



shaping your dreams

OUR PATH IS CLEAR

OSG REPORT
2017

Year ended November 2017

OSG Corporation

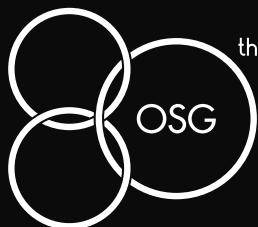
Global Presence

As a comprehensive cutting tool manufacturer, we make products that at a fundamental level contribute to enhancing people's quality of life. Through continuous growth, we have established a production, sales and technical support network spanning 33 countries.

Our corporate aim is to continue to expand our operations globally and strengthen our contribution to the manufacturing industries in the world.

Our 80th Anniversary and Beyond

The pioneering spirit that has driven OSG since our founding will take us forward through this era of dynamic change, and ensure our continuing growth toward our centennial in 2038 and beyond.



Anniversary





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Editorial Policy

The OSG Report is published primarily for investors. As an integrated report, it encompasses management strategies for medium- to long-term growth, and information about the environmental, social, and governance (ESG) systems on which our growth is based, together with results and financial information for the fiscal year ended November 2017.

Various information about OSG is also available on our corporate website. We hope that this report and the information on the website will help readers to achieve a fuller understanding about our activities. We will continue our efforts to provide editorial content that meets readers' expectations.

Disclaimer Regarding Forward-Looking Statements

Apart from information based on historical facts, all references in this report to plans, strategies, forecasts, or management initiatives pertaining to the future business performance of OSG are forward-looking statements and as such represent assumptions and judgments based on information currently available. Actual results may differ from the results predicted in this report due to various factors, including trends in the economic environment in which OSG operates, product demand and price trends, the development of new products, sales, raw material prices, and exchange rate fluctuations.

Cover Story

OSG's Path

JAPAN

1938

Hideo Osawa established OSG Grinding Co., Ltd. in Tokyo and began manufacturing and selling taps and dies.



1963

The company began to manufacture rolling flat dies.



1970

The company began to manufacture HSS end mills.



1984

OSG began to manufacture drills.



1981

OSG was listed on the 1st Section of the Tokyo and Nagoya stock exchanges.

1992

OSG Manufacturing Company and OSG Corporation merged to form OSG Corporation.

The Path Behind

Throughout its 80-year history, OSG's advanced technologies and a pioneering spirit have driven its bold expansion to markets beyond Japan.

In the 80 years since its founding, OSG has continually increased its corporate value by developing a variety of original technologies, including technology for tap grinding with grindstones, and by building overseas sales channels. Today, OSG is a comprehensive tool maker. In addition to taps, an area in which we have the largest share of the world market, we also manufacture and sell end mills, drills, rolling dies, and various other products. Going forward, we will continue to leverage our founding strengths of advanced technology and a pioneering spirit to grow our global presence by developing products to meet changing market needs, and by building new sales infrastructure.

OVERSEAS

1968

OSG Tap and Die (USA)
(now OSG USA, Inc.)



1974

OSG Ferramentas de Precisão Ltda. (Brazil)
(now OSG Sulamericana de Ferramentas Ltda.)



1994

OSG Royco, S.A. de C.V.
(Mexico)

1996

OSG Thai Co., Ltd. (Thailand)

1997

OSG Europe S.A., the holding company for Europe (Belgium)



1970

Taiho Tool Mfg. Co., Ltd.
(Taiwan)

1985

OSG Korea Corporation

2000

Nine business sites in Japan were certified under ISO 14001.

2004

The Design Center was established.



2006

The Global Technology Center was established.

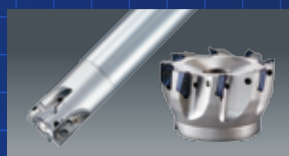


2007

All OSG products were certified under ISO 9001.

2010

OSG Phoenix indexable tools went on sale.

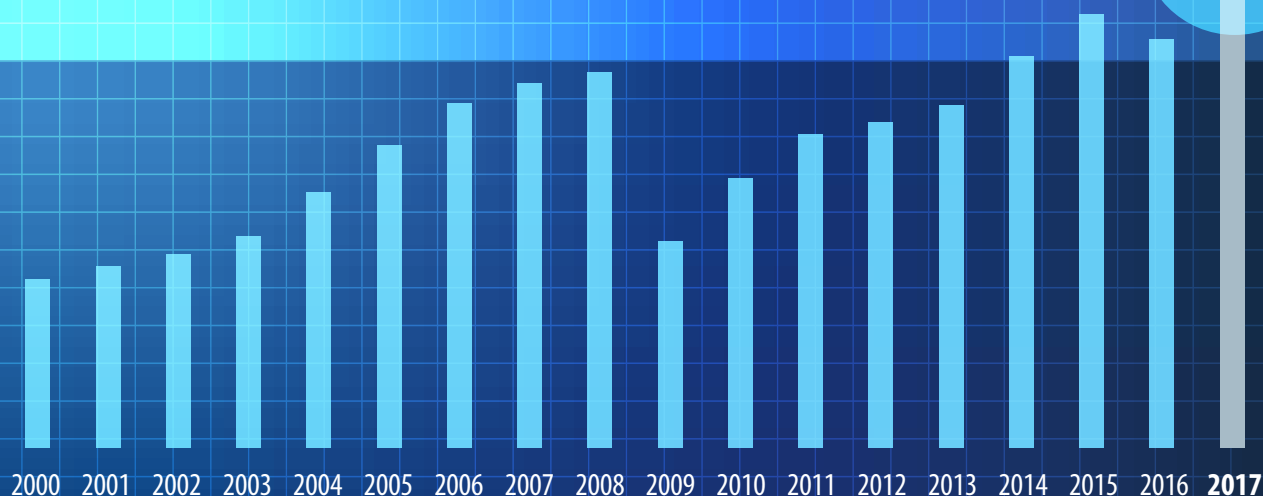


2017

The D-Lab was established.



Sales
¥120.1
billion



2001

OSG (Shanghai) Co., Ltd.
(China)



2003

OSG GmbH (Germany)



2003

OSG Italia S.R.L.

2005

OSG (India) Pvt, Ltd.

2007

PT. OSG Indonesia

2008

OSG Vietnam Co., Ltd.

2008

OSG Philippines Corporation

2012

OSG Turkey Kesici Takımlar
Sanayi ve Ticaret A.Ş.



2015

Desgranges Outils Coupants
S.A. (France)



2016

Amamco Tool & Supply Co.,
Inc. (USA)



Achievement

The Path Ahead

01

Global

A global network
spanning five continents

02

Solutions

Problem solving
capabilities that exceed
customer expectations

03

Innovation

Using advanced technologies
to create new value

We aim to realize our long-term vision by using our competitive advantages to drive lasting corporate value creation, while contributing to manufacturing industries across five continents.

OSG's growth is based on competitive advantages, including our ability to provide fine-tuned services globally with the emphasis on communication, and high-value-added products manufactured using production equipment that is manufactured in-house. We aim to achieve sustainable growth in the period to our centennial in 2038 by using this infrastructure, which we have nurtured over many years, to realize our long-term vision of becoming the world's leading manufacturer of hole-making cutting tools, while contributing to the advancement of manufacturing across five continents.

04



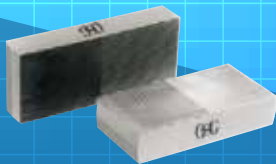
TAPS



DRILLS



END MILLS



ROLLING
DIES

Using state-of-the-art technology
to create world-class precision tools

Leadership

Sustainable Growth

Creating Economic Value

Our long-term vision is to become the world's leading manufacturer of hole-making cutting tools. Our medium-term milestone goals under this vision are net sales of ¥150 billion and operating profit of ¥30 billion in the year ending November 2020.

Creating Social Value

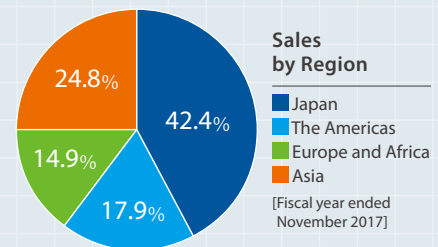
The mission of OSG is to help the manufacturers who use our products to achieve their dreams. As symbolized in our corporate motto, "shaping your dreams," we will continue to contribute to the advancement of the manufacturing industry across five continents.

01 | Global

Using our Global Network to Expand Business Opportunities in 33 Countries

OSG established its first overseas subsidiary in the United States in 1968.

Today, we have sales offices in 33 countries and production sites in 17. This global network gives OSG an important competitive advantage, allowing us to expand our business opportunities in a number of ways. For example, we can build strong relationships of trust with our customers by providing them with products and services in a timely manner, and we can discover new needs in global markets. Relying on market development experience from our 50-year history in global business and the efforts of our highly skilled employees who are able to draw on international knowledge, we will continue to expand our presence in global markets.



The Americas

OSG USA, INC. (USA) and 6 other companies

Segment assets:

¥25.6 billion

Europe and Africa

OSG Europe S.A. (Belgium) and 16 other companies

Segment assets:

¥18.7 billion

Asia

OSG (Shanghai) Precision Tools Co., Ltd. (China), Korea OSG Co., Ltd. (Korea), OSG Asia Pte Ltd. (Singapore) and 15 other companies

Segment assets:

¥55.5 billion

Japan

OSG Corporation and 14 other companies

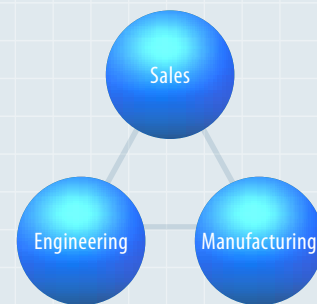
Segment assets:

¥101.4 billion

02 | Solutions

Optimal Solutions that Help to Improve Customer Productivity

OSG creates value by offering solutions that improve the productivity of its customers. Our greatest priority is the development of good communications with customers through tools. Using a unique business model based on the combined efforts of sales, technology, and manufacturing units, we have consistently proposed solutions that benefit our customers. Our ability to draw on this experience to offer solutions that help to boost our customers' productivity is one of our competitive advantages. Another invisible asset is our ability to use knowledge gained through close relationships with customers to build our customer base and enhance our products.



Sales



OSG products are primarily used in machine tools in our customers' factories. The ultimate need of our customers is not high-quality tools, but productivity improvement. The mission of our sales units is to propose solutions that will improve the productivity of our customers. This requires the ability to link customers with our engineering and manufacturing capabilities through excellent communication skills.

Engineering



In addition to basic research carried out by R&D units and the development and design of new products, the entire OSG group, including the affiliated companies that supply raw materials and coatings, is working to develop solutions for our customers. Our engineering and sales staff work closely together to develop products that will meet customer needs.

Manufacturing

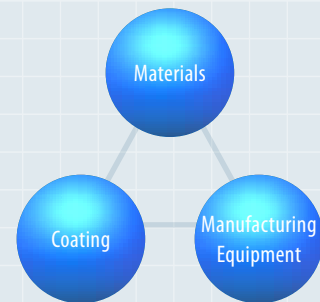


With production sites in 17 countries, OSG is building a production structure capable of responding to the requirements of our customers. Each production facility is classified as a local plant, as a hub plant that acts as a regional base, or as a mother factory that supplies tools based on state-of-the-art technology and provides technical support.

03 | Innovation

Integrated Production Based on Unique Technology Development Capabilities

OSG develops and produces all of the manufacturing equipment used to produce and process the round bars from which its tools are made, and the coating systems used to enhance tool durability. The materials that can be cut with the tool, processing precision, and performance all vary according to the combination of materials, edge configuration, and coating used in the tool. By developing these peripheral technologies itself and fabricating its own equipment, OSG has built integrated production structures capable of supplying high-quality, high-performance products. This ability to develop original technology is a key competitive advantage for OSG. We will continue to expand and enhance our production facilities in Japan and overseas so that we can manufacture products in optimal locations on a global basis.



Materials



OSG tools are manufactured from high-speed steel (HSS) and carbide. We procure carbide from Nihon Hard Metal Co., Ltd., which is an OSG group company. This involvement from the raw material stage has allowed us to enhance the performance of the carbide, including its resistance to heat and wear, resulting in the production of carbide that cannot be matched by our competitors.

Coatings



Coatings are used to enhance the durability of tools. OSG has advanced coating technology and was the first company in the world to develop ultra-microcrystalline diamond coating. Through our network of coating centers in 12 countries and regions, we will continue to use our proprietary coating technologies to provide our customers around the world with solutions that result in improved processing efficiency and durability.

Manufacturing Equipment

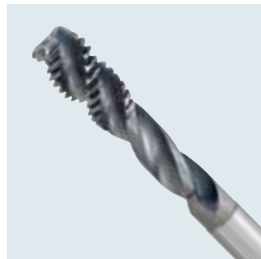
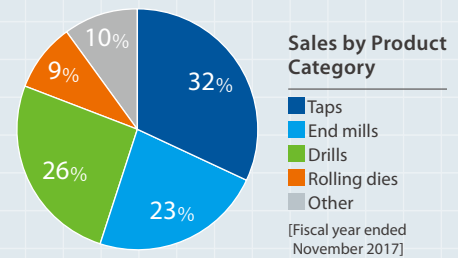


Production equipment used by OSG is developed and manufactured by our own engineering units. Our specialized production equipment is developed to meet our goals, including product differentiation and productivity improvement. The unique OSG technologies and know-how embodied in this equipment is reflected in the superior flexibility and high productivity of our manufacturing operations.

04 | Leadership

High-Value-Added Products with Superior Precision and Efficiency

Tools produced by OSG are used in the manufacture of products ranging from precision equipment, such as watch-type wearable devices, to transportation equipment, such as automobiles and aircraft. There are 100,000 items in our product lineup, including 0.02mm drills that are invisible to the naked eye, as well as 300mm diameter taps that are almost too heavy to lift. Many of our products are the first, best, or fastest of their types in the world. As long as there are manufacturing industries, we will continue to push back the frontiers of technology and take up the challenge of producing high-value-added tools. Our competitive advantage is built on this extensive lineup of high-value-added products that offer superior precision and efficiency.



Taps

High precision thread processing

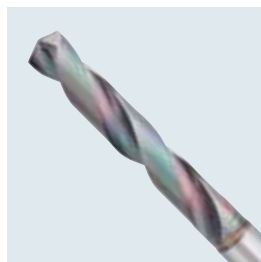
Taps are used to cut threads on the inside of holes. They have been flagship products for OSG ever since its establishment.



Rolling dies

High precision screw thread rolling

Rolling dies are used to cut threads on round bars. These tools are also used to process automotive parts.



Drills

High-speed drilling backed by state-of-the-art technology

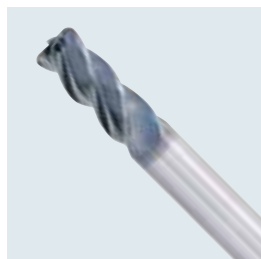
Drills are hole-cutting tools. OSG is focusing on the expansion of its sales of high-performance carbide drills.



Indexable tools

Eco-friendly and economical tools

Indexable tools are cutting tools with exchangeable blades. They are used to cut metal to produce dies and mechanical parts.



End mills

Mold and part processing

End mills are used to create shapes by cutting away metal. OSG is developing end mills that can also handle high-precision processing.



Gauges

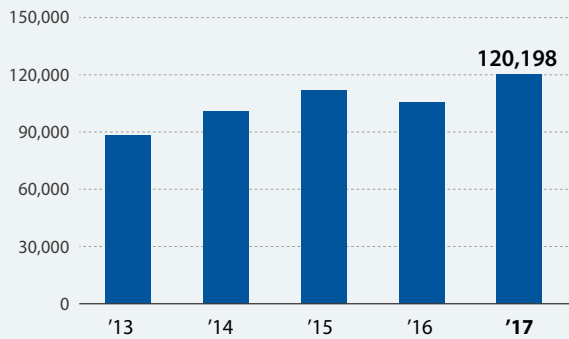
Indispensable inspection tools

A gauge is a tool used to measure the accuracy of threads, holes, and other dimensions. They play a vital role in high-quality production.

Financial and Non-Financial Highlights

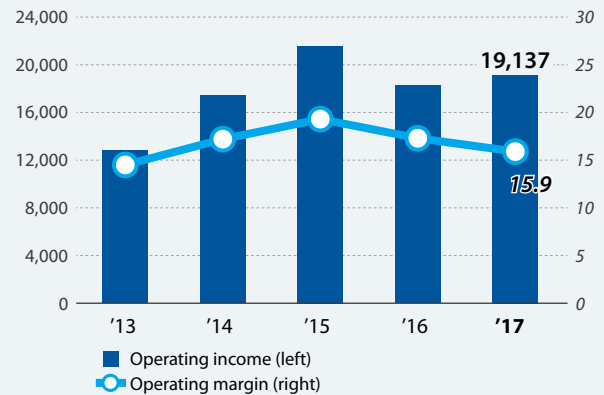
Financial Highlights

Net Sales (millions of yen)



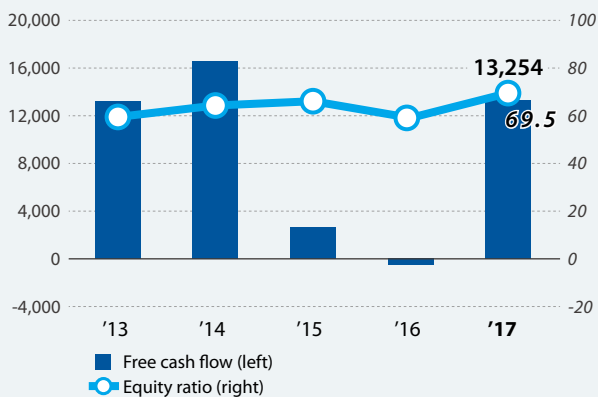
Operating income (millions of yen)

Operating margin (%)

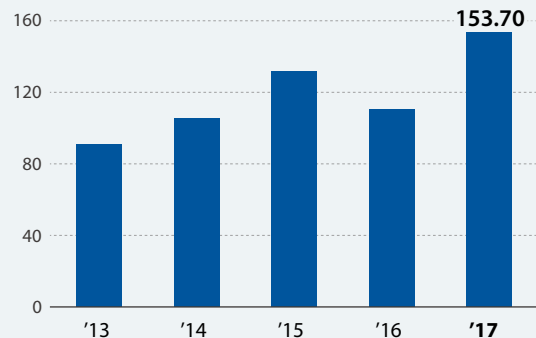


Free cash flow (millions of yen)

Equity ratio (%)



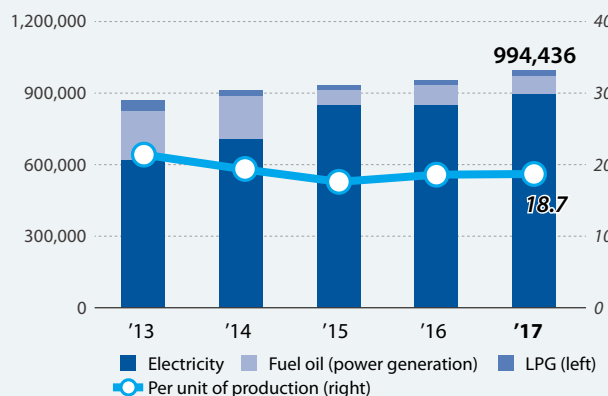
Earnings per share (EPS) (yen)



Non-Financial Highlights

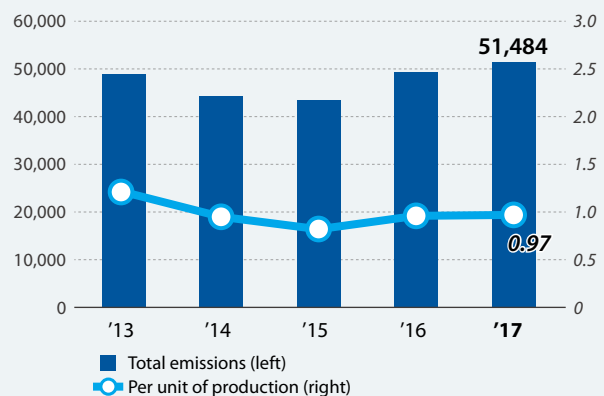
Energy consumption (GJ)

Energy consumption per unit of production (GJ/million yen)

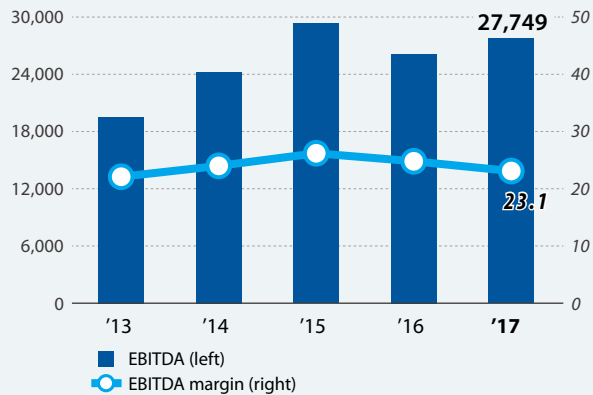


CO₂ emissions (t)

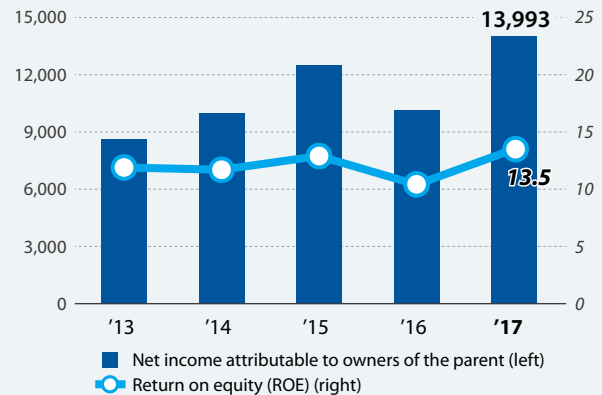
CO₂ emissions per unit of production (t/million yen)



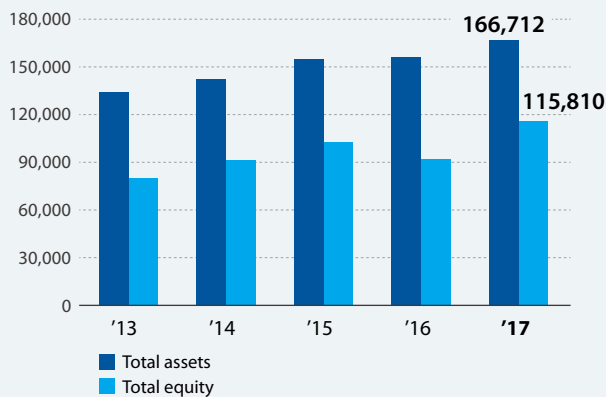
EBITDA (millions of yen)
EBITDA margin (%)



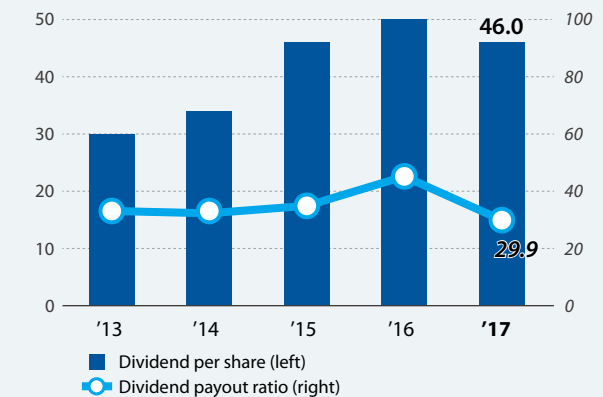
Net income attributable to owners of the parent (millions of yen)
Return on equity (ROE) (%)



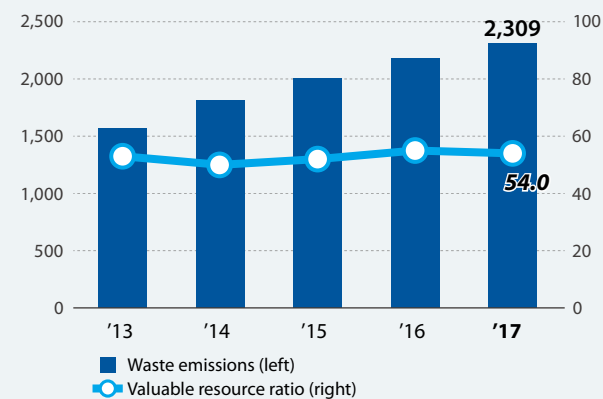
Total assets (millions of yen)
Total equity (millions of yen)



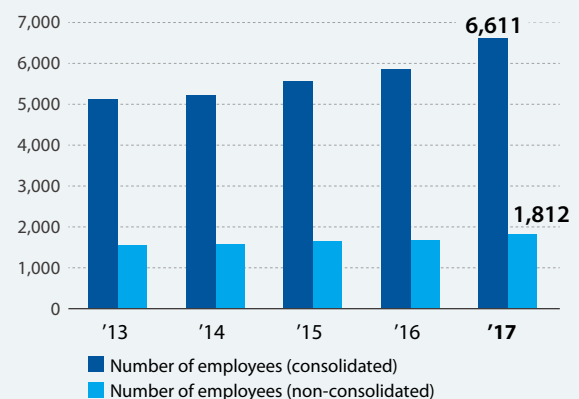
Dividend per share (yen)
Dividend payout ratio (%)



Waste produced (t)
Valuable resource ratio (%)



Number of employees (consolidated) (persons)
Number of employees (non-consolidated) (persons)





N. Ishikawa

Norio Ishikawa
President and CEO

Challenges in the Lead-Up to Our 100th Anniversary

We will adapt to changes in our business environment and continually improve our social and market value as well as our corporate value by steadily implementing our unique growth strategy.

Our 80th Anniversary

A Continually Challenging Spirit is in our DNA

In the 1920s, the only taps produced in Japan were made using cutting methods, and precision taps manufactured through grinding processes had to be imported from overseas. Motivated by a desire to make ground taps in Japan, OSG founder Hideo Osawa established Osawa Screw Grinding Co., Ltd. in March 1938.

Eighty years later, OSG accounts for 30% of world tap production (according to our research). Driven by our determination to contribute to the manufacture of a wide variety of essential products that enhance people's quality of life, we have grown into a comprehensive cutting tool manufacturer capable of supplying not only taps, but also rolling dies, screw gauges, end mills, drills, indexable tools, tooling systems, and various other products to customers both in Japan and overseas.

OSG's corporate philosophy em-

phasizes Global Presence as a means of contributing to society. Under that philosophy, we have continually expanded into global markets while contributing to the development of manufacturing in many countries.

Our overseas expansion efforts began fifty years ago in 1968 with the establishment of a subsidiary in the United States. We subsequently established subsidiaries in Taiwan in 1970, and Brazil in 1974. Today, fifty years since it began to expand internationally, OSG is the hub of a manufacturing,

sales, and engineering support network consisting of 80 group companies employing over 6,000 people in 33 countries.

The automotive industry, which is a major user of OSG products, has entered an historic period of change triggered by rapid technological innovation, including the shift to electric vehicles (EVs), as well as the emergence of technologies to support self-driving and network-connected cars. The response of automotive manufacturers to these changes will have extremely important implications for our management strategies. Our management team is working with the utmost urgency to make appropriate investment decisions in anticipation of next-generation needs, and to decide our future course of action in world markets. We are constantly thinking about how OSG can contribute to manufacturing industries around the world. We are determined to maintain OSG's resilience in the face of a changing environment by implementing optimal policies that anticipate all possible eventualities.

In the years leading up to OSG's centennial in 2038, we will continue to embrace the challenging spirit that was our founding heritage, while further enhancing our competitive advantages as the basis for sustainable growth in our corporate value.

Results of Operations

New Records for Both Net Sales and Net Income

In fiscal 2017 (December 1, 2016 to November 30, 2017), net sales set a new record with a 13.9% year-on-year

increase to ¥120,198 million. Business conditions were favorable for OSG, resulting in demand growth throughout the year. Our sales staff gained increased confidence as they received customer inquiries from around the globe, while our manufacturing units worked to maximize output. This momentum continued into 2018.

The record net sales result was attributable both to organic growth and M&A. In the area of custom products made to the specifications of individual customers, organic growth resulted from increased inquiries from a wide range of users about high-value-added products and services. The most important growth factor for catalogue products was the success of our A Brand strategy. We launched the A Brand with taps, but we have progressively expanded the brand to include drills and end mills as well. In fiscal 2017, we recorded extremely strong sales of both AE-VMS anti-vibration carbide end mills with Duarise coating, and ADF carbide flat drills with EgiAs coating.

Our M&A activities also contributed to sales growth in fiscal 2017. The Swiss company Vischer & Bolli, the Irish company Flatley, and the South African company Somta all became consolidated subsidiaries. In the past, we have worked to expand our market shares, especially in Europe, through the acquisition of companies that have achieved a certain level of sales. While we will continue to engage in M&A activities at appropriate times, we will shift from a focus on market shares and scale to a greater emphasis on profitability.

Net sales in Japan were 7.0% higher year on year. A regional breakdown of overseas net sales on a local currency

basis shows that sales increased by 6.8% year in the Americas, by 46.1% in Europe and Africa, and by 10.2% in Asia. We were able to expand our market shares in each of these regions. The overseas sales ratio was 57.6%, compared with 55.3% in the previous year.

Operating income was negatively impacted by lump-sum payments to workers in South Korea, but a strong overall trend in our business performance in Japan and other overseas markets resulted in a year-on-year increase of 4.9% to ¥19,137 million. Net income attributable to owners of the parent grew by 38.1% to a record high of ¥13,993 million, due in part to gains on sales of securities.

Progress on "Next Stage 17" Medium-Term Management Plan

Enhancing our Ability to Win Orders through Frontline Evolution

Under our medium-term management plan, "The Next Stage 17," we set targets of ¥150 billion for net sales and ¥30 billion for operating profit in fiscal 2020 as milestones on the path toward the realization of our long-term vision of becoming the leading global manufacturer of hole-making cutting tools.

We have formulated two core strategies for the achievement of these targets. The first is our Major End-users Strategy, under which we are working to identify the processing needs of individual end-users and provide solutions consisting of optimal tools and methods. The second is our Catalogue Item Sales Strategy, which calls for the creation of product groups based on clearly defined concepts that

President's Message

allow us to respond to the productivity improvement needs of a wider range of customers. Under the Major End-users Strategy, we are rapidly evolving our ability to win orders through the use of our technical centers and other methods. Our focus under the Catalogue Item Sales Strategy has been the improvement of overall structures, including marketing, branding, and distribution network development, in countries where there is strong demand for cutting tools, such as the United States, Germany, China, and Japan.

In the year ended November 2017, which was the first year of the medium-term management plan, we made solid progress by laying the groundwork for the achievement of our milestone target of ¥150 billion in net sales. For example, we developed production facilities in South Asia capable of supplying small production lots of specialized products to the business frontline. We also stepped up our frontline efforts in each region under the Major End-user Strategy and Catalogue Item Sales Strategy. We

believe that these efforts resulted in increased orders in a number of markets, including in Eastern Europe, Turkey, and Southeast Asia.

In fiscal 2017, we continued to advance by steadily implementing measures to meet frontline needs in every region. We also strengthened the systems that contribute to the improvement of customer satisfaction in each market. By further developing our business foundations through these policies, we paved the way for the achievement of our milestone targets.

Achieving Long-Term Business Growth

Three Key Factors for Global Success

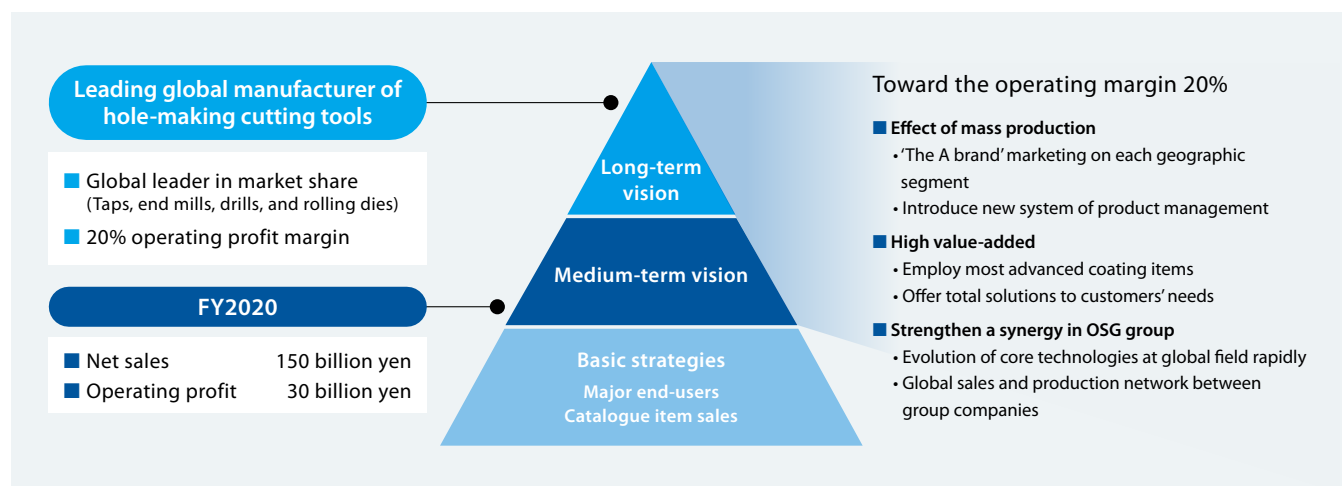
Our management policies reflect our constant focus on three key factors that will contribute to OSG's continuing global success. The first of these is our management systems. We have adopted various management mechanisms that allow us to picture the situations of group companies in Japan and overseas

by analyzing their net sales and profits in detail. By adopting OSG management systems, the management teams of group companies are able to follow the direction and the example of OSG Corporation, the group flagship.

The second factor contributing to our global success is our corporate culture. OSG places a high value on communication, and we have a flat organizational culture in which communication is open and free. This culture, in part because it is not simply imposed by the headquarters of OSG, facilitates the post-merger integration (PMI) process after mergers and acquisitions.

The third factor behind our global success is OSG's core platforms. These core platforms are extremely important as tangible and intangible assets that can be used by the OSG Group around the globe. Examples include the cutting tool know-how and coating technologies of our Design Center, the customer support provided by our Global Technology Center, and OSG-fabricated tool manufacturing. Developed over many years, these core platforms can be shared and used by group companies located

The Next Stage 17



around the world and are extremely useful for OSG employees working overseas. These three factors are the vital sources of OSG's global success.

Achieving Medium-Term Business Growth

Smart Lines and D-Lab

One of the targets of our medium-term management plan is net sales of ¥150 billion. We plan to achieve a significant portion of this increase in the area of carbide products, which will require further expansion of our capacity to supply these products. We also need to ensure high productivity for both high-mix/small-lot and large-lot manufacturing. At the Oike Factory, where carbide products are manufactured, we have improved facility operating rates, especially for bottleneck processes, and introduced "smart line" systems that allow lines to operate unattended for 72 hours. Going forward, we aim to improve productivity for both special and standard products by automating not only equipment but

also scheduling of employees and material delivery, so that we can minimize labor requirements while maximizing output. We will also progressively roll out smart line systems at other OSG production facilities.

Our newly established prototyping laboratory, D-Lab, uses smart line technology to manufacture state-of-the-art products. Its mission is to respond to high-value-added needs by fabricating products with unprecedented speed so that they can be assessed by end users immediately. The D-Lab will allow us to work proactively to build relationships with customers that require high-value-added products. We will continue to commit the human resources, time, money, and equipment required to maintain our ability to develop products to meet future needs.

Management Priorities

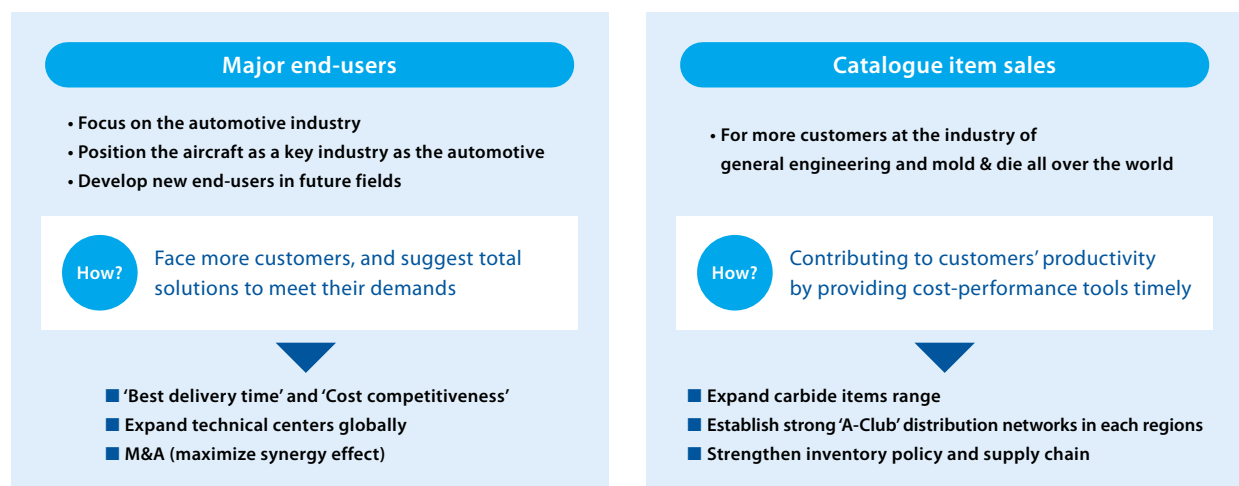
Shifting Course in Anticipation of Changes in the Automotive Industry

Automotive manufacturers around the

world are accelerating their shift toward electric vehicles (EVs). OSG will continue to manufacture and sell processing tools for internal combustion engines, but we will restructure our competitiveness based on our assessment of various factors, including the types of automotive parts that will still be used in EVs and those that will disappear, as well as our market shares for related parts. For instance, parts that will continue to be used include tires, steering systems, constant-velocity joints, and drive shafts. The female screws used will be thicker than those used in engines, which means that unit prices will be higher. We will need to enhance our competitiveness in these areas. From a global perspective, we are also aware that there is still scope for growth in geographical regions where OSG's share of the automotive industry market is low.

These changes in the automotive industry offer excellent opportunities for OSG because of the industry's continuing need for tools with enhanced performance to keep pace with innovations. These include the evolu-

Basic Strategies



President's Message

tion of fuel injection nozzles for direct injection engines, the reduction of engine sizes through the use of turbochargers, the development of multi-stage transmissions leading to an increase in the number of parts, and the use of carbon fiber reinforced polymer (CFRP) to reduce vehicle weight. While we do not expect our sales to the automotive industry to decrease in the medium-term, we will need to monitor the changes occurring in the automotive industry closely and restructure our competitiveness accordingly.

We are focused on the aerospace industry as a growth segment in the cutting tool market with the potential to become a second core business alongside the automotive industry. When we look at the industry from a broader perspective, however, we can identify a number of characteristics, including the accelerating globalization of the industry's pyramid structure. From a manufacturing viewpoint, the industry uses large numbers of parts and has high processing costs. To develop this market, we will need to monitor the expansion of demand on a global scale and visit customers' facilities to analyze their needs. We are constantly working to expand our sales channels for the European and U.S. aerospace industries, but our market share is still low. We see the improvement of our market share as a management priority.

Another priority is the maintenance and expansion of our global network, which covers 33 countries. We will continue to evolve business styles based on OSG's strengths in each region.

Financial and Capital Strategy

Emphasis on Growth Investment, Financial Soundness, and Shareholder Returns

As a listed company, OSG places considerable importance on return on equity (ROE), which we believe should be over 10%. We look at ROE not in terms of individual years, but rather as a time series with a medium-term span of three to five years.

We aim to achieve an appropriate distribution of profits by balancing shareholder returns with the need to provide funds for strategic growth investment and ensure financial soundness. Our priority in relation to profit distribution is the enhancement of medium- to long-term corporate value through growth investment, including the expansion of existing businesses and the development of our global business activities. Key targets for growth investment in fiscal 2017 included the conversion of standard production lines to smart production lines, as well as R&D and M&A. A significant M&A event was the acquisition of the French company SMOC Industries, which manufactures and sells key machined tools for manufacturing aircraft engines. We welcomed SMOC Industries to the OSG Group in September 2017.

In fiscal 2018, we plan growth investment of ¥11 billion. Investment targets include production facilities, the development of smart production lines, and R&D.

With our equity ratio at 69.5%, we believe that our financial position is sound. In addition, our EBITDA margin has exceeded 20% for seven straight years, indicating that we have the

capacity to generate cash reliably.

Moreover, we have earned an "A" rating from Rating and Investment Information, Inc in Japan. Regarding cash flow management, we are also planning to maintain a positive free cash flow.

We regard the distribution of profits to our shareholders as an important management priority. Our basic dividend policy is to aim for a consolidated payout ratio of at least 30%, while also taking into account our financial position and other factors. On this basis, we have set the dividend for the year ended November 2017 at ¥46 per share, consisting of an interim dividend of ¥21 and a final dividend of ¥25. While we are working to increase the dividend payout ratio, we are also aiming to increase the amount of dividend payments to shareholders by increasing our earnings per share (EPS). We will maintain a flexible stance on share buy-back schemes, taking into account the share price and other factors.

Human Resource Development

Human Resource Development a Long-Term Priority for Growth

Companies consist of people, and corporate growth is not possible without human resource development. OSG regards human resources as its most valuable assets, and for that reason we refer to our people as "human assets" rather than "human resources."

Our human assets are essential to the spread of OSG's global presence determined to use its founding legacy, including our challenging spirit, to contribute to the advancement of manufacturing industries around the world. We believe that this requires

We will continue to work toward the further improvement of our corporate value by applying our challenging spirit, which is part of our founding legacy, to the supply of cutting tools, and by contributing to the sustainable development of society.



both the maintenance of corporate education structures to develop our human assets, as well as a fundamental commitment to the qualities that enable OSG to remain a good company. We define a “good company” as a company with a high operating margin and a healthy corporate culture. A good company can recruit talented people from throughout the world.

Through their work in the manufacture and sales of cutting tools, our Japanese and overseas personnel evolve into real human assets. We do not expect people to shine as new employees. They shine when the company they work for shines. In other words, working for OSG under our supportive company culture and continually taking up new challenges, people begin to shine for themselves.

OSG places great importance on communication, and we hold E&M (executive and management) Seminars every six months. With young employees presiding, these meetings are forums in which senior management can share their policies, and young employees can share their ideas. The seminars are also excellent opportunities to improve communication skills by

making presentations. Managers from 33 countries attend the E&M Seminars. This helps to create an environment in which all employees in OSG Group companies can think and act on the basis of an accurate understanding of OSG’s strategic direction and example. The 104th of these unique seminars will be held in June 2018. We see this ongoing initiative as essential to the continuing development of employees with good communication skills.

To Our Stakeholders

Strengthening Corporate Governance and Fulfilling Our Corporate Social Responsibilities

Several changes to our corporate governance structure were approved at the regular general meeting of shareholders on February 17, 2018. These changes will result in a clear separation between management supervisory bodies and the executive organization. They will also ensure the transparency, appropriateness, and fairness of decisions by supervisory bodies and strengthen governance by requiring outside directors to hold the majority of

seats. We will continue to build an effective governance structure based on the principles of the Corporate Governance Code, as a foundation for sustainable growth and development.

Initiatives to create a sustainable society are expanding globally. We cannot look forward to continuing economic growth and sound social development without efforts to combat environmental problems, poverty, inequality, and other issues. OSG fulfills its responsibilities as a corporate citizen by complying with laws and regulations and conducting its business activities fairly and transparently. We will also work to protect the environment by conserving resources and energy and reduce waste at all stages from the development of cutting tools until their disposal, and by supplying environmentally responsible products.

We will continue to work toward the further improvement of our corporate value by applying our challenging spirit, which is part of our founding legacy, to the supply of cutting tools, and by contributing to the sustainable development of society. We look forward to the continuing support and understanding of our stakeholders.



M & A

Enhancing Corporate Value

OSG regards M&A as an important strategy for the improvement of corporate value, and has acquired over 20 companies since 2000. We work in various ways to maximize synergies between existing group companies and the companies we acquire, including sales channel expansion, the development of distribution networks, the expansion of manufacturing facilities, and the provision of new services.

In Japan, we have expanded the scale of our business operations and improved our profitability by seeking out diamond tool manufacturers and regrinding service companies. Our M&A activities in Europe focus mainly on distributors. By strengthening our sales networks in this way, we have been able to build our market shares. In recent years, we have also acquired manufacturers as a way of building relationships with major users. We will continue to target further growth by using forward-looking M&A strategies to enhance the corporate value the OSG Group.

EMEA

Expansion of Sales Networks through an M&A Strategy of Focusing on Distributors

Our M&A strategy in Europe has resulted in the expansion of our sales networks through the acquisition of former OSG distributors. In addition to sales to Japanese-owned companies, we have also succeeded in winning orders from major European automotive and aircraft manufacturers by combining OSG's technical, proposal and response capabilities with the sales channels of companies with which we have traded in the past.

The manufacturing companies that we have added to the OSG Group over the past few years have excellent customer portfolios. We are working to realize synergy benefits by sharing OSG's world-class technologies with these companies.

Sales Growth

Approx. **6** times
between
2001 and 2017

JAPAN

Growth in Japan through a Focus on Diamond Tool Manufacturers and Regrinding Service Companies

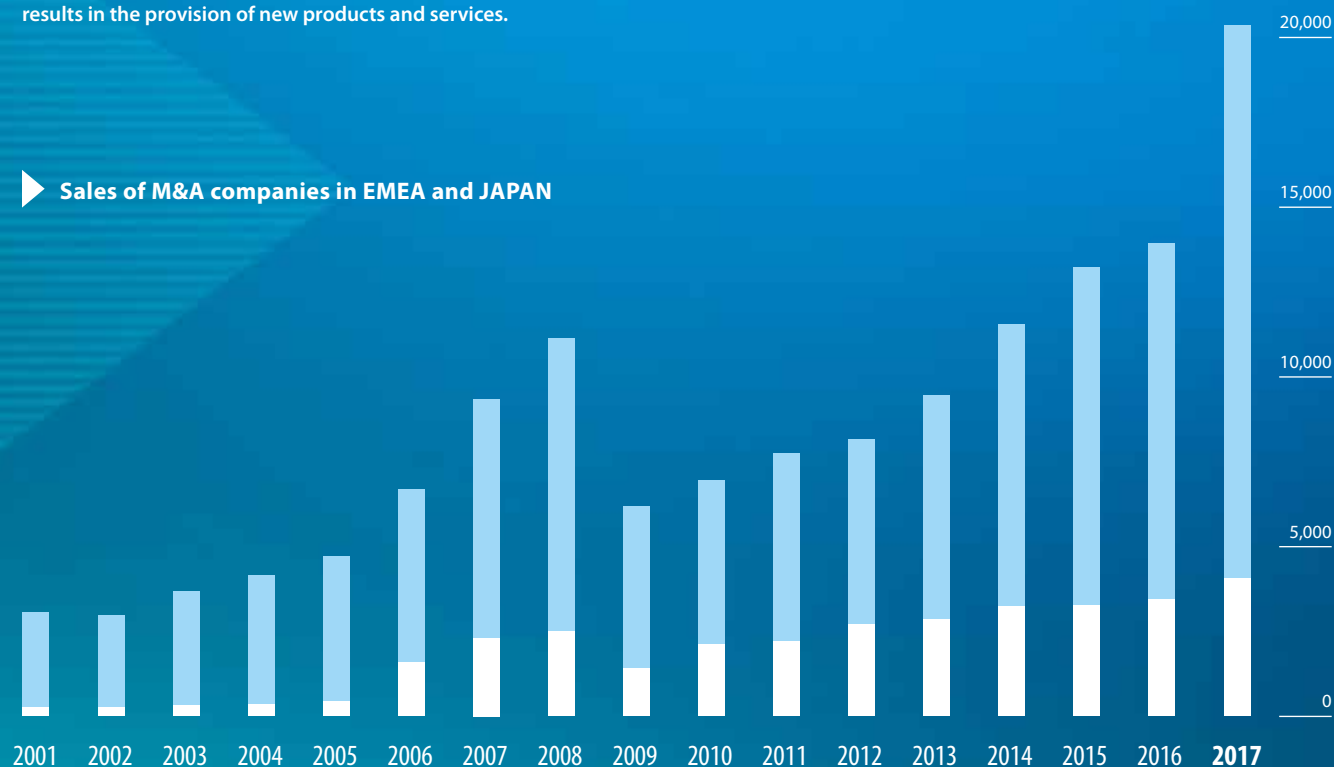
Our M&A activities in Japan have focused mainly on diamond tool manufacturers and regrinding service companies. Because of their superior hardness, diamond tools provide excellent durability and cutting performance. Regrinding services help users to reduce their tool costs by allowing tools to be reused multiple times. We will continue to expand the options available to users and contribute to manufacturing industries through M&A that results in the provision of new products and services.

Sales Growth

Approx. **16** times
between
2001 and 2017

(millions of yen)
25,000

► Sales of M&A companies in EMEA and JAPAN



Average exchange rate (yen/euro)

■ Japan ■ Europe and Africa

— 115.67 129.75 132.40 136.76 143.63 159.00 161.90 128.83 120.65 112.80 102.63 122.62 139.37 134.92 121.39 126.20



Corporate Governance

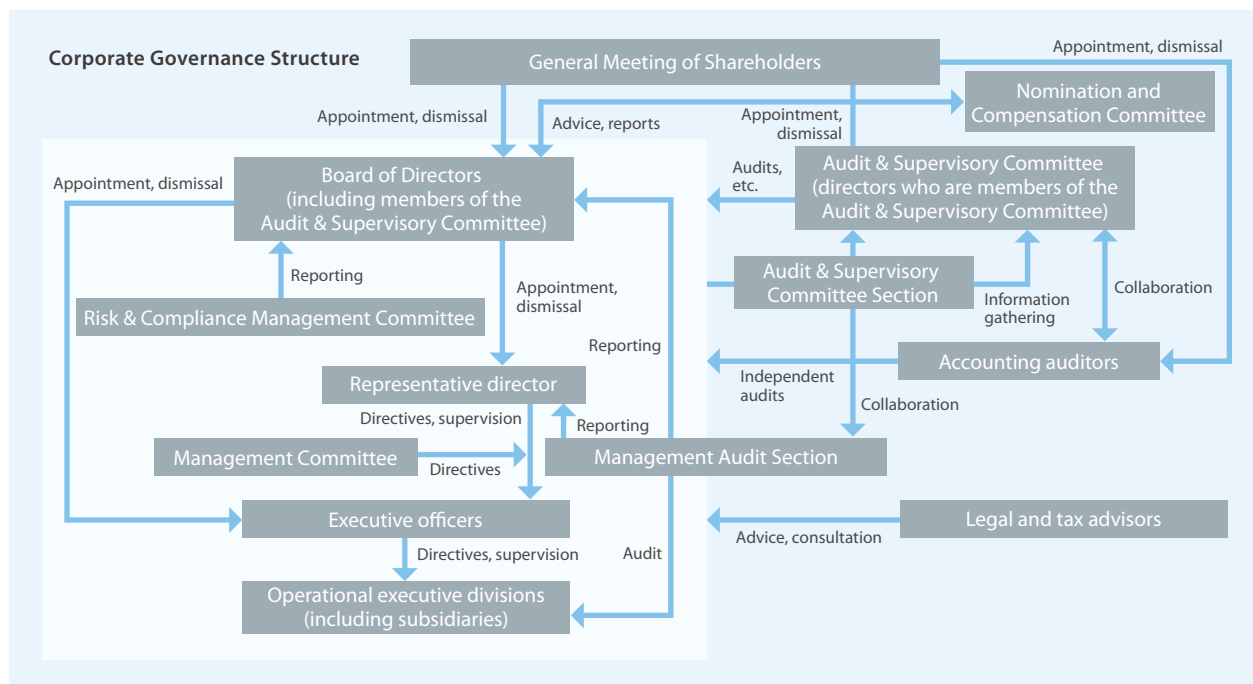
We will continue to develop a highly practical corporate governance structure and enhance our systems.

Basic Philosophy

Under our corporate philosophy of achieving a global presence, we regard compliance with laws, regulations, and social norms as a fundamental part of our management policies, together with fairness and transparency in our business activities. We also believe that these qualities contribute to sustainable corporate development and the improvement of corporate value. Measures to enhance corporate governance, including the establishment of efficient and transparent management organizations, and the

creation of systems to ensure timely and fair disclosure of accurate information, are among our most important management priorities.

One of the ways in which we enhance our corporate governance is by raising compliance awareness among directors, executive officers and employees of OSG and its group companies through the dissemination of the OSG Philosophy and the OSG Corporate Code of Ethics, which provide specific guidelines designed to raise ethical standards within the company.



Overview of Corporate Governance Structure

There has been extensive discussion of the optimal approach to corporate governance since the introduction of the Corporate Governance Code in 2015.

OSG has continually worked to develop governance structures from a shareholder perspective. For example, we adopted the executive officer system in 2003, and we made the transition from a company with a board of company auditors to a company with an audit & supervisory committee, in accordance with a resolution of the general meeting of shareholders on February 20, 2016.

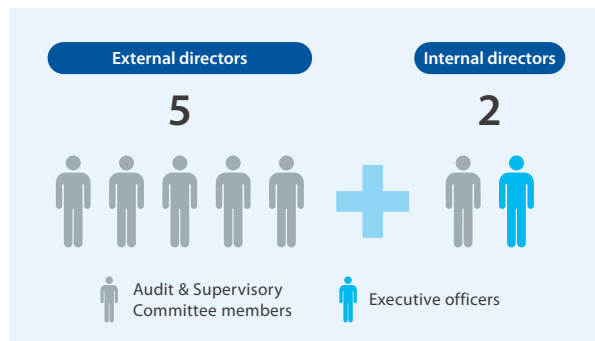
At the general meeting of shareholders on February 17, 2018, two years after the adoption of the audit & supervisory committee structure, it was decided to limit the term of office of committee members to two years. After careful thought about the best corporate governance system from a shareholder perspective, it was also decided to establish a clear division between executive functions, which require timely decision-making, and the supervisory role of the Board of Directors.

As a result, the number of directors, including those who also worked as executive officers, was halved from fourteen to just seven. The only director who is also an executive officer is the president and representative director, or CEO. The remaining six directors are all members of the Audit & Supervisory Committee. We also adopted a structure requiring five—or two-thirds—of the seven-member Board of Directors to be outside directors qualified as independent officers. The role of these directors is to use their outside perspectives to enhance the transparency, independence, and supervisory functions of the

Board of Directors.

In addition, we have established a Nomination and Compensation Committee as an advisory body to the Board of Directors. Its task is to deliberate on matters relating to the nomination of and compensation for directors, executive officers, and other officers. All members of this committee are also members of the Audit & Supervisory Committee, and five of the six members are outside directors.

This structure provides a clear division between the executive officers responsible for the performance of business operations, and the directors who supervise the executive officers. The Board of Directors makes decisions about the appointment of and compensation for directors and executive officers on the basis of advice from the Nomination and Compensation Committee, on which the majority of seats are held by outside directors. Our aim in adopting this structure is to ensure that our corporate governance reflects the interests of shareholders.



Reasons for Adopting this Corporate Governance Structure

By adopting our present corporate governance structure, we have enhanced the ability of the Board of Directors to oversee and supervise management decision-making and the performance of business operations, thereby improving management efficiency and ensuring that management decisions can be made appropriately and strategically. The activities of the Audit & Supervisory Committee, of which five of the six members are outside directors, include the auditing of the company's financial position and operations, and the performance of duties by

the representative director and executive officers. OSG's five outside directors are independent officers as stipulated in the listing rules. With the six members of the Audit & Supervisory Committee, including these highly independent outside directors, as members of the Board of Directors, we believe that we have created a corporate governance structure that contributes to shareholder interests by providing an environment for effective management supervisory functions, and by ensuring that the company is managed transparently and appropriately.

Risk and Compliance Management Committee

In addition to these measures to improve management transparency and fairness and ensure timely information disclosure, we have also established Risk Management Rules as a framework for the creation of risk management structures to maintain management soundness and corporate ethics in the OSG Group. We have also established the Risk and Compliance Management

Committee to ensure the effective and efficient implementation of the Risk Management Rules. Its role is to formulate basic risk management policies and consider and implement timely countermeasures after assessing the significance and urgency of risks.

Reasons for Appointment of Outside Directors, Positions Held Concurrently

Outside director	Audit & Supervisory Committee member	Reasons for appointment	Positions held concurrently
Takeo Nakagawa	○	In addition to an academic career spanning many years, Dr. Nakagawa also has extensive experience in and knowledge of corporate management. He was judged to be a person who would participate in board meetings from an independent perspective and contribute to management auditing and supervision. Since Dr. Nakagawa is not associated with any OSG affiliated company or major supplier or customer, he was deemed to present no risk of conflicts of interest with general shareholders, and it was therefore decided to appoint him as an outside director.	Representative Director and President, Fine Tech Corporation Outside Auditor, Fanuc Corporation Outside Director, Tsugami Corporation Director, Osawa Scientific Studies Grants Foundation
Hiroyuki Ohmori	○	Mr. Ohmori has extensive experience and wide-ranging knowledge gained through his work as an executive officer in another company. He was judged to be a person who would participate in board meetings from an independent perspective and contribute to management auditing and supervision. Since Mr. Ohmori is not associated with any OSG affiliated company or major supplier or customer, he was deemed to present no risk of conflicts of interest with general shareholders, and it was therefore decided to appoint him as an outside director.	Representative Director and Chairman, Omori Lumber Co., Ltd. Representative Director and Chairman, Eagle Precut Support Center Co., Ltd.
Kyoshiro Ono	○	Mr. Ono has extensive experience and wide-ranging knowledge gained through his work as an executive officer in another company. He was judged to be a person who would participate in board meetings from an independent perspective and contribute to management auditing and supervision. Since Mr. Ono is not associated with any OSG affiliated company or major supplier or customer, he was deemed to present no risk of conflicts of interest with general shareholders, and it was therefore decided to appoint him as an outside director.	
Yoshiyuki Sakaki	○	Professor Sakaki has wide-ranging knowledge and experience gained through his long academic career. He was judged to be a person who would participate in board meetings from an independent perspective and contribute to management auditing and supervision. Since Professor Sakaki is not associated with any OSG affiliated company or major supplier or customer, he was deemed to present no risk of conflicts of interest with general shareholders, and it was therefore decided to appoint him as an outside director.	President, Shizuoka Futaba Gakuen Councilor, Osawa Scientific Studies Grants Foundation
Akito Takahashi	○	Mr. Takahashi has extensive experience and advanced knowledge and specialist skills gained through his career as an attorney. As a legal expert, he was judged to be a person who would participate in board meetings from an independent perspective and contribute to management auditing and supervision. Since Mr. Takahashi is not associated with any OSG affiliated company or major supplier or customer, he was deemed to present no risk of conflicts of interest with general shareholders, and it was therefore decided to appoint him as an outside director.	Outside Director, Nippon Carbon Co., Ltd. Outside Director, ACKG Limited

Nomination & Compensation Committee

OSG has established a Nomination & Compensation Committee as an advisory body for the Board of Directors. Its purpose is to strengthen the independence, objectivity, and accountability of board functions through the appropriate involvement of independent outside directors and the provision of advice in relation to the appointment of directors and executive officers, etc., and compensation.

Persons who are deemed suitable to be directors of OSG, on the basis of their extensive experience, advanced knowledge, and high-level specialist capabilities, are selected and nominated as candidates for membership of the Board of Directors.

The Board of Directors then makes decisions on appointments after seeking advice and receiving a response from the Nomination & Compensation Committee.

Under OSG's process for determining compensation, a representative director is delegated by the Board of Directors to formulate proposed compensation amounts based on standards established by the company. The Board of Directors then makes a decision after seeking advice and receiving a response from the Nomination & Compensation Committee. Compensation for directors who are members of the Audit & Supervisory Committee is determined by a resolution of the Audit & Supervisory Committee.

Name of committee	Total members	Standing members	Internal directors	Outside directors	Outside experts	Others	Chairperson
Nomination & Compensation Committee	6	0	1	5	0	0	Internal directors

Amounts of Compensation for Company Officers

The maximum amount of compensation for company officers (directors, excluding directors who are members of the Audit & Supervisory Committee) was set at ¥396 million per year (¥84

million for directors who are members of the Audit & Supervisory Committee) by a resolution at the 103rd general meeting of shareholders held on February 20, 2016.

Type of officer	Total compensation (millions of yen)	Total amount of compensation, etc., by type (millions of yen)				Number of officers receiving basic compensation
		Basic compensation	Stock options	Bonuses	Retirement bonuses, etc.	
Directors (excluding members of the Audit & Supervisory Committee) (Excluding outside directors)	538	216	—	322	—	9
Directors (Audit & Supervisory Committee members) (Excluding outside directors)	29	29	—	—	—	2
Outside Officers	21	21	—	—	—	4

Basic Policy on Constructive Dialogue with Shareholders

Under the leadership of the Representative Director and President, the Management Planning Department coordinates the activities of units involved in IR activities and maintains collaboration among these units on a day-to-day basis. The Management Planning Department actively responds to requests for IR information, including telephone inquiries from investors and small meetings. OSG holds quarterly meetings to present its financial results, as well as half-yearly financial presentations by top management. If necessary, any opinions and concerns

gathered through shareholder dialogue are fed back to the Board of Directors and senior management by the executive officer in charge of the unit that carried out the IR activities concerned. When engaging in dialogue with investors, OSG takes care over the management of insider information by ensuring that such dialogue, whether at financial presentations or small meetings, centers on strategies for the achievement of sustainable growth and the improvement of OSG's corporate value from a medium- to long-term perspective.



Environmental Initiatives

As a supplier of cutting tools to meet the needs of a wide range of industries, OSG is continually working to minimize environmental loads through its product development and manufacturing activities.

Basic Philosophy

The OSG Group recognizes protection of the global environment as a vital priority for humanity. Under our Environmental Basic Policy, we are actively committed to efficient resource use and environmentally responsible manufacturing. We strive to supply our customers with environment-friendly products and services as part of efforts to reduce environmental loads and contribute to the development of a society based on resource recycling.

Environmental Basic Policy

Under the slogans, "An Eco-friendly Company" and "A Culture that Cares for the Environment," we work to protect the global environment and achieve harmonious coexistence between our activities and the natural environment.

Slogan for the 7th Environmental Medium-Term Plan (fiscal 2018–2020):

Building Our Future as an Eco-Company through Further Environmental Improvement

We will work to reduce costs through the vitalization of eco-factory and eco-product activities.

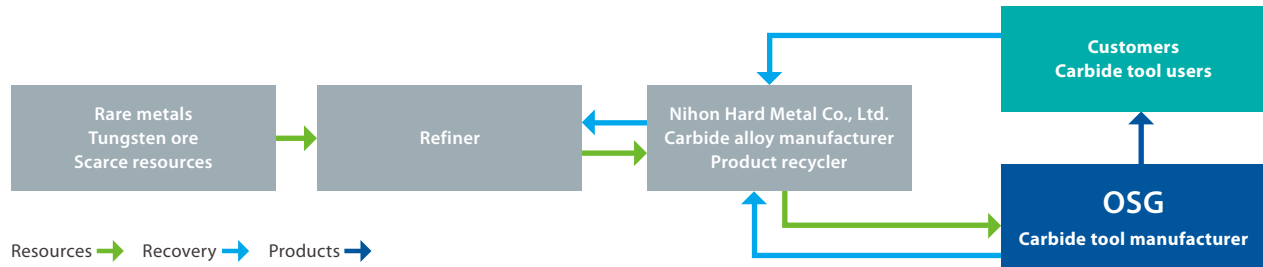
Environmental Performance in Fiscal 2017 and Targets for Fiscal 2018

No.	Environmental target		2017		Targets for 2018
	Item	Content	Targets	Results	
1	Energy conservation	Reduction of total energy used (energy sources: electricity, fuel oil, LPG) Total amount used BM: 95,676 GJ/month	1.0% reduction 850 GJ/month reduction	1.0% reduction 897 GJ/month reduction	1.0% reduction 957 GJ/month reduction
		By unit of production: BM: 20 GJ/million yen	1.0% reduction 0.20 GJ/month reduction	2.2% reduction 0.44 GJ/month reduction	1.0% reduction 0.20 GJ/month reduction
2	Eco-products	Development of environment-friendly products	13 products	13 products	29 points*
3	Eco-factories	Creation of environmentally responsible plants	22 factories	21 factories	31 points*

*Numerical scores out of 60 under OSG's standards for the improvement of environment activities

Carbide Tool Recycling

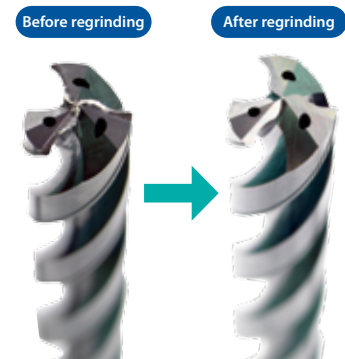
Carbide tools contain scarce resources, such as tungsten and cobalt. The entire OSG Group is engaged in recycling initiatives for these products. We collect used tools from customers and recover the rare metals for reuse as recycled materials, thereby ensuring the effective utilization of these resources. Through this activity, we help our customers to enhance their CSR activities and make progress toward zero-emission status.



Regrinding and Recoating

Cutting tools, such as taps, end mills, and drills, eventually lose their cutting edges due to wear caused by repeated use. The process of regrinding and recoating restores the cutting edges, resulting in the same cutting performance as new products.

OSG uses reliable technologies developed over many years to regrind and recoat products to meet the needs of customers in 12 countries and regions: Japan, Taiwan, Thailand, Mexico, the United States, South Korea, Indonesia, Vietnam, India, Germany, Brazil, and China. Demand for these services is expanding in step with a growing social emphasis on sustainability.



The new standard for milling—the AE-VMS ultra-low-vibration carbide end mill

TOPIC Environmentally Responsible Products

OSG helps customers consume less power through shorter processing times.

The AE-VMS anti-vibration carbide end mill sets a new standard for milling equipment. This environmentally responsible product can perform a wide variety of milling applications. A key feature of the AE-VMS is its Dularise coating, which has a multi-layer structure for superior lubricity, friction-resistance, and resistance to high-temperature oxidation. These characteristics ensure excellent machined surfaces and allow the AE-VMS to be used for both dry and wet milling. Cutting resistance has also been reduced for improved milling stability, thanks to the sharp rake angle. In addition, the unequal spacing of teeth and variable-lead geometry reduce vibration and ensure highly efficient processing. These features reduce processing times, resulting in lower power consumption.



Social Initiatives

We will fulfill our social responsibilities to all of our stakeholders, including our customers, suppliers, employees and communities.

Basic Philosophy

The OSG Group is working toward the development of a more sustainable society by maintaining and developing healthy relationships with all stakeholders, including shareholders, customers, employees, business partners and local communities.

As members of society, we will strive to exist in harmony with society through social contribution activities and the promotion of mutual understanding with stakeholders.

Fundamental Business Policy

- Always aware that our corporation is an institution that serves society, we provide products that are appreciated by our customers.
- We assign our employees appropriate jobs and strive to improve their daily lives.
- We strive to provide stable dividends to our stockholders.
- We implement sound business practices that earn enhanced social trust and develop the corporation into a worldwide business.

Business Ethics

OSG has adopted a set of Business Ethics as the basis for the realization and implementation of its fundamental business policies by the entire OSG Group. In accordance with the 10 principles of our Business Ethics, all OSG Group employees, whether in Japan or overseas, will respect human rights and comply with both the letter and spirit of all applicable laws, regulations and international rules, while also working with good social conscience toward the creation of a sustainable society.

1. We will earn the approval and trust of consumers and customers.
2. We will engage in fair, transparent and free competition and fair trading.
3. We will disclose corporate information actively and fairly.
4. We will respect the diversity, personalities and individuality of employees and ensure that they have safe and comfortable working environments.
5. We will undertake active, self-driven environmental initiatives.
6. We will actively engage in social contribution activities as a good corporate citizen.
7. We will take a firm stand against anti-social forces.
8. We will comply with rules and local laws and respect local cultures and customs.
9. Senior management will develop effective internal corporate systems and ensure compliance with corporate ethics.
10. Senior management will directly investigate the causes of any violations of this code and implement stringent actions against those responsible, while also disclosing information and working to prevent recurrences.

For further details, please refer to the OSG Ethics Pledge.

https://www.osg.co.jp/en/about_us/company/file/statement.pdf

Earning the Trust of Our Customers

As symbolized in our corporate motto, “shaping your dreams,” our goal is to earn the trust of our customers by supplying products and services that exceed their expectations. OSG has always worked to delivering attractive, high-quality products and services, and we will continue to strengthen the customer-centered stance that forms the foundation for our quality management systems. We committed to the continual improvement of customer satisfaction through quality enhancement.

OSG has established its own quality certification system as a framework for quality audits designed to maintain and improve performance in relation to quality, cost, delivery times, and the environment (QCDE). We are also strengthening quality control systems at our production facilities around the world.



Staff at OSF in Brazil achieved Quality Level 5 under the OSG quality certification system.

Contributing to Local Communities

Every year, OSG provides instructors for a program run by Aichi Prefecture with the aim of training manufacturing workers. We first participated in this scheme in 2007, and 2017 was the 11th year in which we have contributed. In fiscal 2017, we provided practical instruction for 11 students from Aichi Prefectural Toyokawa Technical High School between July 13 and 27. The purpose of the 10-day program was to enable the students to pass level-3 skill testing for lathe processing. Seven employees were selected to act as instructors. All eleven students passed the test.



Practical training under the Developing Human Resources in Manufacturing Project



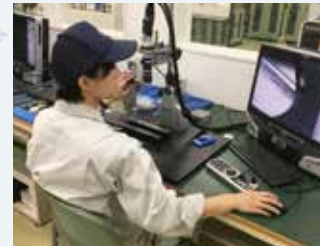
Engineer
Design Center –
Engineering & Development

Ayano Mizokawa

VOICE Career Development for Female Employees

OSG is helping to ensure the future of manufacturing by providing good working environments for female employees.

My work at OSG centers on end mills, which are cutting tools used to shape materials. I use test pieces to measure and inspect the performance of the tools. This is my seventh year in this area. Since returning to work after parental leave, I have worked on a variety of products as an engineer. The most motivating aspect of my work is the opportunity to acquire new knowledge and technology as parts and materials change in step with the development of society. We work in teams with design and development staff, and sometimes we feel a sense of tension, such as when we perform tests in the presence of customers. What matters most, however, is not that I am a woman doing this job, but that I can continue doing work that I enjoy.



Financial Section

Key Financial Data for the Past 10 Years

		2008/11	2009/11	2010/11
For the Year	Net sales	97,024	53,325	69,513
	Cost of sales	60,449	39,203	44,605
	Selling, general and administrative expenses	22,158	16,857	17,383
	Operating income	14,416	(2,735)	7,524
	Ordinary income	13,505	(2,703)	6,699
	Net income attributable to OSG Corporation	7,376	(3,769)	3,772
	Cash flows from operating activities	10,653	6,049	14,095
	Cash flows from investing activities	1,678	(4,633)	(5,522)
	Cash flows from financing activities	(4,500)	5,470	(15,562)
	Depreciation and amortization	7,135	5,848	5,307
	EBITDA	21,552	3,113	12,832
	Capital expenditure	6,455	2,547	3,568
	Number of employees	4,881	4,686	4,843
End of fiscal year	Total assets	122,383	113,382	105,635
	Net assets	70,453	61,734	63,162
	Interest-bearing debt	34,783	41,231	27,318
	Total equity	64,251	55,931	57,117
Per share	Net income (yen)	76.53	(39.22)	39.34
	Net assets (yen)	666.71	582.19	601.44
	Dividends (yen)	24.00	3.00	12.00
Management indicators	Overseas sales ratio (%)	45.8	49.8	48.6
	Operating margin (%)	14.9	(5.1)	10.8
	Return on equity (ROE) (%)	11.5	(6.3)	6.7
	Return on assets (ROA) (%)	5.9	(3.2)	3.4
	Equity ratio (%)	52.5	49.3	54.1
	EBITDA margin (%)	22.2	5.8	18.5
	Dividend payout ratio (%)	31.4	(7.6)	30.5
Data by product category	Taps	30,430	16,934	23,158
	Drills	21,696	11,770	16,265
	End mills	24,094	12,917	16,198
	Rolling dies	8,024	4,669	6,663
	Gauges	1,476	876	1,085
	Other	11,301	6,158	6,140
Sales to external customers	Japan	53,221	27,115	36,196
	The Americas	16,689	9,437	11,295
	Europe/Africa	9,216	5,383	5,536
	Asia	17,896	11,389	16,484

						(Millions of yen)	(Thousands of U.S. dollars)
2011/11	2012/11	2013/11	2014/11	2015/11	2016/11	2017/11	2017/11
80,959	84,083	88,378	101,031	111,917	105,561	120,198	1,073,196
48,439	49,381	52,777	58,061	61,865	59,179	69,711	622,419
20,214	20,747	22,774	25,554	28,454	28,135	31,349	279,901
12,305	13,954	12,827	17,415	21,597	18,246	19,137	170,866
11,374	13,695	13,910	17,568	21,510	17,813	19,144	170,928
5,904	7,138	8,619	9,989	12,518	10,134	13,993	124,937
11,344	12,286	16,171	19,688	19,588	16,333	20,820	185,892
(8,195)	(19,746)	(2,972)	(3,119)	(16,976)	(16,843)	(7,566)	(67,553)
(5,855)	8,643	(9,423)	(12,813)	(6,216)	(778)	(11,137)	(99,437)
5,657	5,688	6,716	6,830	7,705	7,885	8,612	76,892
17,962	19,642	19,544	24,246	29,302	26,132	27,749	247,758
8,225	10,284	5,876	7,327	12,487	13,394	9,494	84,767
5,078	5,117	5,118	5,233	5,569	5,866	6,611	
104,373	121,689	134,503	142,302	155,129	156,081	166,712	1,488,500
65,347	71,471	87,621	100,943	113,637	103,059	128,394	1,146,375
23,011	34,284	29,063	20,009	20,195	33,506	16,325	145,758
59,367	64,482	80,024	91,458	102,566	92,216	115,810	1,034,017
62.18	75.16	90.76	105.20	131.78	110.59	153.70	1.37 (US dollars)
625.14	679.01	842.71	963.15	1,079.12	1,024.34	1,191.65	10.64 (US dollars)
18.00	23.00	30.00	34.00	46.00	50.00	46.00	0.41 (US dollars)
49.7	48.0	53.5	54.6	57.8	55.3	57.6	
15.2	16.6	14.5	17.2	19.3	17.3	15.9	
10.1	11.5	11.9	11.7	12.9	10.4	13.5	
5.6	6.3	6.7	7.2	8.4	6.5	8.7	
56.9	53.0	59.5	64.3	66.1	59.1	69.5	
22.2	23.4	22.1	24.0	26.2	24.8	23.1	
28.9	30.6	33.1	32.3	34.9	45.2	29.9	
28,906	29,379	28,924	34,655	38,239	33,948	38,175	340,848
18,284	19,839	20,724	23,600	25,743	26,709	31,662	282,696
17,837	18,472	20,857	22,886	26,554	24,837	27,090	241,875
7,067	7,280	7,681	9,165	9,921	9,443	10,218	91,232
1,137	1,176	1,232	1,419	1,538	1,478	1,625	14,508
7,725	7,935	8,958	9,304	9,919	9,143	11,424	102,000
41,266	44,212	41,922	46,659	48,150	48,257	51,639	461,062
12,699	13,605	16,093	18,236	21,758	19,478	21,413	191,187
6,548	6,491	7,827	9,879	11,382	12,268	18,177	162,294
20,444	19,774	22,534	26,256	30,626	25,556	28,968	258,642

Consolidated Summary Balance Sheet

(Millions of yen)

	2016 As of Nov. 30, 2016	2017 As of Nov. 30, 2017
Assets		
Current Assets		
Cash and time deposits	18,003	21,204
Notes and accounts receivable	20,758	23,961
Marketable securities	0	0
Merchandise and finished goods	20,978	22,946
Work in process	4,879	5,686
Raw materials and supplies	5,834	6,217
Deferred tax assets	1,926	1,786
Other	2,980	2,505
Allowance for doubtful accounts	(191)	(240)
Total current assets	75,168	84,069
Fixed Assets		
Tangible Assets		
Building and structures	18,588	20,178
Machinery and equipment	28,877	30,891
Tools, furniture, and fixtures	2,077	2,260
Land	14,830	15,102
Construction in progress	2,019	1,187
Other	1	1
Total tangible assets	66,395	69,622
Intangible Assets		
Goodwill	2,658	3,517
Other	829	784
Total intangible assets	3,488	4,301
Investments and Other Assets		
Investment securities	6,633	5,119
Investment in capital	1,562	920
Long-term loans	485	398
Deferred tax assets	553	521
Net defined benefit asset	46	58
Other	2,199	2,087
Allowance for doubtful accounts	(452)	(387)
Total investments and other assets	11,028	8,718
Total fixed assets	80,912	82,642
Total	156,081	166,712

(Millions of yen)

	2016 As of Nov. 30, 2016	2017 As of Nov. 30, 2017
Liabilities and Net Assets		
Current Liabilities		
Notes and accounts payable	4,618	5,325
Short-term loans payable	8,000	1,909
Current portion of long-term loans payable	491	421
Accrued expenses	6,365	7,200
Income taxes payable	1,436	3,458
Deferred tax liabilities	10	0
Reserve for directors' bonuses	454	385
Other	4,095	3,124
Total current liabilities	25,474	21,826
Long-term Liabilities		
Convertible bonds	14,850	3,150
Long-term borrowings	10,163	10,844
Deferred tax liabilities	1,350	1,242
Retirement allowance for directors and corporate auditors	108	53
Liabilities for employees' retirement benefits	280	395
Other	794	804
Total long-term liabilities	27,547	16,491
Total liabilities	53,021	38,318
Shareholders' Equity		
Common stock	10,404	11,954
Capital surplus	12,090	13,492
Retained earnings	81,840	90,308
Treasury stock	(10,967)	(1,229)
Total shareholders' equity	93,368	114,526
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	2,267	2,019
Deferred loss on derivatives under hedge accounting	(0)	(0)
Foreign currency translation adjustments	(3,419)	(735)
Total accumulated other comprehensive income	(1,152)	1,283
Subscription rights to shares	13	13
Noncontrolling interests	10,829	12,570
Total net assets	103,059	128,394
Total liabilities and net assets	156,081	166,712

Financial Section

Consolidated Summary Statement of Income

		(Millions of yen)
	2016 (2015/12/1 – 2016/11/30)	2017 (2016/12/1 – 2017/11/30)
Net Sales	105,561	120,198
Cost of Sales	59,179	69,711
Gross profit	46,382	50,486
Selling, general and administrative expenses	28,135	31,349
Operating income	18,246	19,137
Other Income		
Interest income	202	188
Dividend income	140	124
Purchase discounts	32	37
Equity in earnings of affiliates	9	13
Foreign exchange gain	—	276
Other	683	533
Total other income	1,067	1,174
Other Expenses		
Interest expense	119	129
Sales discounts	659	715
Foreign exchange loss	357	—
Other	365	322
Total other expenses	1,501	1,167
Ordinary income	17,813	19,144
Extraordinary income		
Gain on sales of tangible assets	—	321
Gain on sales of investment securities	—	1,887
Total extraordinary income	—	2,209
Extraordinary loss		
Amortization of goodwill	—	266
Directors' retirement benefits and condolence money	1,043	—
Total extraordinary loss	1,043	266
Income before income taxes	16,769	21,086
Income taxes		
Current	4,980	6,533
Deferred	531	(266)
Total income taxes	5,512	6,267
Net income	11,257	14,819
Net income attributable to noncontrolling interests	1,122	825
Net income attributable to OSG Corporation	10,134	13,993

Consolidated Statement of Comprehensive Income

		(Millions of yen)
	2016 (2015/12/1 – 2016/11/30)	2017 (2016/12/1 – 2017/11/30)
Net Income	11,257	14,819
Other Comprehensive Income		
Unrealized gain (loss) on available-for-sale securities	(433)	(240)
Deferred gain (loss) on derivatives under hedge accounting	(3)	0
Foreign currency translation adjustments	(7,104)	3,466
Share of other comprehensive income in associates	(18)	7
Total other comprehensive income	(7,559)	3,233
Comprehensive Income	3,697	18,052
(Breakdown)		
Comprehensive Income attributable to OSG Corporation	3,507	16,447
Comprehensive Income attributable to noncontrolling interests	190	1,605

Financial Section

Consolidated Statement of Changes In Equity

2016 (2015/12/1 – 2016/11/30)

	Shareholders' equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
Balance, November 30, 2015	10,404	12,090	75,719	(1,104)	97,109
Changes of items during period					
Issuance of new shares					—
Cash dividends			(3,887)		(3,887)
Net income attributable to owners of the parent			10,134		10,134
Purchase of treasury stock				(9,862)	(9,862)
Disposal of treasury stock					—
Adjustment of retained earnings for newly consolidated subsidiaries			(125)		(125)
Purchase of shares of consolidated subsidiaries					—
Net change in the year					
Total changes of items during period	—	—	6,121	(9,862)	(3,740)
Balance, November 30, 2016	10,404	12,090	81,840	(10,967)	93,368

2017 (2016/12/1 – 2017/11/30)

	Shareholders' equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
Balance, November 30, 2016	10,404	12,090	81,840	(10,967)	93,368
Changes of items during period					
Issuance of new shares	1,550	1,550			3,100
Cash dividends			(4,412)		(4,412)
Net income attributable to owners of the parent			13,993		13,993
Purchase of treasury stock				(10)	(10)
Disposal of treasury stock		(38)	(1,109)	9,748	8,600
Adjustment of retained earnings for newly consolidated subsidiaries			(3)		(3)
Purchase of shares of consolidated subsidiaries		(108)			(108)
Net change in the year					
Total changes of items during period	1,550	1,402	8,467	9,737	21,157
Balance, November 30, 2017	11,954	13,492	90,308	(1,229)	114,526

(Millions of yen)

Accumulated Other Comprehensive Income				Stock Acquisition Rights	Noncontrolling Interests	Total Equity
Unrealized Gain on Available-for-Sale Securities	Deferred (Loss) Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total			
2,709	2	2,745	5,456	—	11,071	113,637
						—
						(3,887)
						10,134
						(9,862)
						—
						(125)
						—
(441)	(3)	(6,164)	(6,609)	13	(241)	(6,837)
(441)	(3)	(6,164)	(6,609)	13	(241)	(10,578)
2,267	(0)	(3,419)	(1,152)	13	10,829	103,059

(Millions of yen)

Accumulated Other Comprehensive Income				Stock Acquisition Rights	Noncontrolling Interests	Total Equity
Unrealized Gain on Available-for-Sale Securities	Deferred (Loss) Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total			
2,267	(0)	(3,419)	(1,152)	13	10,829	103,059
						3,100
						(4,412)
						13,993
						(10)
						8,600
						(3)
						(108)
(248)	0	2,684	2,436	—	1,740	4,177
(248)	0	2,684	2,436	—	1,740	25,334
2,019	(0)	(735)	1,283	13	12,570	128,394

Consolidated Summary Statement of Cash Flows

(Millions of yen)

	2016 (2015/12/1 – 2016/11/30)	2017 (2016/12/1 – 2017/11/30)
Operating Activities:		
Income before income taxes	16,769	21,086
Depreciation and amortization	7,885	8,612
Amortization of goodwill	298	817
Change in allowance for doubtful receivables	66	42
Change in liability for directors' bonuses	(181)	(70)
Change in liability for employees' retirement benefits	39	(20)
Change in retirement allowance for directors and corporate auditors	39	(54)
Interest and dividend income	(342)	(313)
Interest expense	119	129
Equity in loss (earnings) of an associated company	(9)	(13)
Gain on sales of tangible assets	—	(321)
Gain on sales of investment securities	—	(1,887)
Directors' retirement benefits and condolence money	1,043	—
Change in notes and accounts receivable	(550)	(1,690)
Change in inventories	(2,471)	(1,147)
Change in notes and accounts payable	321	(253)
Change in accrued expenses	(229)	584
Other—net	446	688
Sub-total	23,243	26,189
Interest and dividend income received	363	308
Interest expense paid	(114)	(132)
Payments for directors' retirement benefits and condolence money	(36)	(1,018)
Income taxes—paid	(7,123)	(4,525)
Net cash provided by operating activities	16,333	20,820
Investing Activities:		
Payments for time deposits	(1,371)	(1,500)
Proceeds from refund of time deposits	2,040	1,414
Proceeds from redemption of marketable securities	69	0
Purchases of investment securities	(414)	(265)
Proceeds from sales of investment securities	—	3,527
Acquisitions of property, plant and equipment	(13,394)	(9,494)
Proceeds from sales of property, plant and equipment	245	1,037
Acquisitions of intangible assets	(204)	(161)
Payment for purchase of subsidiaries' stock	(1,197)	(1,073)
Purchase of investments in subsidiaries	(2,132)	(655)
resulting in change in scope of consolidation		
Other—net	(483)	(395)
Net cash used in investing activities	(16,843)	(7,566)
Financing Activities:		
Change in short-term borrowings - net	4,104	(6,204)
Proceeds from long-term borrowings	10,519	614
Repayments of long-term borrowings	(1,279)	(542)
Purchase of investments in subsidiaries	—	(219)
resulting in no change in scope of consolidation		
Purchase of treasury stock	(9,834)	(5)
Proceeds from issuance of subscription rights to shares	13	—
Dividends paid	(3,884)	(4,411)
Dividends paid to noncontrolling interests	(417)	(367)
Net cash used in financing activities	(778)	(11,137)
Effect of exchange rate change on cash and cash equivalents	(1,917)	540
Net increase in cash and cash equivalents	(3,204)	2,658
Cash and cash equivalents at beginning of year	19,402	16,555
Cash and cash equivalents from newly consolidated subsidiaries	357	300
Increase in cash and cash equivalents	—	84
resulting from merger with unconsolidated subsidiaries		
Cash and cash equivalents at end of year	16,555	19,598

Corporate Information

Corporate Officers (As of February 17, 2018)

President, Representative Director and CEO	Norio Ishikawa
Director (Audit & Supervisory Committee Member)	Gohei Osawa
Director (Audit & Supervisory Committee Member)	Takeo Nakagawa*
Director (Audit & Supervisory Committee Member)	Hiroyuki Ohmori*
Director (Audit & Supervisory Committee Member)	Kyoshiro Ono*
Director (Audit & Supervisory Committee Member)	Yoshiyuki Sakaki*
Director (Audit & Supervisory Committee Member)	Akito Takahashi*
Managing Officer	Nobuaki Osawa
Managing Officer	Jiro Osawa
Managing Officer	Hideaki Osawa
Managing Officer	Koji Takeo
Senior Executive Officer	Mike Grantham
Senior Executive Officer	Mitsuyoshi Hikosaka
Senior Executive Officer	Yasutaka Yoneda
Executive Officer	Hiromi Ohno
Executive Officer	Jeffrey Tennant
Executive Officer	Kazuhisa Sawada
Executive Officer	Takehiro Tomiyoshi
Executive Officer	Toshihiro Hisadome
Executive Officer	Yasushi Suzuki
Executive Officer	Hideyuki Ohashi
Executive Officer	Kenya Sugihara
Executive Officer	Seungjin Chung

*Directors Takeo Nakagawa, Hiroyuki Ohmori, Kyoshiro Ono, Yoshiyuki Sakaki and Akito Takahashi are all outside directors.

Company Profile (As of November 30, 2017)

Company name	OSG Corporation
Headquarters	3-22, Honnogahara, Toyokawa, Aichi Prefecture 442-8543, Japan
Date established	March 26, 1938
Capital	¥11,954 million yen
Number of employees	6,611 (consolidated)/ 1,812 (non-consolidated)
Business activities	Manufacture and sale of cutting tools, rolling dies, gauges, machine tools and machine parts, importation and sale of tools

Status of shares (As of November 30, 2017)

Number of shares issuable	200,000,000 shares
Number of shares outstanding	97,853,340 shares
Number of shareholders	8,097
Minimum share purchasing unit	100 shares
Stock listings	Tokyo Stock Exchange, Nagoya Stock Exchange
Securities code	6136

Major shareholders

	Number of Shares Held (Thousands)	Percent Ownership (%)
State Street Bank and Trust Company	6,287	6.47
Japan Trustee Services Bank, Ltd. (Trust Account)	4,028	4.14
The Master Trust Bank of Japan, Co., Ltd. (Trust Account)	3,844	3.95
OSG Agent Association	3,054	3.14
OSG Stock Holding Association	2,467	2.54
Osawa Scientific Studies Grants Foundation	2,293	2.36
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2,225	2.29
Sumitomo Mitsui Banking Corporation	2,100	2.16
Toyota Motor Corporation	2,100	2.16
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	1,905	1.96

(Notes)

1. The number of shares held is rounded down to the nearest thousand.
2. The shareholding ratio is calculated after deducting treasury shares.



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OSG Corporation

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URL: <https://www.osg.co.jp/en/>



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