

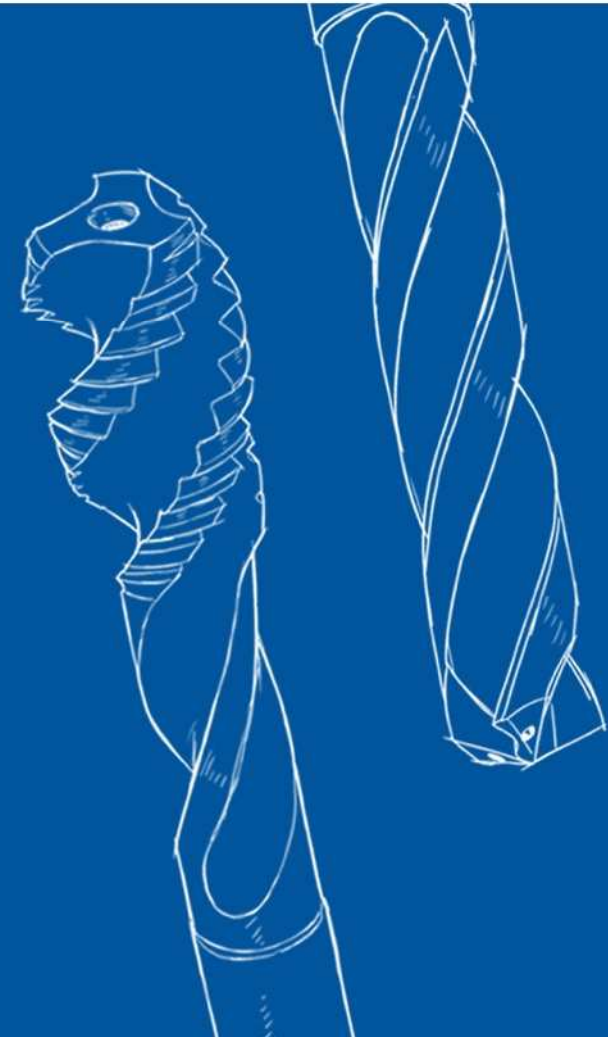


shaping your dreams

Financial Results for FY2018 – 1H

July, 2018

OSG Corporation



OSG at a glance

1. Products

- Consumable cutting tools used in machine tools
- Taps account for a 30% market share (world leader)

2. Strengths

- High-value cutting tools
- Excellent after-sales service
- A global sales & service network across 33 countries

3. Dividend policy

- Maintain over 30% payout ratio (consolidated)

4. Growth strategies

- Major end-users
- Catalogue item sales
- M&A



Note regarding forecast

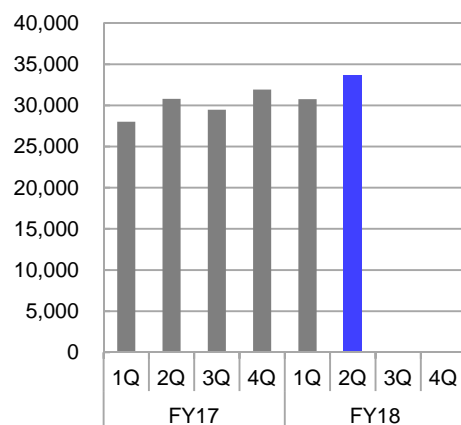
This material includes forward-looking statements based on information available at the time of release. The forecasts and other forward-looking statements are not guarantees of future performance. Actual financial results may differ from the above forecasts due to known and unknown risks, uncertainties,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

Financial summary

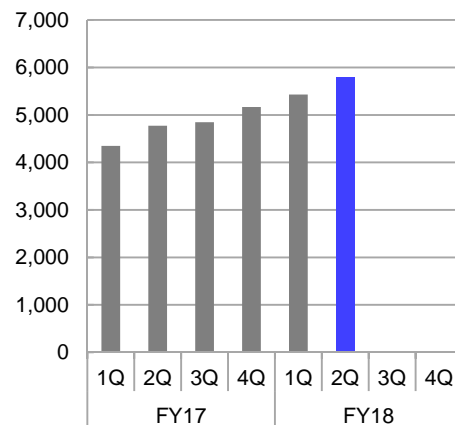
(Millions of yen)

	FY17-1H	FY18-1H	Change	FY18 fcst. Annual	Progress rate
Net Sales	58,813	64,424	+9.5%	130,000	50%
Operating Profit	9,121	11,221	+23.0%	22,000	51%
OPM	15.5%	17.4%	-	16.9%	-
Ordinary Profit	9,187	11,078	+20.6%	22,000	50%
Net Profit Attributable to OSG	6,229	6,985	+12.1%	13,500	52%
EPS(yen)	69.19	71.55	+3.4%	138.26	52%

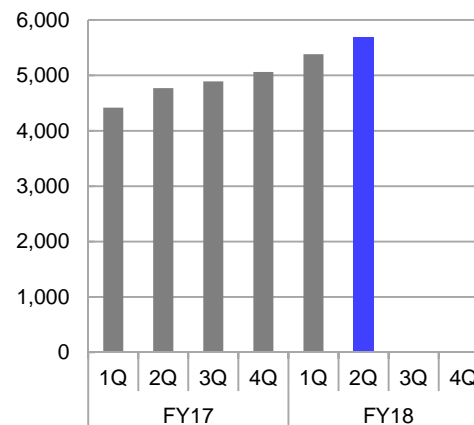
Net sales



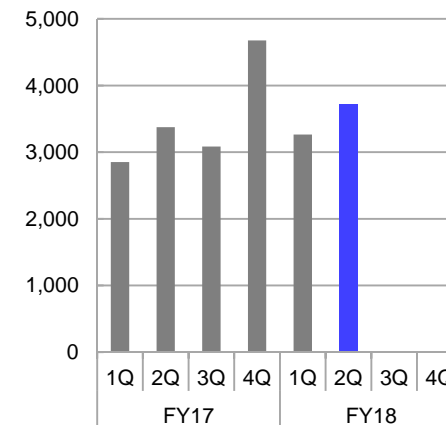
Operating profit



Ordinary profit



Net profit



Review

Net sales, net profits, ordinary profits and operating profits reached record high for the first half of the year.

- Sales have increased against a background of orders received.

Net sales, net profits, ordinary profits and operating profits have reached the highest-ever level exceeding our expectation.

We are expanding our production capacity with a view to the second half.

Review by region

- Japan

Both domestic and overseas sales are looking good.

Our factories are in full operation by increase in orders.

- The Americas

The US aerospace and general engineering industry have played a major role in increasing demand.

Mexico has performed well continuously.

Our performance in Canada has improved for the better since March .

- Europe/Africa

Europe and Africa are showing great performance uninterruptedly; We focus on PMI with companies that we merged .

- Asia

There is a great demand in China and Taiwan especially; Sales in South Asia have increased rapidly.

Index

- EBITDA(FY18-1H) 15.6 billion yen (increased by 17.8% over the same period of the previous year)
- Equity ratio 70.4% (0.9 point increase from the end of FY2017)

Capital Investment Results

- CAPEX 4.5 billion yen (annual forecast of 11.0 billion yen)
- Depreciation 4.3 billion yen (annual forecast of 9.5 billion yen)

Sales to Customer

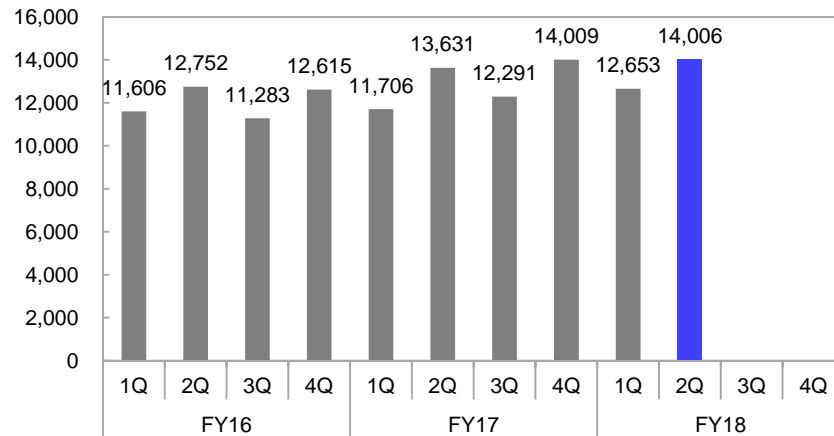
(Millions of yen)

	FY17-1H	FY18-1H	Change		Change in local currency
Japan	25,338	26,660	1,321	+5.2%	–
The Americas	10,433	10,948	514	+4.9%	+9.2%
Europe/Africa	8,753	11,050	2,296	+26.2%	+18.2%
Asia	14,288	15,765	1,477	+10.3%	+7.7%
Consolidated	58,813	64,424	5,610	+9.5%	+8.5%

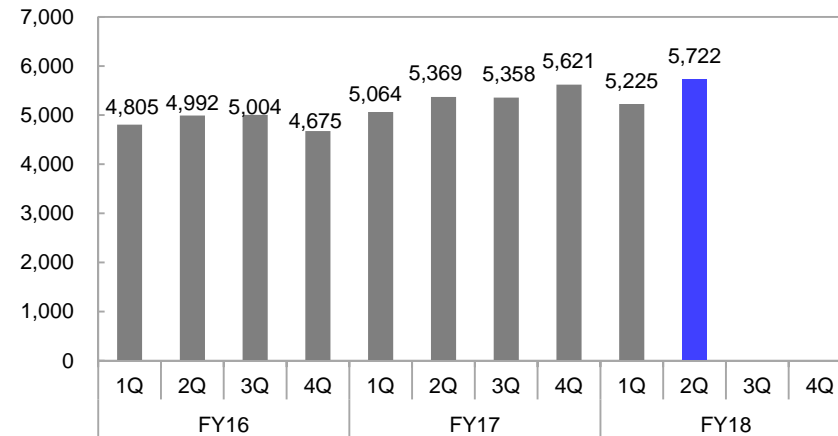
Sales to Customer

(Millions of yen)

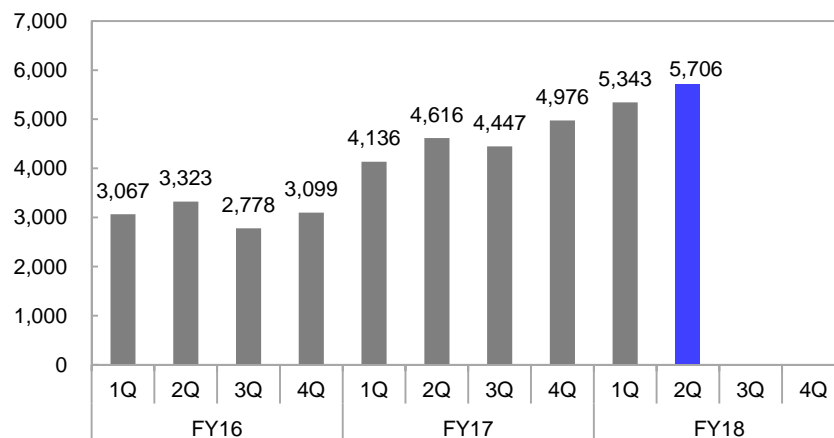
Japan



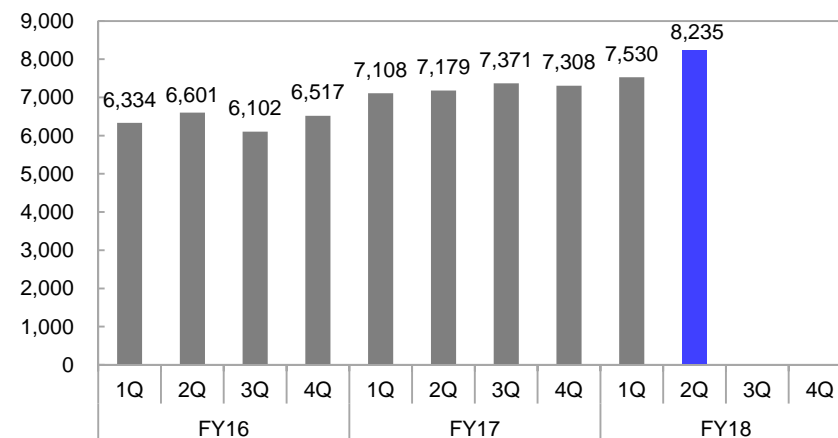
The Americas



Europe/Africa



Asia



Operating Income

(Millions of yen)

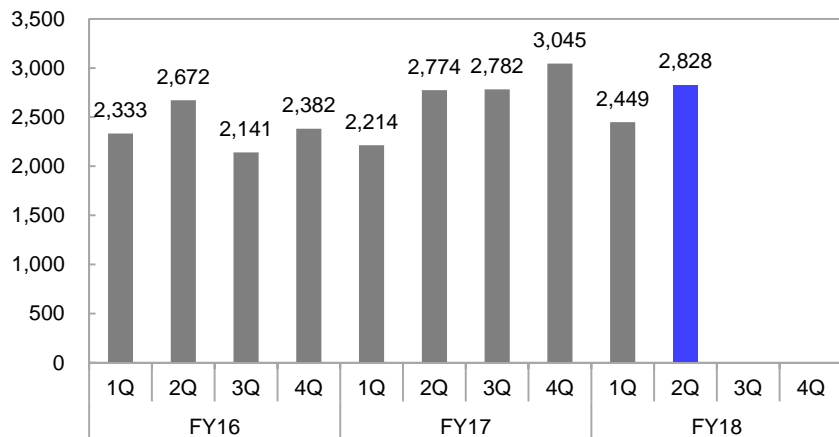
	FY17-1H	Area percentage	FY18-1H	Area percentage	Change		OPM*
Japan	4,989	54.1%	5,278	47.3%	288	+5.8%	14.4%
The Americas	1,473	16.0%	1,691	15.2%	218	+14.8%	15.2%
Europe/Africa	665	7.2%	945	8.5%	280	+42.1%	8.5%
Asia	2,090	22.7%	3,237	29.0%	1,147	+54.9%	18.9%
Total	9,218	–	11,153	–	1,934	+21.0%	14.7%
Eliminations	-96	–	68	–	164	–	–
Consolidated	9,121	–	11,221	–	2,099	+23.0%	17.4%

* Operating profits margin
as % of sales (external sales + interarea transfers)

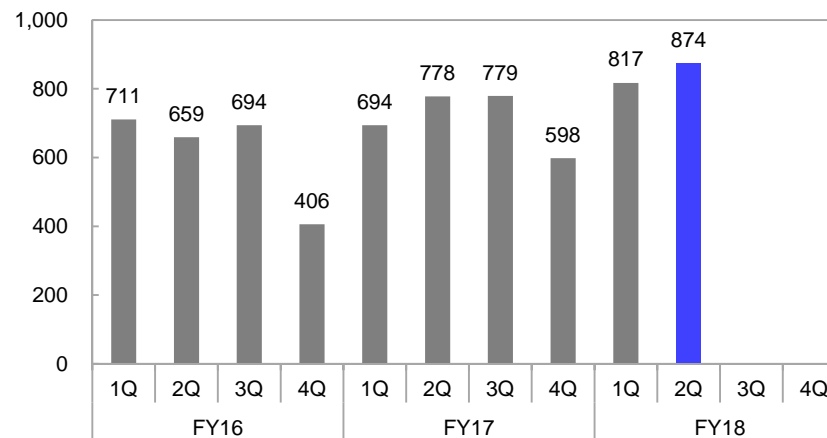
Operating Income

(Millions of yen)

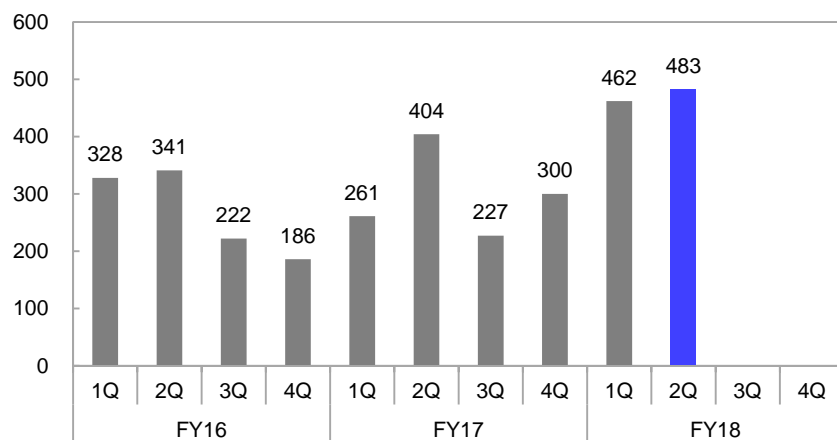
Japan



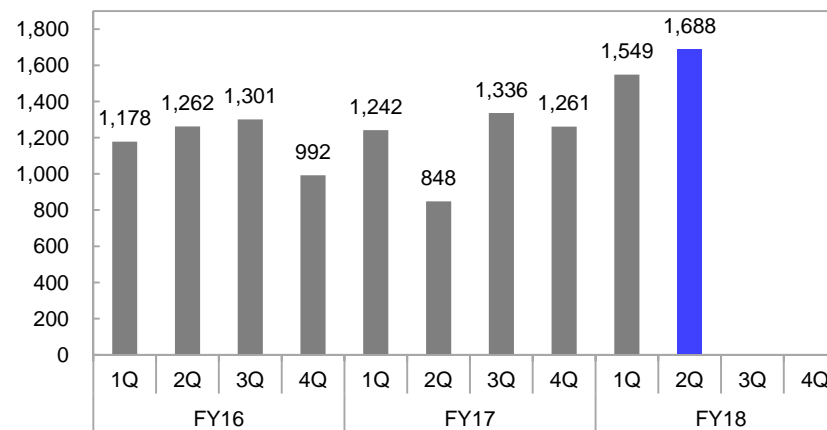
The Americas



Europe/Africa



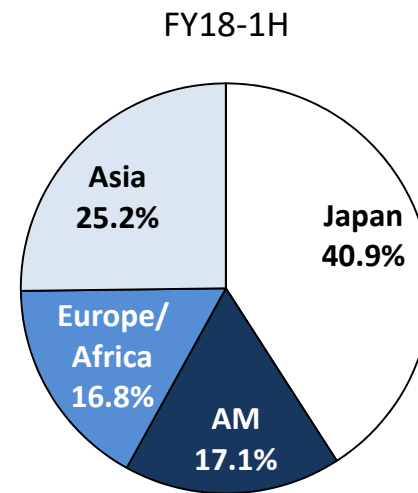
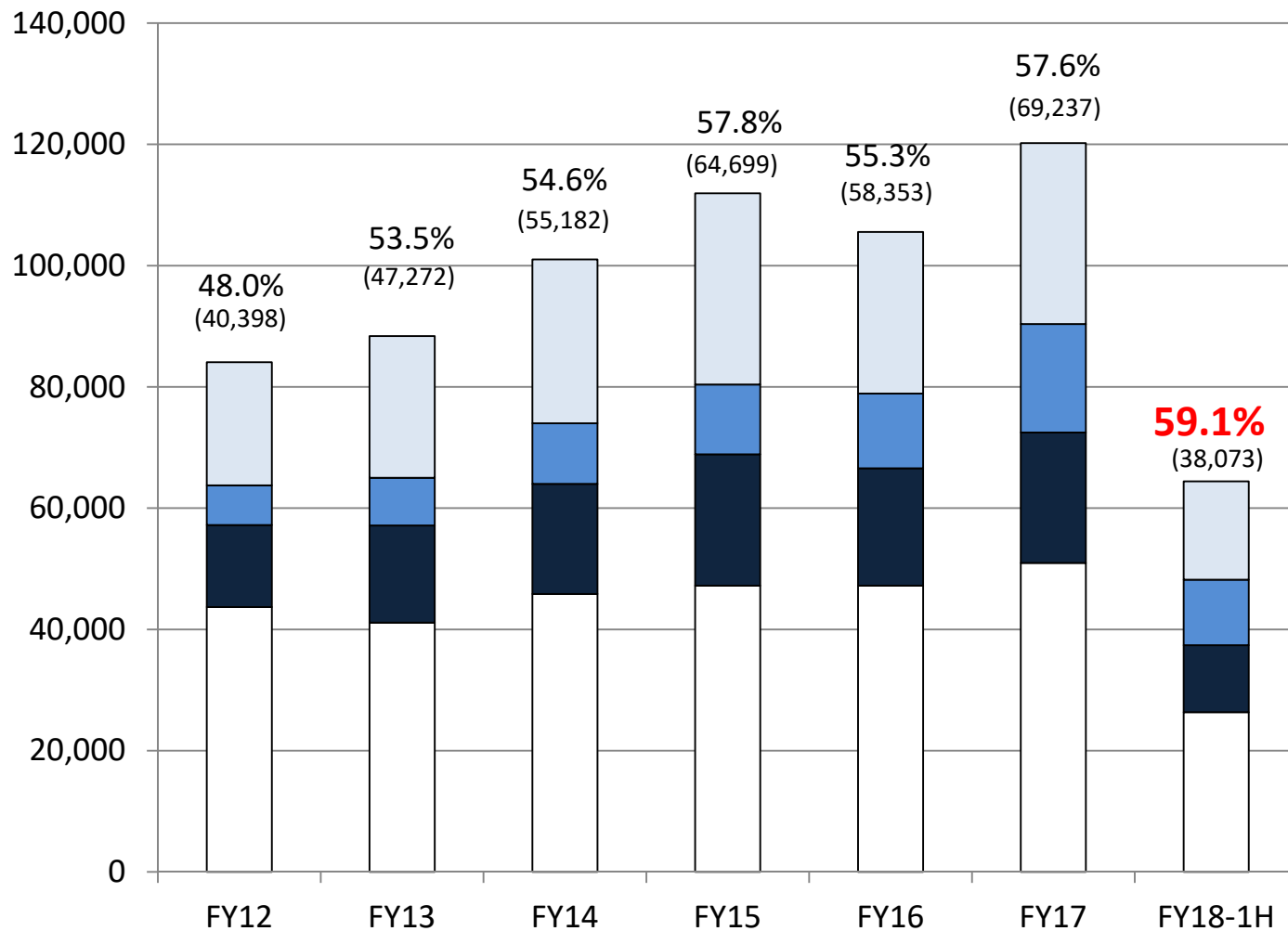
Asia



Overseas sales ratio

Millions of yen

* % represents overseas sales ratio
() represents overseas sales amount



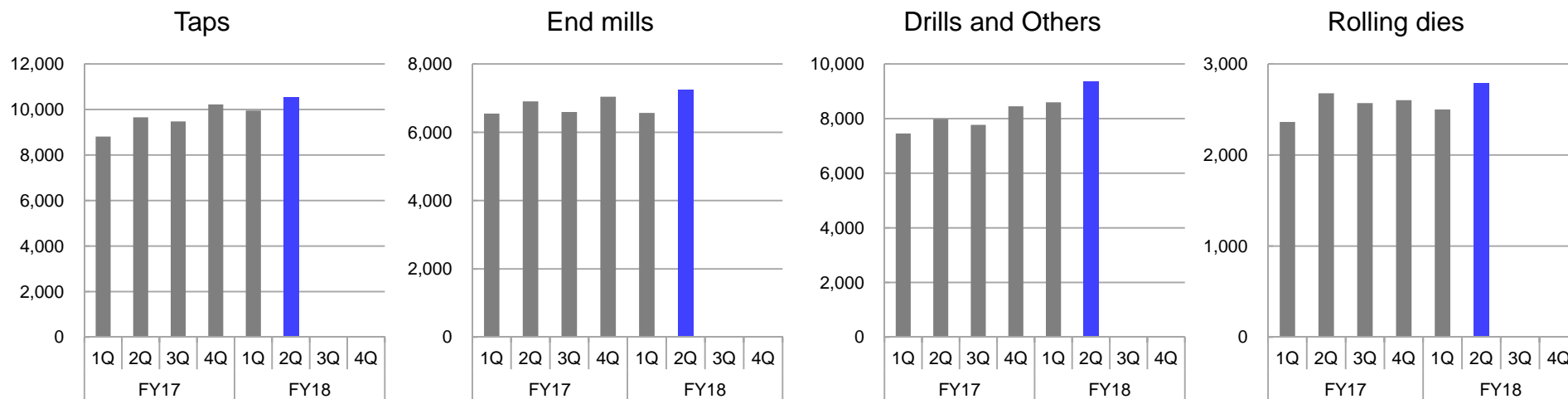
- Asia
- Europe/Africa
- The Americas
- Japan



Net sales by product segment

(Millions of yen)

		FY17					FY18					Change	
		Q1	Q2	Q3	Q4	1H	Q1	Q2	1H				
Precision Tools	Taps	8,815	9,656	9,476	10,226	18,472	31%	9,957	10,563	20,520	32%	2,048	11%
	End mills	6,546	6,907	6,596	7,040	13,453	23%	6,567	7,254	13,822	22%	368	3%
	Drills and Others	7,457	7,983	7,771	8,450	15,441	26%	8,599	9,359	17,959	28%	2,517	16%
	Rolling dies	2,363	2,679	2,571	2,603	5,043	9%	2,501	2,787	5,288	8%	244	5%
	Gauges	363	403	423	435	767	1%	407	431	839	1%	72	9%
		25,547	27,630	26,838	28,756	53,178	90%	28,033	30,396	58,430	91%	5,251	10%
Other	Machine	556	1,489	685	1,260	2,045	4%	706	935	1,641	2%	-403	-20%
	Other	1,912	1,676	1,944	1,899	3,588	6%	2,014	2,337	4,352	7%	763	21%
		2,468	3,165	2,630	3,159	5,634	10%	2,720	3,273	5,994	9%	359	6%
Total		28,016	30,796	29,468	31,916	58,813	100%	30,754	33,670	64,424	100%	5,610	10%



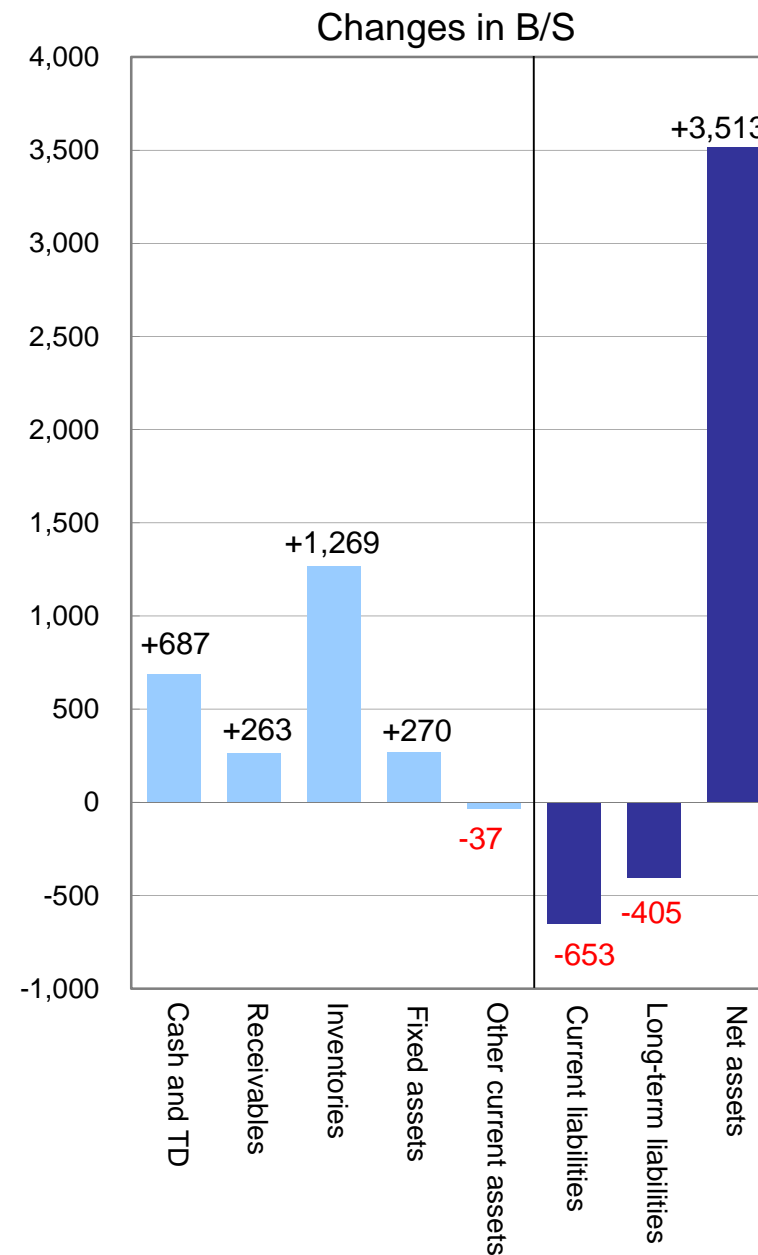
(Millions of yen)

B/S overview

	17/11E	18/05E	Change
Cash and time deposits	21,204	21,892	687
Receivables	23,961	24,225	263
Inventories	34,850	36,120	1,269
Other current assets	4,051	4,013	-37
Fixed assets	82,642	82,913	270
Total assets	166,712	169,166	2,453
Total current liabilities	21,826	21,172	-653
Total long-term liabilities	16,491	16,086	-405
Total net assets	128,394	131,907	3,513
Total liabilities and net assets	166,712	169,166	2,453

Equity ratio	69.5%	70.4%	
Receivable turnover period	73	68	days
Inventory turnover period	3.5	3.4	months

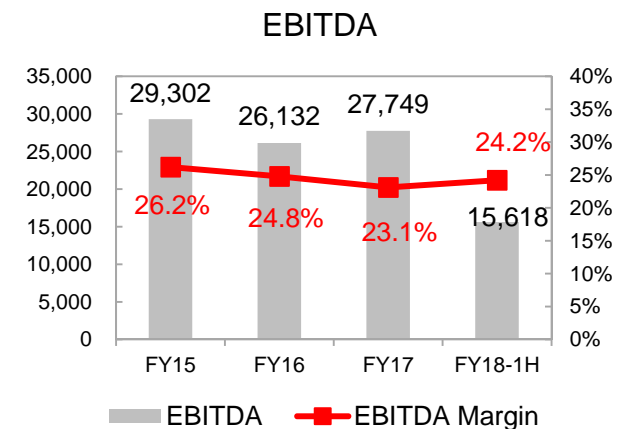
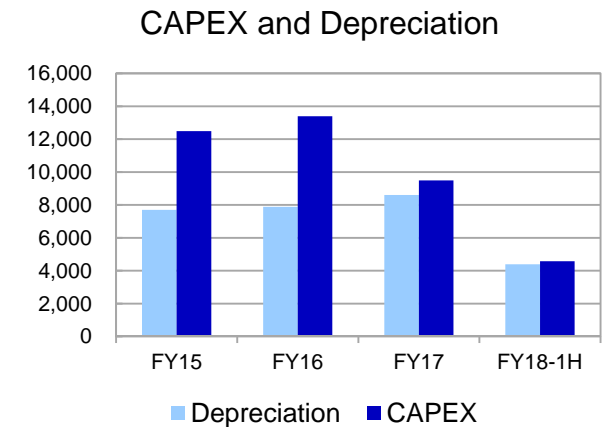
Cash and time deposits	21,204	21,892	687
Debt	16,325	14,944	-1,380
Net Cash	4,879	6,947	2,067



Cash Flow Overview

(Millions of yen)

	FY16	FY17	17/1H	18/1H	Change
Income before taxes	16,769	21,086	9,502	11,078	1,575
Depreciation	7,885	8,612	4,137	4,397	259
Change in A/R	-550	-1,690	-1,242	-634	607
Change in inventories	-2,471	-1,147	-131	-1,627	-1,496
Change in A/P	321	-253	-593	758	1,351
Change in accrued expenses	-229	584	-10	16	27
Other-net	1,732	-1,846	-716	-447	268
Income taxes paid	-7,123	-4,525	-1,739	-4,044	-2,304
Operating cash flow	16,333	20,820	9,207	9,495	288
Capital expenditures	-13,394	-9,494	-5,581	-4,580	1,000
Purchase of subsidiaries' stock	-3,330	-1,728	-880	-532	347
Payment of time deposits	668	-86	1	-525	-526
Other-net	-786	3,742	1,430	-287	-1,718
Investing cash flow	-16,843	-7,566	-5,030	-5,927	-896
Free cash flow	-509	13,254	4,177	3,568	-608
Change in interest-bearing debt	13,344	-6,132	-1,542	-514	1,027
Purchase of treasury stock	-9,834	-5	-2	-1	0
Cash dividends paid	-3,884	-4,411	-2,492	-2,427	65
Dividends paid to minority shareholders	-417	-367	-194	-220	-26
Other-net	13	-219	-151	-26	125
Financing cash flow	-778	-11,137	-4,383	-3,190	1,192
Foreign currency translation adjustments	-1,917	540	77	-391	-469
Net increase(decrease) in cash	-3,204	2,658	-128	-13	114
Cash of newly consolidated subsidiaries, beginning of year	357	300	300	229	-71
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	-	84	84	-	-84
Cash, end of year	16,555	19,598	16,812	19,814	3,002



Forecast for FY2018

Financial forecast

	Consolidated		Parent company	
	Amount	Growth	Amount	Growth
Net Sales	130,000	+8.2%	56,700	+4.2%
Operating profit as % of sales	22,000 16.9%	+15.0%	7,300 12.9%	+3.4%
Ordinary profit as % of sales	22,000 16.9%	+14.9%	9,500 16.8%	+8.6%
Net profit attributable to OSG as % of sales	13,500 10.4%	-3.5%	7,200 12.7%	-10.6%
EPS(yen)	138.26		73.72	
CAPEX	11,000			
Depreciation	9,500			

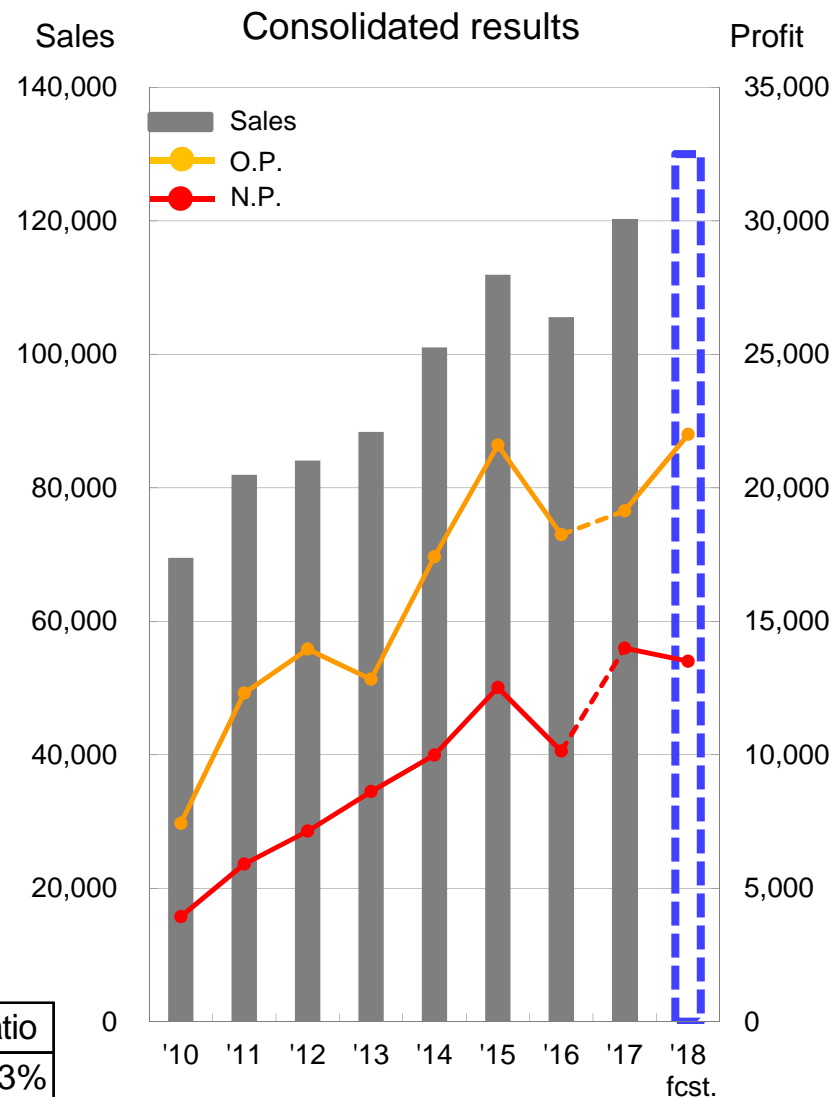
Exchange rate

FY17-1H result : 1US\$=112.88yen 1Euro=121.34yen
 FY18-1H result : 1US\$=108.91yen 1Euro=131.82yen
 FY18 forecast : 1US\$=110.00yen 1Euro=130.00yen

Dividend forecast

Dividend per share (yen)	Interim	Year-end	Annual	Payout ratio
FY2018	22.00	24.00	46.00	33.3%

(Millions of yen)



Expansion of overseas business



- Sales & Manufacturing Locations
 - Sales Locations 33 countries
 - Manufacturing Locations 17 countries
- Technical Center 6 countries

Appx.1 Selected financial data (consolidated)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-1H
Net sales	(mil.yen)	97,024	53,325	69,513	80,959	84,083	88,378	101,031	111,917	105,561	120,198	64,424
Sales growth	(%)	3%	-45%	30%	16%	4%	5%	14%	11%	-6%	14%	10%
Cost of sales	(mil.yen)	60,449	39,203	44,605	48,439	49,381	52,777	58,061	61,865	59,179	69,711	36,495
Gross profit	(mil.yen)	36,574	14,122	24,907	32,519	34,702	35,601	42,970	50,051	46,382	50,486	27,928
SG&A expenses	(mil.yen)	22,158	16,857	17,383	20,214	20,747	22,774	25,554	28,454	28,135	31,349	16,706
Operating income	(mil.yen)	14,416	-2,735	7,524	12,305	13,954	12,827	17,415	21,597	18,246	19,137	11,221
Ordinary income	(mil.yen)	13,505	-2,703	6,699	11,374	13,695	13,910	17,568	21,510	17,813	19,144	11,078
Net income	(mil.yen)	7,376	-3,769	3,772	5,904	7,138	8,619	9,989	12,518	10,134	13,993	6,985
Margins:												
Gross profit margin	(%)	37.7%	26.5%	35.8%	40.2%	41.3%	40.3%	42.5%	44.7%	43.9%	42.0%	43.4%
SG&A as % of sales	(%)	22.8%	31.6%	25.0%	25.0%	24.7%	25.8%	25.3%	25.4%	26.7%	26.1%	25.9%
Operating income	(%)	14.9%	-5.1%	10.8%	15.2%	16.6%	14.5%	17.2%	19.3%	17.3%	15.9%	17.4%
Ordinary income	(%)	13.9%	-5.1%	9.6%	14.0%	16.3%	15.7%	17.4%	19.2%	16.9%	15.9%	17.2%
Net income	(%)	7.6%	-7.1%	5.4%	7.3%	8.5%	9.8%	9.9%	11.2%	9.6%	11.6%	10.8%
Average FX rate: 1USD	(yen)	107.32	94.94	89.29	80.71	78.89	93.16	102.98	121.03	109.78	112.33	108.91
Average FX rate: 1Euro	(yen)	161.90	128.83	120.65	112.80	102.63	122.62	139.37	134.92	121.39	126.20	131.82
Total assets	(mil.yen)	122,383	113,382	105,635	104,373	121,689	134,503	142,302	155,129	156,081	166,712	169,166
Total shareholders' equity	(mil.yen)	64,251	55,931	57,117	59,367	64,482	80,024	91,458	102,566	92,216	115,810	119,156
Per share:												
Net income	(yen)	76.53	-39.22	39.34	62.18	75.16	90.76	105.20	131.78	110.59	153.70	71.55
Cash dividends (interim)	(yen)	12.00	0.00	4.00	6.00	10.00	10.00	14.00	26.00	22.00	21.00	22.00(fcst)
(year end)	(yen)	12.00	3.00	8.00	12.00	13.00	20.00	20.00	20.00	28.00	25.00	24.00(fcst)
Total shareholders' equity	(yen)	666.71	582.19	601.44	625.14	679.01	842.71	963.15	1,079.12	1,024.34	1,191.65	1,217.45
Average number of shares	(ths)	96,371	96,071	94,969	94,967	94,966	94,963	94,959	94,991	91,640	91,044	97,639
Key financial ratios:												
ROE	(%)	11.5%	-6.3%	6.7%	10.1%	11.5%	11.9%	11.7%	12.9%	10.4%	13.5%	-
Equity ratio	(%)	52.5%	49.3%	54.1%	56.9%	53.0%	59.5%	64.3%	66.1%	59.1%	69.5%	70.4%
Cash flow:												
Operating CF	(mil.yen)	10,653	6,049	14,095	11,344	12,286	16,171	19,688	19,588	16,333	20,820	9,495
Investing CF	(mil.yen)	1,678	-4,633	-5,522	-8,195	-19,746	-2,972	-3,119	-16,976	-16,843	-7,566	-5,927
Financing CF	(mil.yen)	-4,500	5,470	-15,562	-5,855	8,643	-9,423	-12,813	-6,216	-778	-11,137	-3,190
Cash flow margin	(%)	11.0%	11.3%	20.3%	14.0%	14.6%	18.3%	19.5%	17.5%	15.5%	17.3%	14.7%

