



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

# Financial Results for FY2011



**OSG CORPORATION**

January, 2012  
**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



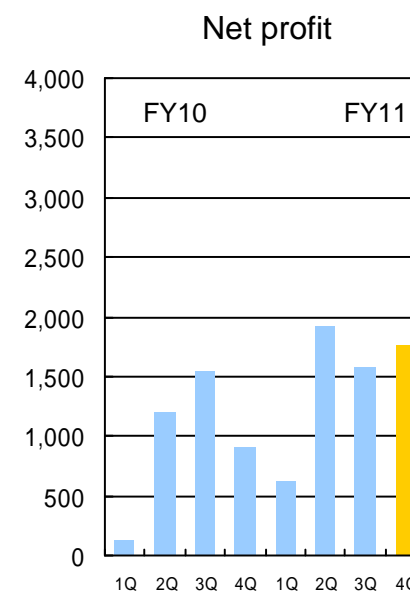
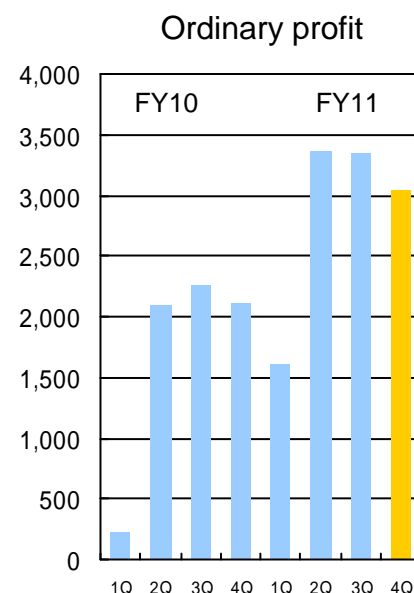
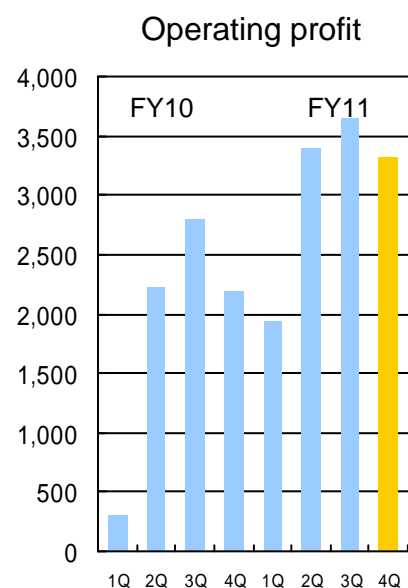
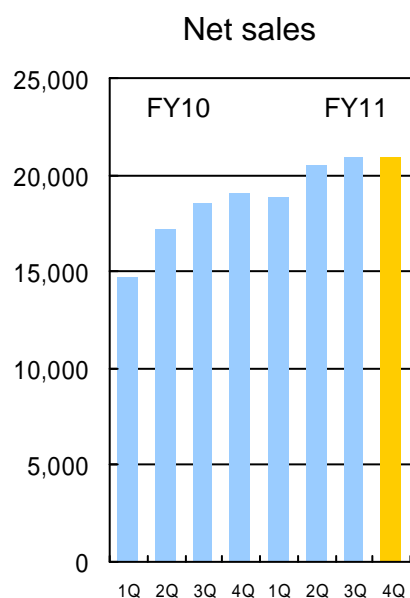
### Note regarding forecast

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

(Millions of yen)

	FY2010	FY2011	Change		FY11 Forecast	Variance
Net sales	69,513	80,959	11,446	+16.5%	79,500	+1,459
Operating profit	7,524	12,305	4,781	+63.5%	11,500	+805
OPM	10.8%	15.2%	-	-	14.5%	-
Ordinary profit	6,699	11,374	4,675	+69.8%	10,900	+474
Net profit	3,772	5,904	2,132	+56.5%	5,900	+4
EPS(yen)	39.34	62.18	22.84	-	62.13	+0.05
Operating CF	14,095	11,344	-2,751	-19.5%	-	-
Operating CF Margin	20.3%	14.0%	-	-	-	-



# Review

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- Increase in sales and profit
  - Improvement in GP margin                    40.2% (4.4% point increase, year over year)
  - Improvement in OP margin                    15.2% (4.4% point increase, year over year)
  
- Stable financial condition
  - Decrease in debt                    4.3billion yen
  - Equity ratio                    56.9% (2.8% point increase from the end of FY2010)
  
- Cash flow generation
  - Operating cash flow            11.3 billion yen (2.7 billion yen decrease, year over year)
    - Inventory and income tax payment comparatively increased.
  
- Review by region
  - Japan
    - Operating profit improved by production capacity increase.
    - Demand from domestic market has been increasing since last summer.
  - Europe and the Americas
    - Results of North America and Europe for FY11 exceed those for FY08, before the lehman shock.
    - Loss on liquidation of a subsidiary in Brazil was recognized.
  - Asia
    - Although net sales and operating profit in Greater China for 11/4Q temporarily decreased, annual financial results achieved high growth.

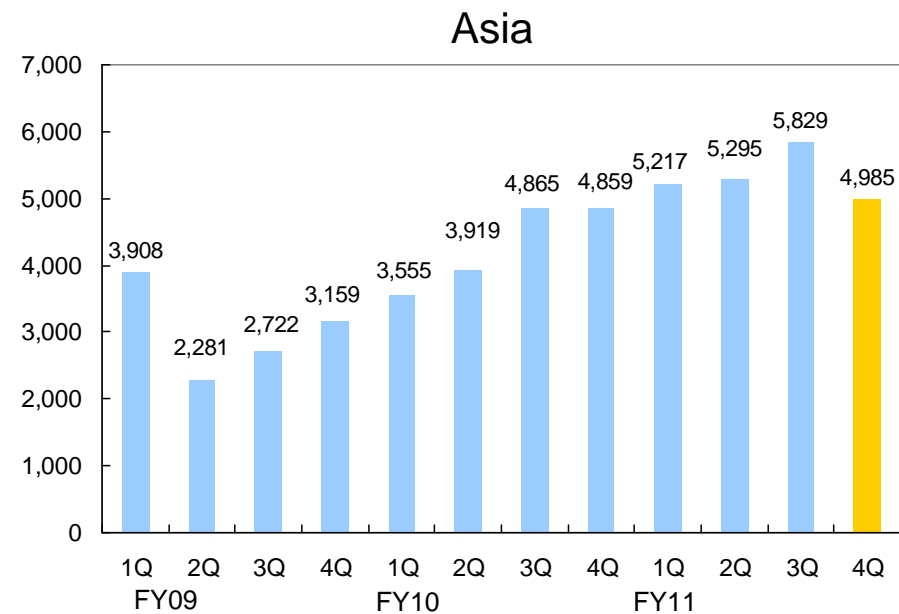
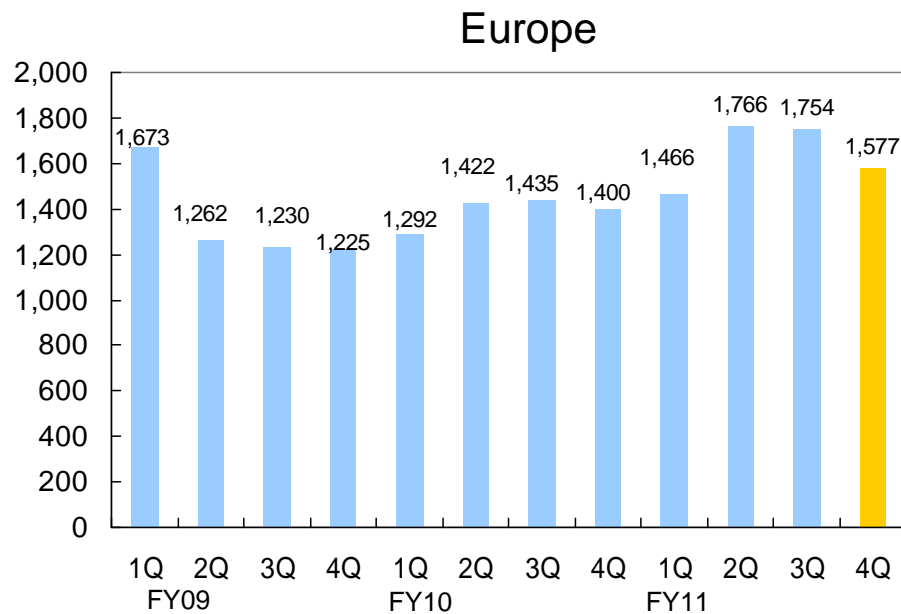
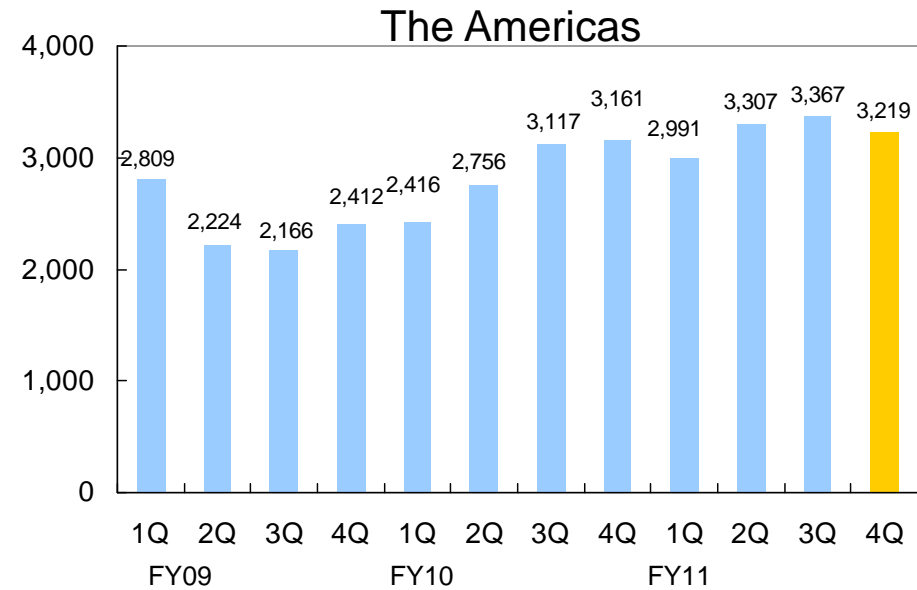
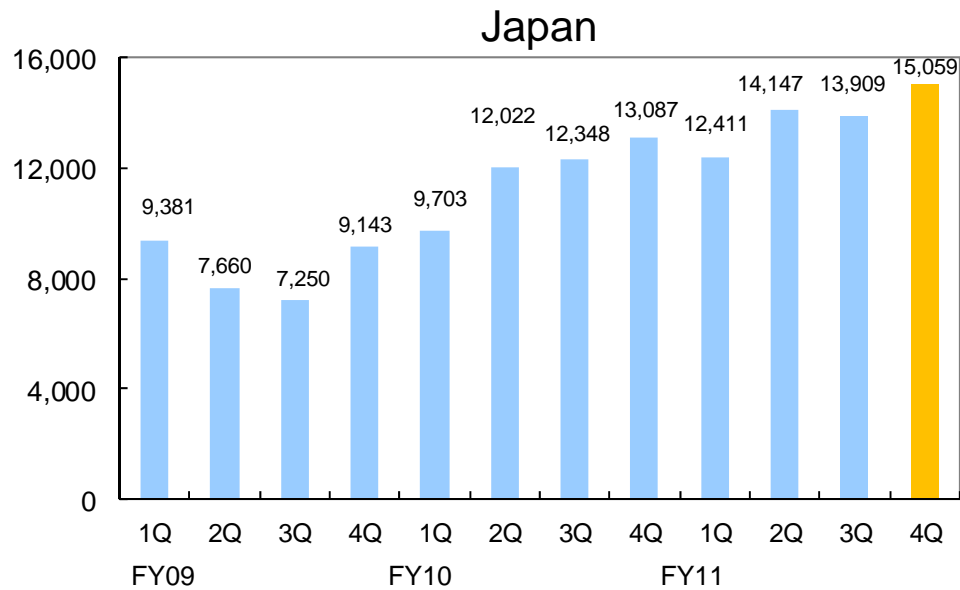
# Operations by geographical segment

(Millions of yen)

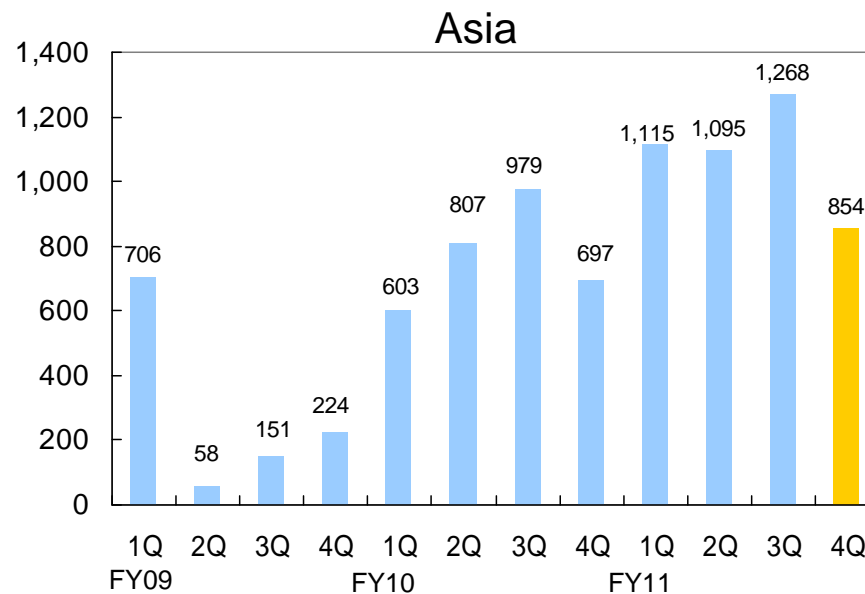
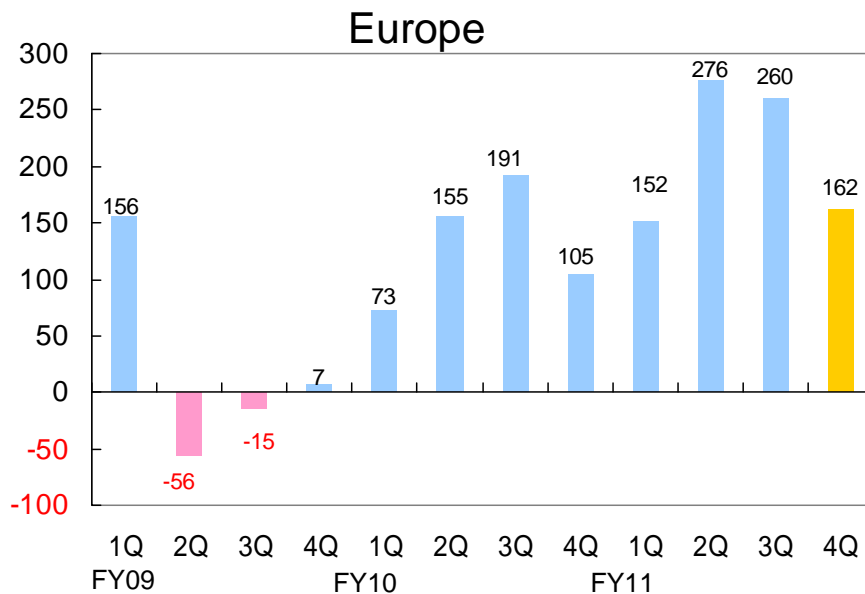
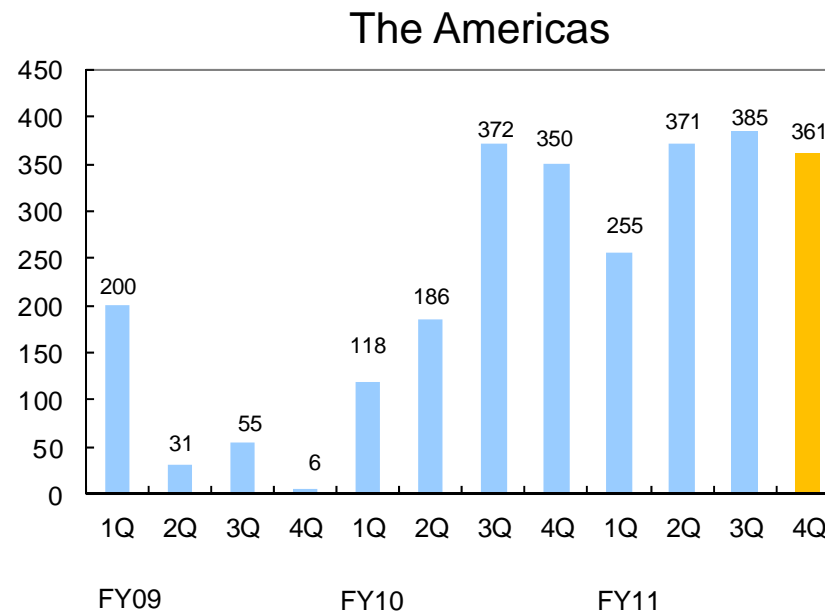
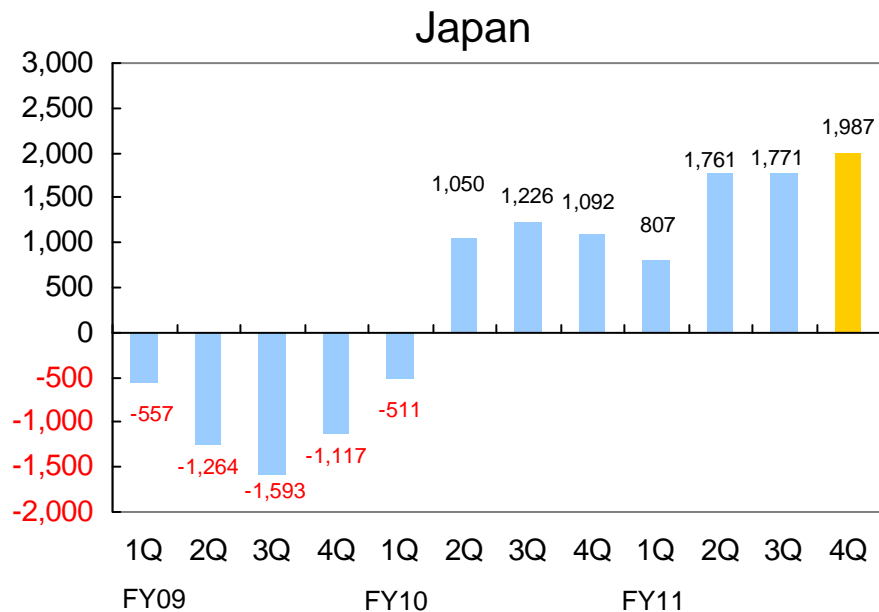
		FY2010	FY2011	Change		Change in local currency
Japan	Net Sales	47,160	55,526	8,366	+17.7%	-
	O.P	2,857	6,326	3,469	+121.4%	-
	O.P.M	6.1%	11.4%			
The Americas	Net Sales	11,450	12,884	1,434	+12.5%	+22.7%
	O.P	1,026	1,372	346	+33.7%	+47.2%
	O.P.M	9.0%	10.6%			
Europe	Net Sales	5,549	6,563	1,014	+18.3%	+26.6%
	O.P	524	850	326	+62.2%	+74.8%
	O.P.M	9.4%	13.0%			
Asia	Net Sales	17,198	21,326	4,128	+24.0%	+27.4%
	O.P	3,086	4,332	1,246	+40.4%	+50.7%
	O.P.M	17.9%	20.3%			
Total	Net Sales	81,358	96,301	14,943		
	O.P	7,495	12,881	5,386		
Eliminations	Net Sales	-11,844	-15,342	-3,498		
	O.P	28	-576	-604		
Consolidated	Net Sales	69,513	80,959	11,446	+16.5%	-
	O.P	7,524	12,305	4,781	+63.5%	-
	O.P.M	10.8%	15.2%			

# Net sales by geographical segment

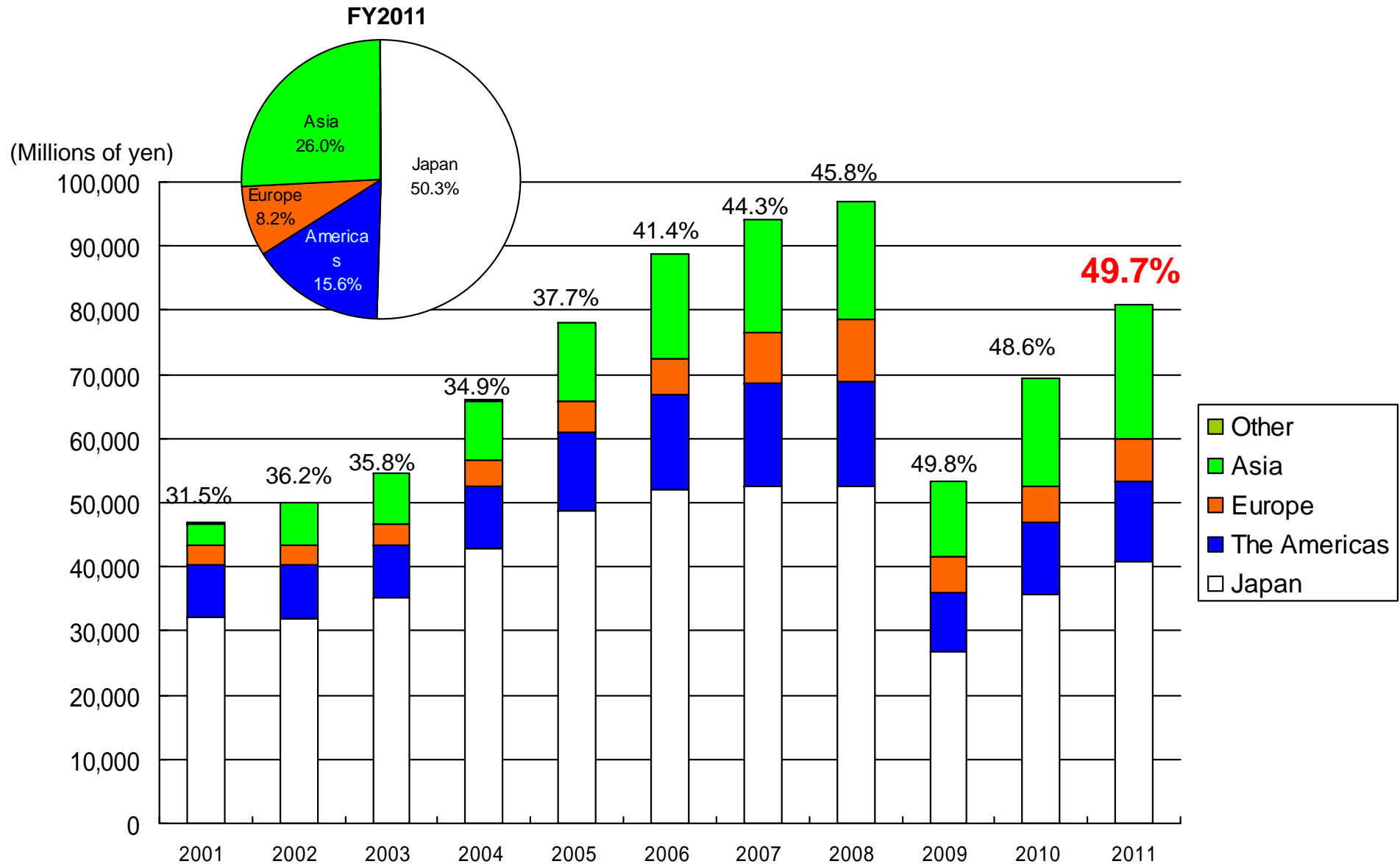
(Millions of yen)



# Operating profit by geographical segment



# Overseas sales ratio



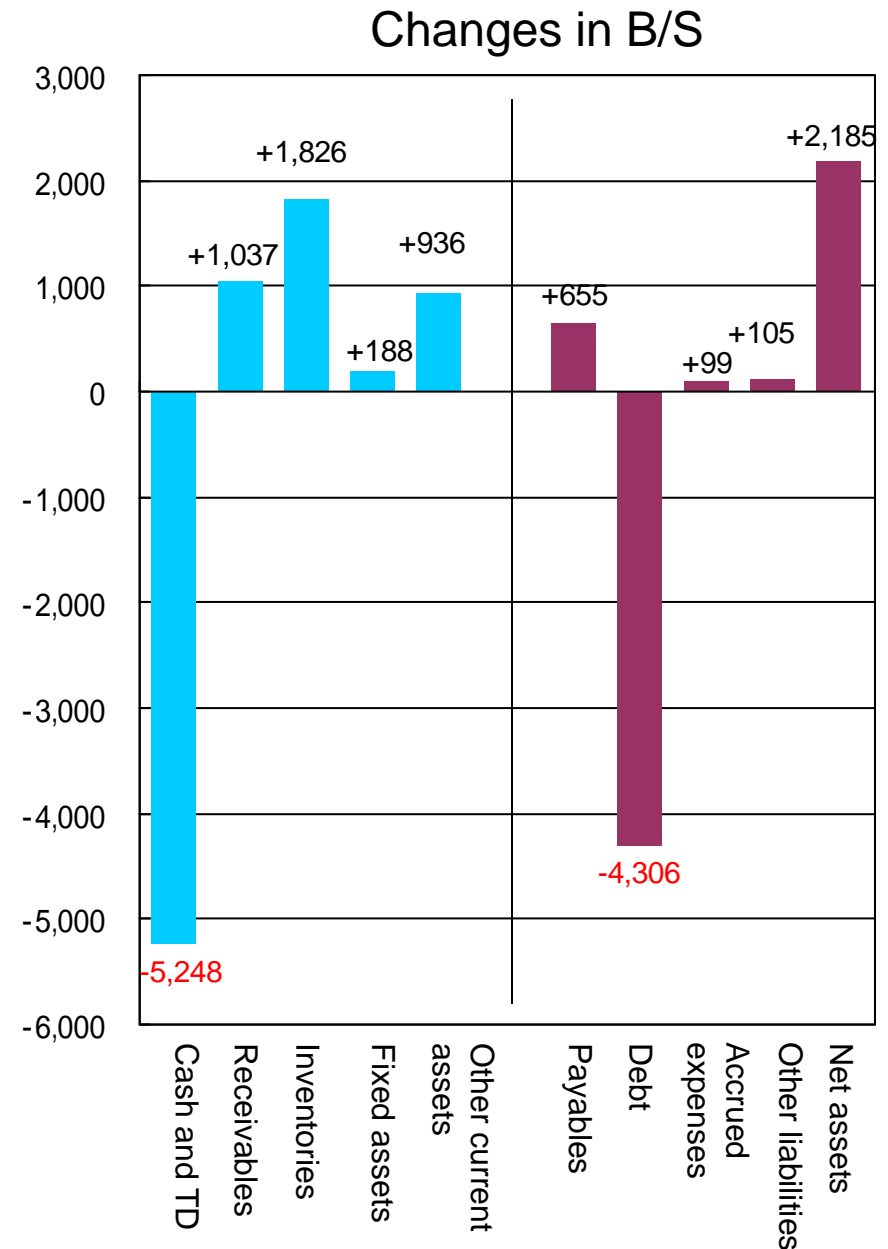
# B/S overview

(Millions of yen)

	10/11E	11/11E	Change
Cash & TD	16,314	11,066	-5,248
Receivables	15,359	16,396	1,037
Inventories	16,970	18,796	1,826
Other current assets	3,072	4,008	936
Fixed assets	53,919	54,107	188
<b>Total assets</b>	<b>105,635</b>	<b>104,373</b>	<b>-1,262</b>
Total current liabilities	22,975	22,800	-175
Total long-term liabilities	19,497	16,225	-3,272
Total net assets	63,162	65,347	2,185
<b>Total liabilities and net assets</b>	<b>105,635</b>	<b>104,373</b>	<b>-1,262</b>

Equity ratio	54.1%	<b>56.9%</b>	
Receivable turnover period	81	74	days
Inventory turnover period	3.0	2.8	months

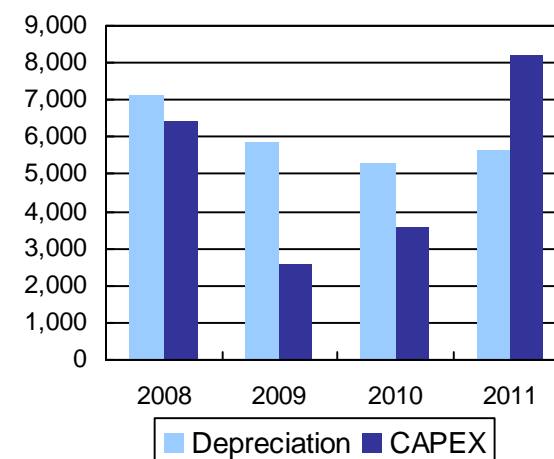
Cash and TD	16,314	11,066	-5,248
Debt	27,317	23,011	-4,306
Net Cash	-11,003	-11,945	-942



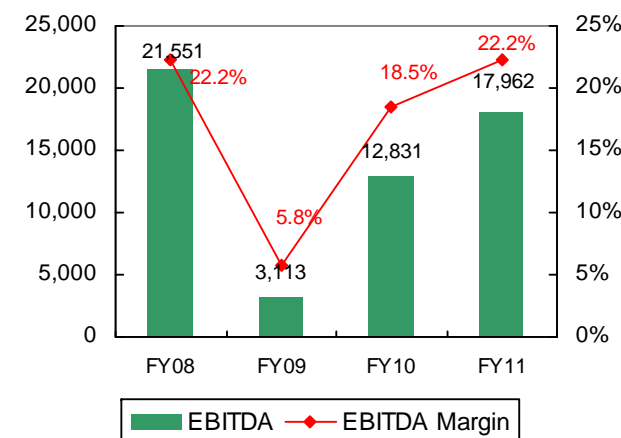
# Cash flow overview

	FY08	FY09	FY10	FY11	Change
Income before taxes	10,204	-3,926	6,247	11,018	4,771
Depreciation	7,135	5,848	5,307	5,657	350
Loss (gain) on sales of securities	1,796	-0	-2	0	2
Loss on valuation of securities	1,386	11	2	0	-2
Change in A/R	-702	6,003	-4,521	-1,953	2,568
Change in inventories	-1,497	888	3,091	-2,610	-5,701
Change in A/P	1,022	-2,775	1,792	1,075	-717
Other-net	147	-1,701	2,904	699	-2,205
Income taxes paid	-8,838	-2,135	-1,191	-2,588	-1,397
Income Taxes refunded	-	3,836	466	46	-420
Operating cash flow	10,653	6,049	14,095	11,344	-2,751
Capital expenditures	-6,455	-2,547	-3,568	-8,225	-4,657
Purchase of subsidiaries' stock	-990	-146	-96	-309	-213
Purchase of securities	-3,034	-8	-10	-61	-51
Sales of securities	13,888	0	24	0	-24
Other-net	-1,731	-1,932	-1,872	400	2,272
Investing cash flow	1,678	-4,633	-5,522	-8,195	-2,673
<b>Free cash flow</b>	<b>12,331</b>	<b>1,416</b>	<b>8,573</b>	<b>3,149</b>	<b>-5,424</b>
Change in interest-bearing debt	-1,723	6,994	-13,752	-4,040	9,712
Cash dividends paid	-2,502	-1,162	-674	-1,333	-659
Purchase of treasury stock	-20	-172	-957	-2	955
Other-net	-253	-190	-177	-479	-302
Financing cash flow	-4,500	5,470	-15,562	-5,855	9,707
Foreign currency translation adjustments	-635	-626	-378	-534	-156
Net increase(decrease) in cash	7,195	6,259	-7,367	-3,241	4,126
Cash of newly consolidated subsidiaries, beginning of year	38	0	75	128	53
Cash, end of year	14,557	20,816	13,525	10,412	-3,113

CAPEX and depreciation



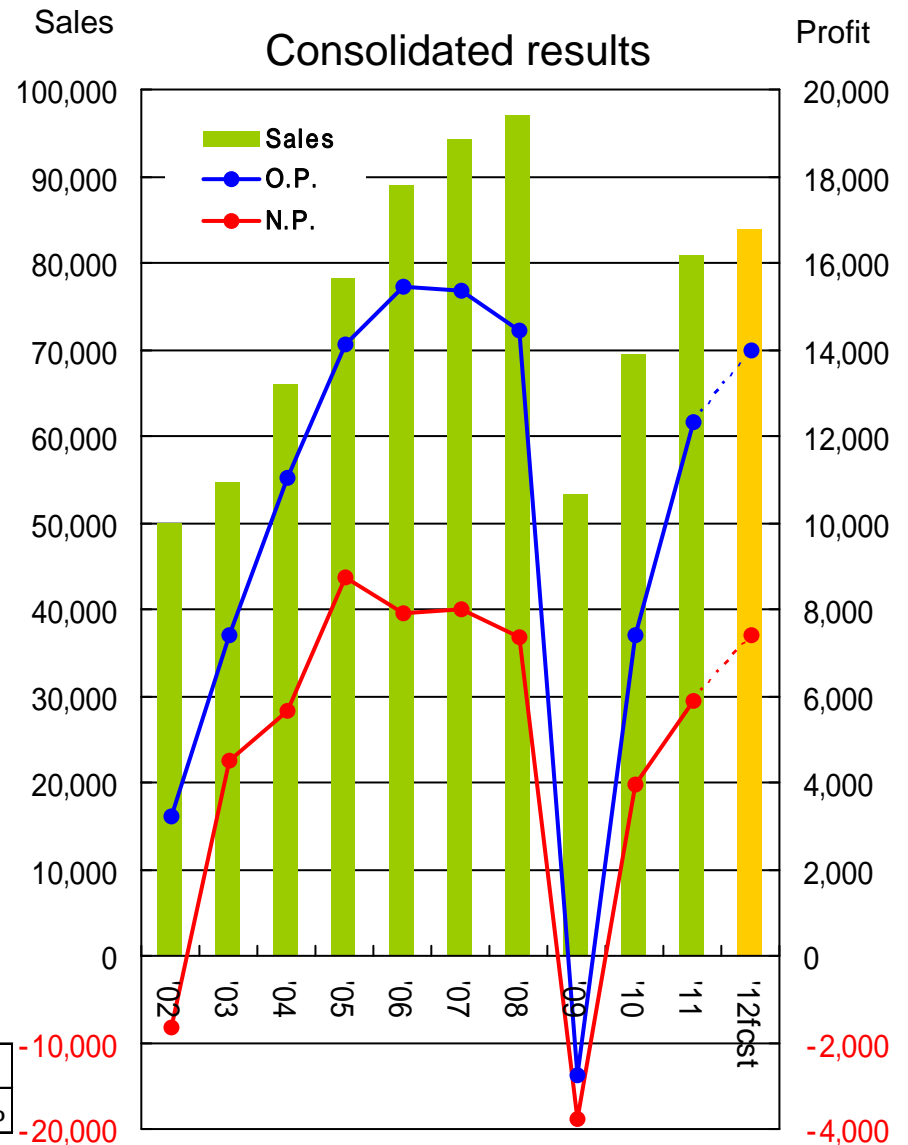
EBITDA



# Forecast for FY2012

## Financial forecast for FY2012

	Consolidated		Parent company	
	Amount	Growth	Amount	Growth
Net Sales	84,000	+3.8%	44,500	+4.1%
Operating profit	14,000	+13.8%	3,800	+3.3%
as % of sales	16.7%		8.5%	
Ordinary profit	13,300	+16.9%	4,800	-5.1%
as % of sales	15.8%		10.8%	
Net profit	7,400	+25.3%	3,300	-9.2%
as % of sales	8.8%		7.4%	
EPS (yen)	77.92		34.75	
CAPEX	9,400			
Depreciation	6,200			



Estimated sales growth (year over year)

Japan +3.4% The Americas +9.4% Europe -0.5% Asia +5.4%

Exchange rate

FY2011 result : 1US\$= 80.71yen 1Euro=112.80yen

FY2012 forecast : 1US\$= 77.00yen 1Euro=101.00yen

## Dividend forecast

	Interim	Year-end	Annual	Payout ratio
Dividend per share (yen)	10.00	13.00	23.00	29.5%

# Expansion of overseas business



Sales org.  
Production and sales org.

## The Americas

- 1968 OSG Tap & Die (USA)
- 1974 OSG Sulamericana de Ferramentas (Brazil)
- 1988 OSG Canada
- 1994 OSG Royco (Mexico)
- 2004 Sterling Die., Inc. (USA)
- 2008 OSG Argentina

## Europe

- 1997 OSG Europe (Belgium)
- 1997 OSG Belgium
- 1997 OSG France
- 1997 OSG MAC World (the Netherlands)
- 1999 OSG UK
- 2000 OSG Scandinavia (Denmark)
- 2002 OSG Comaher (Spain)
- 2003 OSG GmbH (Germany)
- 2003 OSG Italia

## Asia

- 1970 Taiho Tool (ROC)
- 1985 OSG Korea
- 1990 OSG Asia (Singapore)
- 1996 OSG Thailand
- 1997 Da-Bao (Dongguan) Tool (China)
- 2001 OSG Shanghai (China)
- 2001 Carbide Cutting Tool (India)
- 2004 OSG Shanghai plant (China)
- 2005 OSG India
- 2007 OSG Trading (China)
- 2007 OSG Indonesia
- 2007 Ningbo Dabao (China)
- 2008 QINGDAO HAOTAI (China)
- 2008 Fudian (China)
- 2008 Kunshan Dabao (China)
- 2008 OSG Vietnam
- 2008 OSG Philippines

# FY2011-FY2013 Management Plan

## *“The Next Stage 11”*

### Management policy for FY2012

## Overview

Long-term vision: To become the global top manufacturer of hole-making cutting tools

Global top market share in taps, end mills, drills, and rolling dies

20% of operating profit margin

Three-year vision: To become the key global player with 100 billion yen in sales

Basic strategy :

Enhancement of tap competitiveness

Global growth strategy of carbide drills

## Focused Policy

### Promotion of Three “Expansion”

#### 1. Expansion of industrial markets

Market development in focused industrial markets

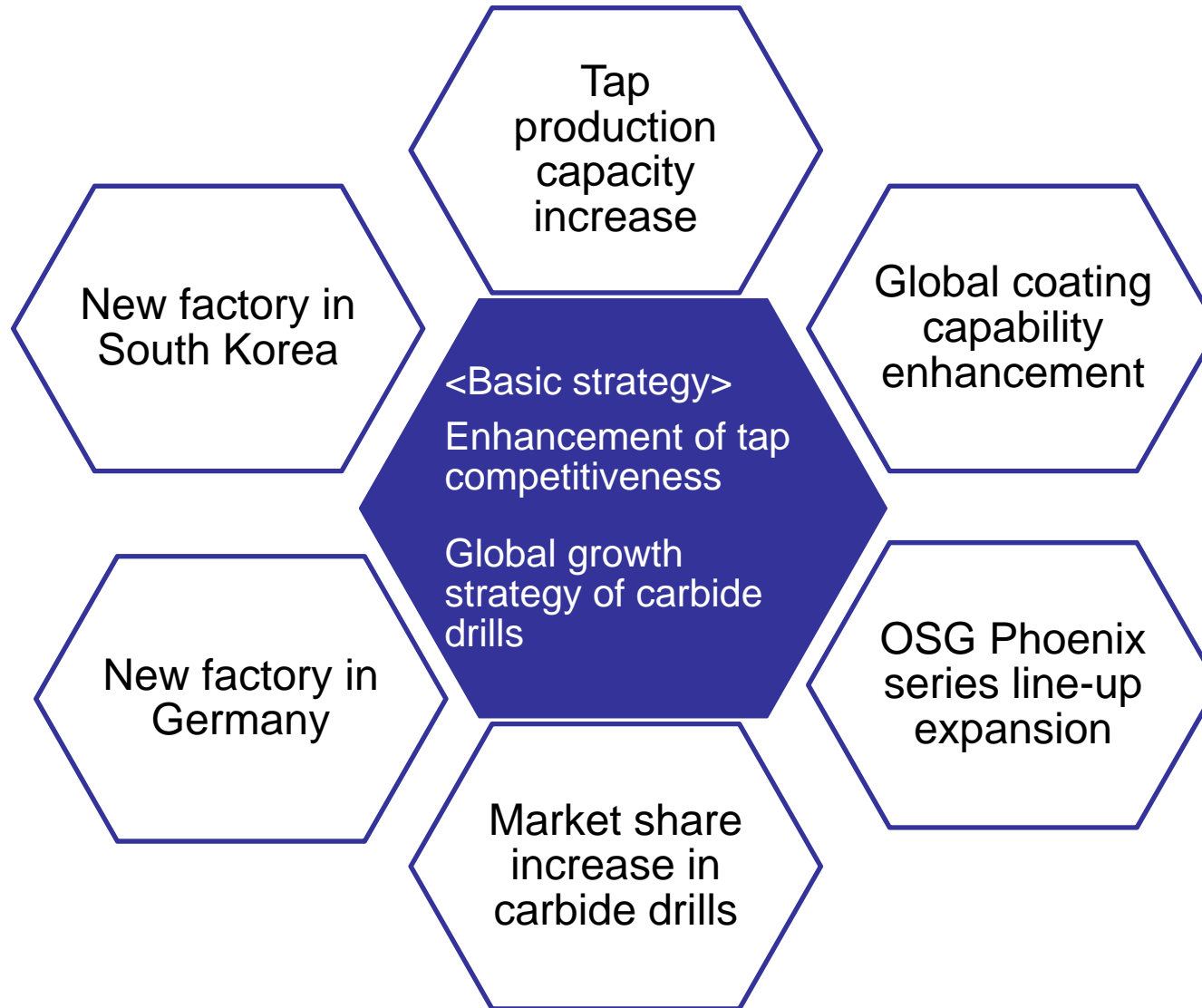
#### 2. Expansion of order in take in Asian market

Customer satisfaction enhancement by investing resources on R&D, production, sales, and after-sales service capabilities

#### 3. Expansion of product lineup

More effective total solution offering by new product lineup

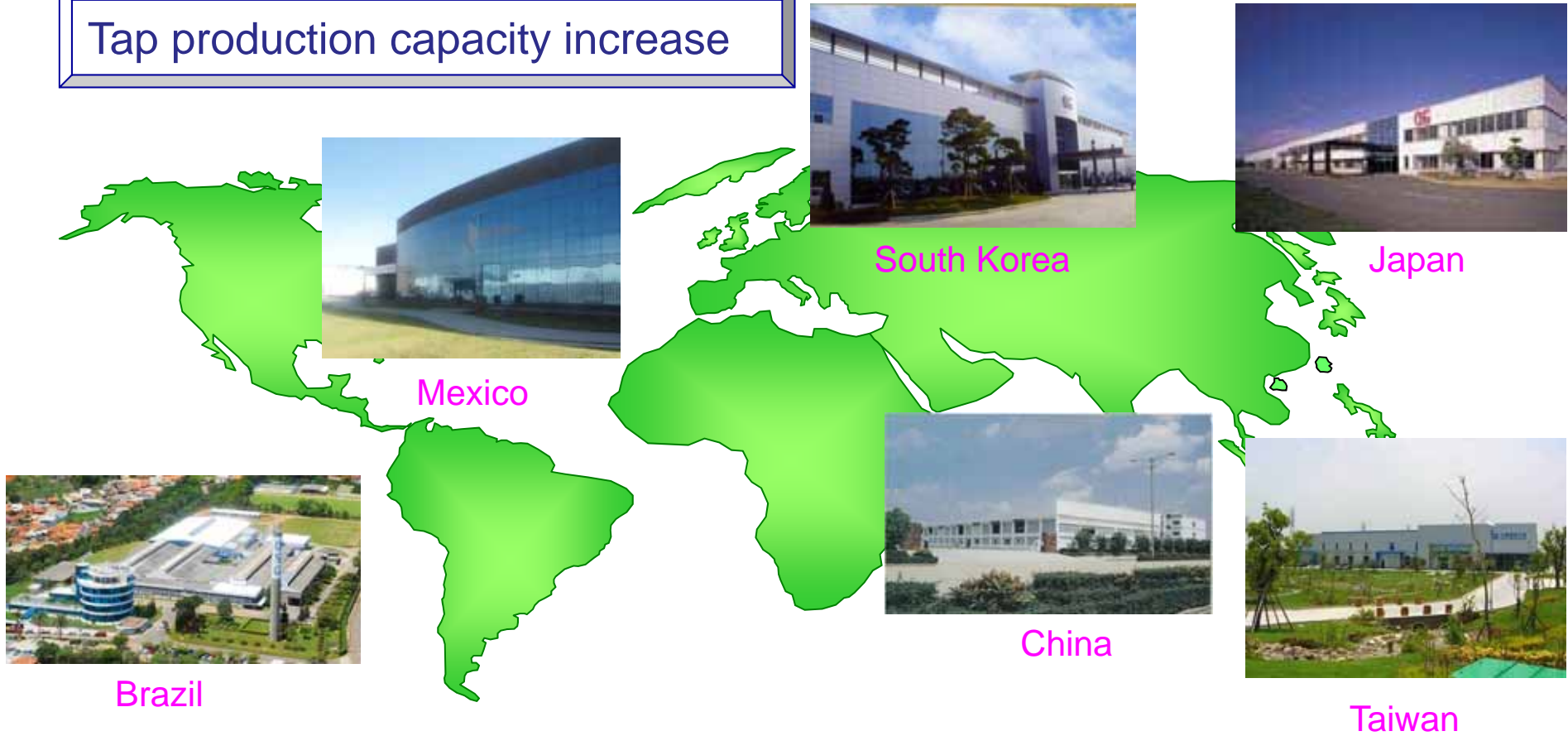
# Management Policy for FY2012



# “The Next Stage 11”

## Management Policy for FY2012

Tap production capacity increase



Production capacity at end of FY2011: 2.75 million pieces per month

FY2012 plan: 3.0 million pieces

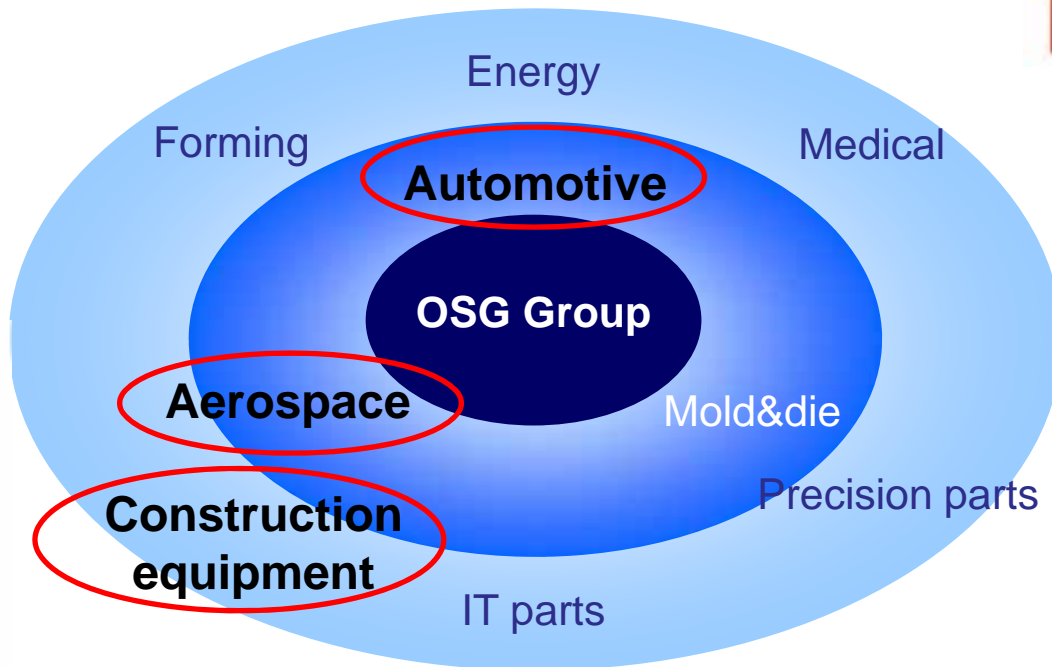
FY2013 plan: 3.3 million pieces

# “The Next Stage 11”

## Management Policy for FY2012

### Market share increase in carbide drills (1)

Focusing on automotive, aerospace, and construction equipment industries, OSG will aim to increase market share in carbide drills.



OSG's focus on industrial markets



## Management Policy for FY2012

### Market share increase in carbide drills (2)

The factories in China and U.S.A. will start the production of carbide drills in FY2012.



Shanghai factory (China)



Bensenville factory (U.S.A.)

### Global coating capability enhancement

The factories in Taiwan, Germany, U.S.A., and Mexico will introduce the coating furnaces in order to improve flexibility.



# “The Next Stage 11”

## Management Policy for FY2012

### New factory in Germany

The factory in Germany will move to a new factory and start the regrinding and coating services of carbide drills for automotive industry.

The new factory will start its operation from FY2013.



### New factory in South Korea

A new factory will be built in South Korea by consolidating the existing factories. The total production capacity will be increased.

The new factory will start its operation from FY2013.



# “The Next Stage 11”

## Management Policy for FY2012

### OSG Phoenix series lineup expansion

“OSG Phoenix” series, the original brand of indexable tools, will expand its product lineup.

OSG’s overseas operation will start to sell the series from FY2012.

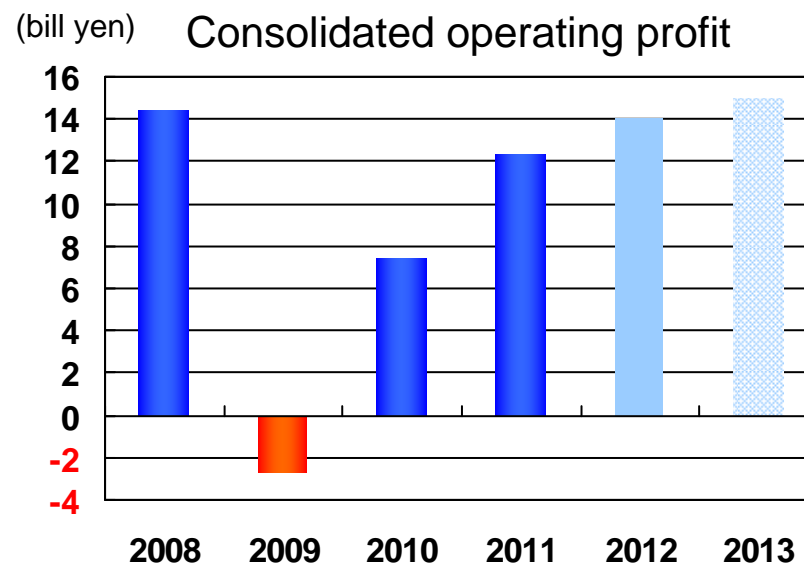
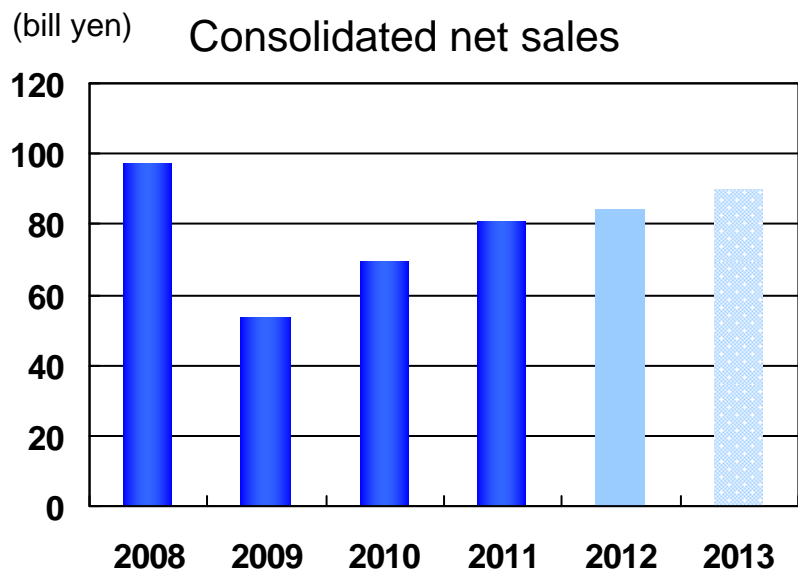


# “The Next Stage 11”

## Management Target

### Management Target for FY2013

Consolidated net sales	90 billion yen
Consolidated operating profit	15 billion yen



# Appendix

# Appx.1 Consolidated balance sheet

	10/11E	11/11E	Change		10/11E	11/11E	Change
<b>Current Assets</b>	51,715	50,266	-1,449	<b>Current Liabilities</b>	22,975	22,800	-175
Cash & time deposits	16,314	11,066	-5,248	Payables	3,731	4,386	655
Receivables	15,359	16,396	1,037	Short-term borrowings	4,654	5,977	1,323
Inventories	16,970	18,796	1,826	LT borrowings, current portion	5,781	3,443	-2,338
Other	3,241	4,168	927	Income taxes payable	1,358	1,596	238
Allowance for doubtful accounts	-169	-160	9	Accrued expenses	5,086	5,185	99
				Other	2,365	2,213	-152
<b>Fixed Assets</b>	53,919	54,107	188	<b>Long-term Liabilities</b>	19,497	16,225	-3,272
PP&E	40,245	42,159	1,914	Borrowings	16,882	13,591	-3,291
Intangible assets	3,632	2,909	-723	Liabilities for employees' retirement benefits	227	268	41
Investments & other	10,041	9,039	-1,002	Other	2,388	2,366	-22
				<b>Total Liabilities</b>	42,473	39,025	-3,448
				<b>Total Equity</b>	63,162	65,347	2,185
Current ratio	225%	220%		Common stock	10,404	10,404	0
Quick ratio	138%	120%		Capital surplus	14,197	14,197	0
Equity capital	57,117	59,367	+2,250	Retained earnings	45,622	50,082	4,460
Equity ratio	54.1%	56.9%		Treasury stock	-4,827	-4,829	-2
Equity per share	601.44	625.14	+23.70	Unrealized gain on available-for-sale securities	577	715	138
Interest-bearing debt	27,317	23,011	-4,306	Deferred loss on derivatives under hedge accounting	-0	-8	-8
Net Cash	-11,003	-11,945	-942	Foreign currency translation adjustments	-8,854	-11,193	-2,339
				Minority interests	6,044	5,979	-65
<b>Total</b>	105,635	104,373	-1,262	<b>Total</b>	105,635	104,373	-1,262

# Appx.2 Consolidated income statement

(Millions of yen)

	FY2011										FY2010		Change	
	1Q		2Q		3Q		4Q		Annual		Annual			
		%		%		%		%		%		%		%
Net sales	18,793	100.0	20,429	100.0	20,895	100.0	20,842	100.0	80,959	100.0	69,513	100.0	11,446	+16.5
Cost of sales	11,912	63.4	11,940	58.4	12,190	58.3	12,397	59.5	48,439	59.8	44,605	64.2	3,834	+8.6
Gross profit	6,880	36.6	8,490	41.6	8,705	41.7	8,444	40.5	32,519	40.2	24,907	35.8	7,612	+30.6
SG&A expenses	4,944	26.3	5,091	24.9	5,062	24.2	5,117	24.6	20,214	25.0	17,383	25.0	2,831	+16.3
Operating profit	1,935	10.3	3,400	16.6	3,642	17.4	3,328	16.0	12,305	15.2	7,524	10.8	4,781	+63.5
Non-operating profit	163		146		183		193		685		680		5	
Non-operating expenses	486		179		470		481		1,616		1,505		111	
Ordinary profit	1,612	8.6	3,367	16.5	3,355	16.1	3,040	14.6	11,374	14.0	6,699	9.6	4,675	+69.8
Extraordinary gain	7		28		10		19		64		53		11	
Extraordinary loss	22		19		343		36		420		506		-86	
Profit before taxes	1,597	8.5	3,375	16.5	3,023	14.5	3,023	14.5	11,018	13.6	6,247	9.0	4,771	+76.4
Income taxes	724		1,174		1,190		1,152		4,240		1,887		2,353	
Minority interests	246		272		254		101		873		587		286	
Net profit	627	3.3	1,928	9.4	1,580	7.6	1,769	8.5	5,904	7.3	3,772	5.4	2,132	+56.5

# Appx.3 Selected financial data (consolidated)

<b>For the year:</b>		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net sales	(mill.yen)	49,983	54,618	65,975	78,130	88,862	94,164	97,024	53,325	69,513	80,959
Sales growth	(%)	7%	9%	21%	18%	14%	6%	3%	-45%	30%	16%
Cost of sales	(mill.yen)	34,375	34,499	40,807	47,783	54,376	58,159	60,449	39,203	44,605	48,439
Gross profit	(mill.yen)	15,607	20,118	25,168	30,346	34,485	36,004	36,574	14,122	24,907	32,519
SG&A expenses	(mill.yen)	12,383	12,694	14,139	16,220	19,030	20,647	22,158	16,857	17,383	20,214
Operating income	(mill.yen)	3,224	7,424	11,029	14,125	15,455	15,356	14,416	-2,735	7,524	12,305
Ordinary income	(mill.yen)	2,465	6,704	10,529	13,887	14,940	14,570	13,505	-2,703	6,699	11,374
Net income	(mill.yen)	-1,678	4,510	5,647	8,758	7,917	8,013	7,376	-3,769	3,772	5,904
<b>Margins:</b>											
Gross profit margin	(%)	31.2%	36.8%	38.1%	38.8%	38.8%	38.2%	37.7%	26.5%	35.8%	40.2%
SG&A as % of sales	(%)	24.8%	23.2%	21.4%	20.8%	21.4%	21.9%	22.8%	31.6%	25.0%	25.0%
Operating income	(%)	6.4%	13.6%	16.7%	18.0%	17.4%	16.3%	14.9%	-5.1%	10.8%	15.2%
Ordinary income	(%)	4.9%	12.3%	16.0%	17.8%	16.8%	15.5%	13.9%	-5.1%	9.6%	14.0%
Net income	(%)	-3.4%	8.3%	8.6%	11.2%	8.9%	8.5%	7.6%	-7.1%	5.4%	7.3%
Total assets	(mill.yen)	74,429	73,886	81,150	93,598	122,451	127,044	122,383	113,382	105,635	104,373
Total shareholders' equity	(mill.yen)	35,025	37,028	40,464	54,647	60,081	64,295	64,251	55,931	57,117	59,367
<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	62.18
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
Total shareholders' equity	(yen)	363.89	401.34	442.03	554.90	615.07	667.01	666.71	582.19	601.44	625.14
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%	10.1%
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	11,344
Investing CF	(mill.yen)	-2,493	-2,519	-7,496	-7,200	-30,616	-9,019	1,678	-4,633	-5,522	-8,195
Financing CF	(mill.yen)	-2,850	-6,442	-2,870	-897	20,699	-6,821	-4,500	5,470	-15,562	-5,855
Cash flow margin	(%)	13.9%	16.9%	17.6%	10.0%	10.7%	17.8%	11.0%	11.3%	20.3%	14.0%