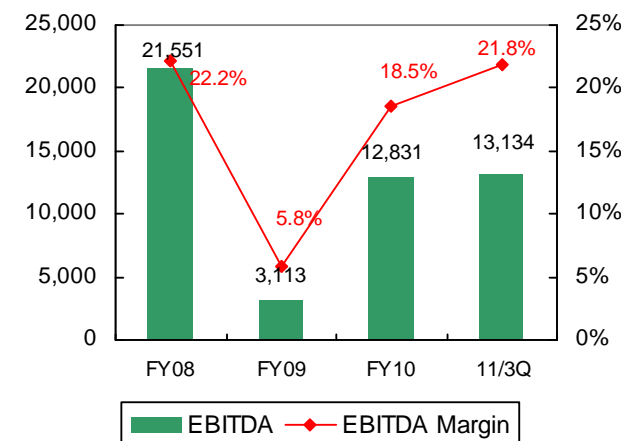
# Cash flow overview

	FY08	FY09	FY10	10/3Q	11/3Q	Change
Income before taxes	10,204	-3,926	6,247	4,530	7,995	3,465
Depreciation	7,135	5,848	5,307	3,939	4,157	218
Loss (gain) on sales of securities	1,796	-0	-2	-2	0	2
Loss on valuation of securities	1,386	11	2	0	0	0
Change in A/R	-702	6,003	-4,521	-3,527	-1,701	1,826
Change in inventories	-1,497	888	3,091	2,526	-1,917	-4,443
Change in A/P	1,022	-2,775	1,792	1,634	599	-1,035
Other-net	147	-1,701	2,904	1,224	-355	-1,579
Income taxes paid	-8,838	-2,135	-1,191	-875	-2,268	-1,393
Income Taxes refunded	-	3,836	466	466	46	-420
Operating cash flow	10,653	6,049	14,095	9,915	6,556	-3,359
Capital expenditures	-6,455	-2,547	-3,568	-2,041	-6,079	-4,038
Purchase of subsidiaries' stock	-990	-146	-96	-81	-235	-154
Purchase of securities	-3,034	-8	-10	-9	-7	2
Sales of securities	13,888	0	24	23	0	-23
Other-net	-1,731	-1,932	-1,872	-936	362	1,298
Investing cash flow	1,678	-4,633	-5,522	-3,044	-5,959	-2,915
<b>Free cash flow</b>	<b>12,331</b>	<b>1,416</b>	<b>8,573</b>	<b>6,871</b>	<b>597</b>	<b>-6,274</b>
Change in interest-bearing debt	-1,723	6,994	-13,752	-11,948	-2,634	9,314
Cash dividends paid	-2,502	-1,162	-674	-672	-1,330	-658
Purchase of treasury stock	-20	-172	-957	-1	-2	-1
Other-net	-253	-190	-179	-177	-468	-291
Financing cash flow	-4,500	5,470	-15,562	-12,800	-4,434	8,366
Foreign currency translation adjustments	-635	-626	-378	-376	-35	341
Net increase(decrease) in cash	7,195	6,259	-7,367	-6,306	-3,872	2,434
Cash of newly consolidated subsidiaries, beginning of year	38	0	75	0	0	0
Cash, end of year	14,557	20,816	13,525	14,510	9,653	-4,857

CAPEX and depreciation



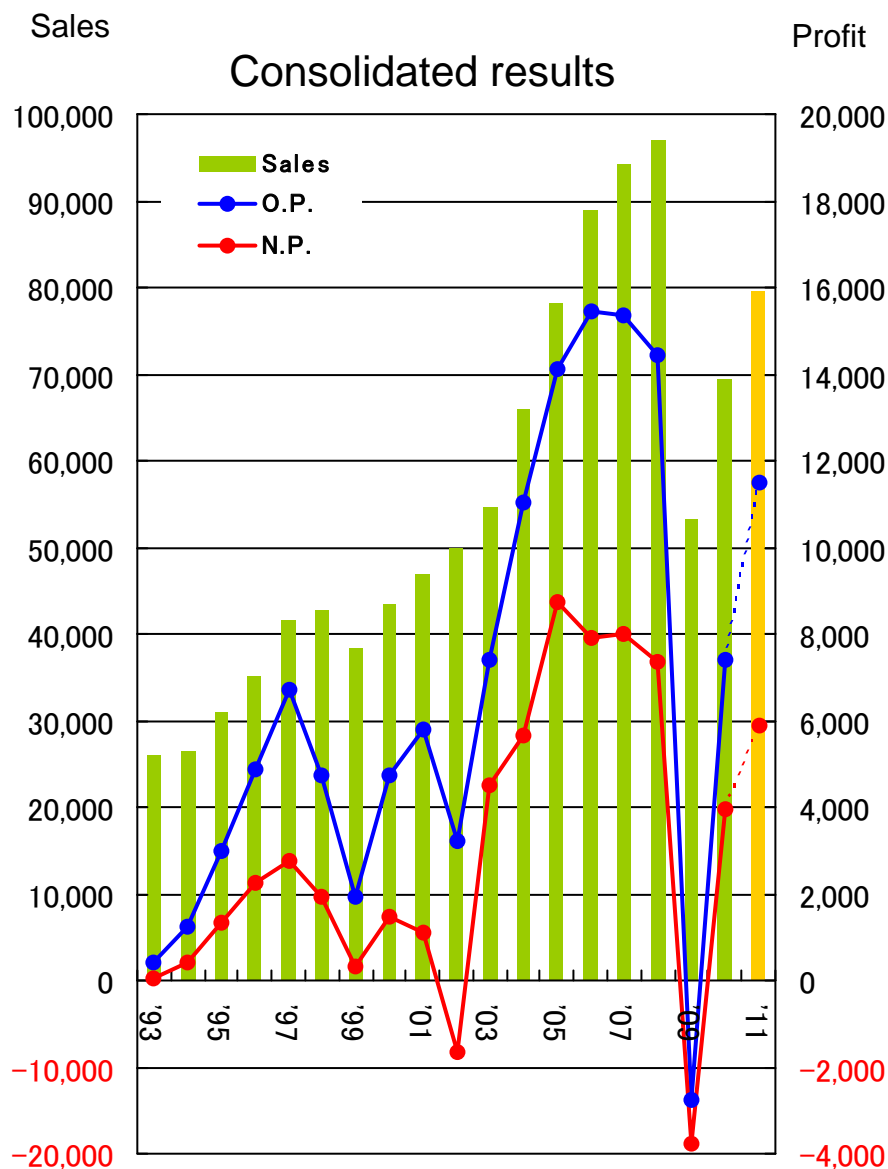
EBITDA



# Forecast for FY2011

## Financial forecast for FY2011

	Consolidated		Parent company	
	Amount	Growth	Amount	Growth
Net Sales	79,500	+14.4%	42,000	+14.9%
Operating profit as % of sales	11,500 14.5%	+52.8%	3,500 8.3%	3.6x
Ordinary profit as % of sales	10,900 13.7%	+62.7%	4,800 11.4%	4.5x
Net profit as % of sales	5,900 7.4%	+56.4%	3,400 8.1%	5.6x
EPS (yen)	62.13		35.80	
CAPEX	6,900			
Depreciation	5,900			



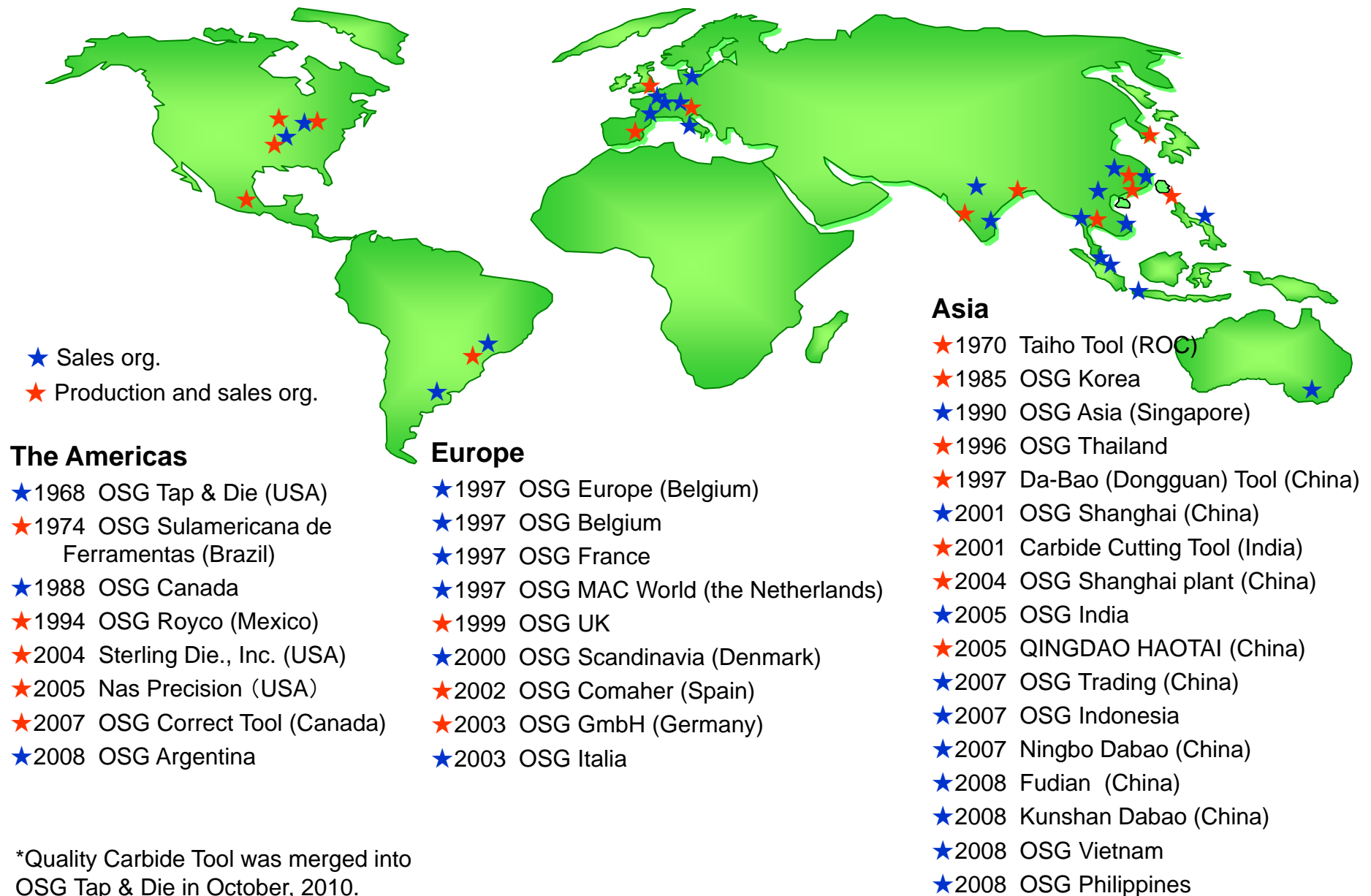
Estimated sales growth (annual, yoy)  
 Japan +14.3% The Americas +12.8% Europe +14.7% Asia+23.7%

Exchange rate  
 FY2011/3Q result : 1US\$= 81.93yen 1Euro=114.15yen  
 FY2011 forecast : 1US\$= 82.00yen 1Euro=114.00yen

## Dividend forecast

	Interim	Year-end	Annual
Dividend per share (yen)	6.00	12.00	18.00

# Expansion of overseas business



\*Quality Carbide Tool was merged into OSG Tap & Die in October, 2010.

# Appendix

# Appx.1 Consolidated balance sheet

	10/11E	11/08E	Change		10/11E	11/08E	Change
Current Assets	51,715	51,017	-698	Current Liabilities	22,975	22,235	-740
Cash & time deposits	16,314	11,965	-4,349	Payables	3,731	4,296	565
Receivables	15,359	17,149	1,790	Short-term borrowings	4,654	6,562	1,908
Inventories	16,970	18,940	1,970	LT borrowings, current portion	5,781	4,237	-1,544
Other	3,241	3,169	-72	Income taxes payable	1,358	1,316	-42
Allowance for doubtful accounts	-169	-206	-37	Accrued expenses	5,086	2,753	-2,333
				Other	2,365	3,071	706
Fixed Assets	53,919	54,611	692	Long-term Liabilities	19,497	16,796	-2,701
PP&E	40,245	42,652	2,407	Borrowings	16,882	13,974	-2,908
Intangible assets	3,632	3,071	-561	Liabilities for employees' retirement benefits	227	282	55
Investments & other	10,041	8,888	-1,153	Other	2,388	2,540	152
				Total Liabilities	42,473	39,031	-3,442
				Total Equity	63,162	66,596	3,434
Current ratio	225%	229%		Common stock	10,404	10,404	0
Quick ratio	138%	131%		Capital surplus	14,197	14,197	0
Equity capital	57,117	60,131	+3,014	Retained earnings	45,622	48,427	2,805
Equity ratio	54.1%	56.9%		Treasury stock	-4,827	-4,829	-2
Equity per share	601.44	633.18	+31.74	Unrealized gain on available-for-sale securities	577	706	129
Interest-bearing debt	27,317	24,773	-2,544	Deferred loss on derivatives under hedge accounting	-0	-	-
Net Cash	-11,003	-12,808	-1,805	Foreign currency translation adjustments	-8,854	-8,775	79
				Minority interests	6,044	6,465	421
Total	105,635	105,628	-7	Total	105,635	105,628	-7

# Appx.2 Consolidated income statement

(Millions of yen)

	FY2011								FY2010		Change	
	1Q		2Q		3Q		3Q total		3Q total			
		%		%		%		%		%		%
Net sales	18,793	100.0	20,429	100.0	20,895	100.0	60,117	100.0	50,470	100.0	9,647	+19.1
Cost of sales	11,912	63.4	11,940	58.4	12,190	58.3	36,042	60.0	32,489	64.4	3,553	+10.9
Gross profit	6,880	36.6	8,490	41.6	8,705	41.7	24,075	40.0	17,980	35.6	6,095	+33.9
SG&A expenses	4,944	26.3	5,091	24.9	5,062	24.2	15,097	25.1	12,655	25.1	2,442	+19.3
Operating profit	1,935	10.3	3,400	16.6	3,642	17.4	8,977	14.9	5,325	10.6	3,652	+68.6
Non-operating profit	163		146		183		492		517		-25	
Non-operating expenses	486		179		470		1,135		1,260		-125	
Ordinary profit	1,612	8.6	3,367	16.5	3,355	16.1	8,334	13.9	4,581	9.1	3,753	+81.9
Extraordinary gain	7		28		10		45		50		-5	
Extraordinary loss	22		19		343		384		101		283	
Profit before taxes	1,597	8.5	3,375	16.5	3,023	14.5	7,995	13.3	4,530	9.0	3,465	+76.5
Income taxes	724		1,174		1,190		3,088		1,166		1,922	
Minority interests	246		272		254		772		495		277	
Net profit	627	3.3	1,928	9.4	1,580	7.6	4,135	6.9	2,868	5.7	1,267	+44.2

# Appx.3 Selected financial data (consolidated)

<b>For the year:</b>		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011/3Q
Net sales	(mill.yen)	49,983	54,618	65,975	78,130	88,862	94,164	97,024	53,325	69,513	60,117
Sales growth	(%)	7%	9%	21%	18%	14%	6%	3%	-45%	30%	19%
Cost of sales	(mill.yen)	34,375	34,499	40,807	47,783	54,376	58,159	60,449	39,203	44,605	36,042
Gross profit	(mill.yen)	15,607	20,118	25,168	30,346	34,485	36,004	36,574	14,122	24,907	24,075
SG&A expenses	(mill.yen)	12,383	12,694	14,139	16,220	19,030	20,647	22,158	16,857	17,383	15,097
Operating income	(mill.yen)	3,224	7,424	11,029	14,125	15,455	15,356	14,416	-2,735	7,524	8,977
Ordinary income	(mill.yen)	2,465	6,704	10,529	13,887	14,940	14,570	13,505	-2,703	6,699	8,334
Net income	(mill.yen)	-1,678	4,510	5,647	8,758	7,917	8,013	7,376	-3,769	3,772	4,135
<b>Margins:</b>											
Gross profit margin	(%)	31.2%	36.8%	38.1%	38.8%	38.8%	38.2%	37.7%	26.5%	35.8%	40.0%
SG&A as % of sales	(%)	24.8%	23.2%	21.4%	20.8%	21.4%	21.9%	22.8%	31.6%	25.0%	25.1%
Operating income	(%)	6.4%	13.6%	16.7%	18.0%	17.4%	16.3%	14.9%	-5.1%	10.8%	14.9%
Ordinary income	(%)	4.9%	12.3%	16.0%	17.8%	16.8%	15.5%	13.9%	-5.1%	9.6%	13.9%
Net income	(%)	-3.4%	8.3%	8.6%	11.2%	8.9%	8.5%	7.6%	-7.1%	5.4%	6.9%
Total assets	(mill.yen)	74,429	73,886	81,150	93,598	122,451	127,044	122,383	113,382	105,635	105,628
Total shareholders' equity	(mill.yen)	35,025	37,028	40,464	54,647	60,081	64,295	64,251	55,931	57,117	60,131
<b>Per share:</b>											
Net income	(yen)	-17.25	46.92	60.32	89.10	81.00	82.42	76.53	-39.22	39.34	43.54
Cash dividends (interim)	(yen)	0.00	4.00	8.00	10.00	12.00	12.00	12.00	0.00	4.00	6.00
(year end)	(yen)	6.00	6.00	10.00	16.00	14.00	14.00	12.00	3.00	8.00	12.00(fcst)
Total shareholders' equity	(yen)	363.89	401.34	442.03	554.90	615.07	667.01	666.71	582.19	601.44	633.18
Numbers of shares issued	(ths)	96,255	91,933	91,233	98,079	97,681	96,393	96,371	96,071	94,969	94,967
<b>Key financial ratios:</b>											
ROE	(%)	-4.6%	12.5%	14.6%	18.4%	13.8%	12.9%	11.5%	-6.3%	6.7%	-
Equity ratio	(%)	47.1%	50.1%	49.9%	58.4%	49.1%	50.6%	52.5%	49.3%	54.1%	56.9%
<b>Cash flow:</b>											
Operating CF	(mill.yen)	6,968	9,239	11,585	7,820	9,546	16,733	10,653	6,049	14,095	6,556
Investing CF	(mill.yen)	-2,493	-2,519	-7,496	-7,200	-30,616	-9,019	1,678	-4,633	-5,522	-5,959
Financing CF	(mill.yen)	-2,850	-6,442	-2,870	-897	20,699	-6,821	-4,500	5,470	-15,562	-4,434
Cash flow margin	(%)	13.9%	16.9%	17.6%	10.0%	10.7%	17.8%	11.0%	11.3%	20.3%	10.9%