



shaping your dreams

OSG REPORT 2018

Fiscal year ended November 2018



OSG Corporation

Always Moving Forward

**We achieved record financial results in fiscal 2018,
and in fiscal 2019, we will amplify our efforts to achieve
the targets for our medium-term management plan.
By improving our technology and productivity,
and responding to the needs of our customers,
we will be able to embrace future opportunities.**

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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 2018.

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 of 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.

OSG STORY

Our Style

Tool Communication

OSG's products are created through communication with our customers. Communication is vital to our ability to supply products and services that truly meet customers' needs, and to our continuing efforts to develop better products.



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.

A Continually Challenging DNA

Since its establishment in Tokyo in 1938, OSG has grown in the global cutting tool market by developing a variety of original technologies, including technology for tap grinding with grindstones, and by building overseas sales channels. Our achievements, including the development of advanced technology and the creation of a global network spanning 33 countries, would not have been possible without the effort of employees who share the OSG DNA—our continually challenging spirit. The history of OSG's growth is proof that this DNA is still being handed down today as the core driver for future growth.

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.



1968



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



1970



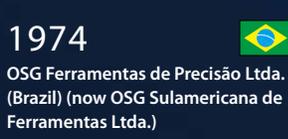
The company began to manufacture HSS end mills.



1970



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



1974



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



1981



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



1984



OSG began to manufacture drills.

1985



OSG Korea Corporation

1992



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

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)



2000



Nine business sites in Japan were certified under ISO 14001.

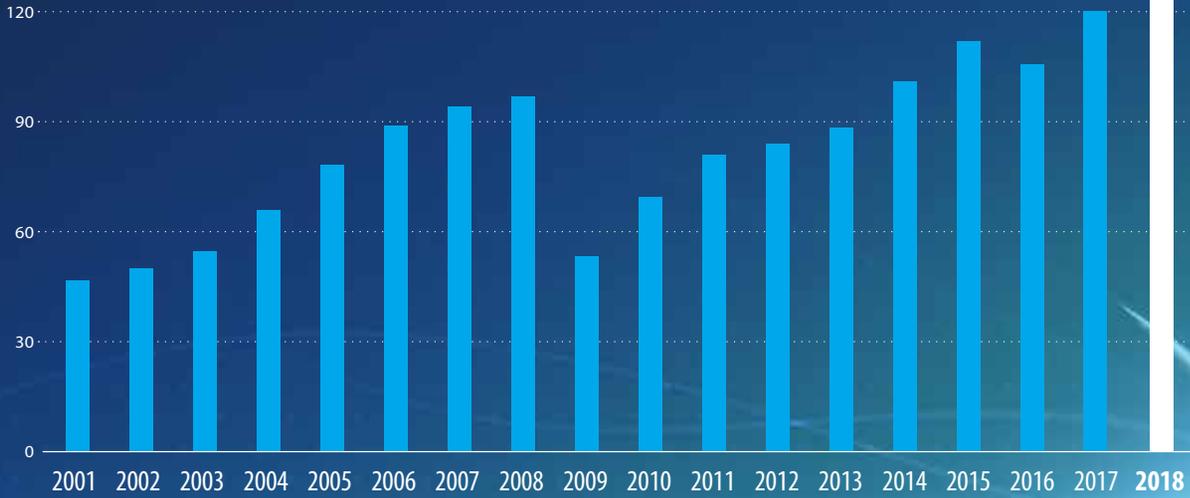
2001



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



(Billions of yen)
150



Net sales
¥131.3
billion

2003



OSG GmbH (Germany)



2003



OSG Italia S.R.L.

2004



The Design Center was established.



2005



OSG (India) Pvt, Ltd.

2006



The Global Technology Center was established.



2007



All OSG products were certified under ISO 9001.

2007



PT. OSG Indonesia

2008



OSG Vietnam Co., Ltd.

2008



OSG Philippines Corporation

2010



OSG Phoenix indexable tools went on sale.



2012



OSG Turkey Kesici Takımlar Sanayi ve Ticaret A.Ş.



2015



Desgranges Outils Coupants S.A. (France)



2016



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



2017



The D-Lab was established.





DRILLS

Drills are hole-cutting tools used in the production of automotive parts and other products that require advanced processing techniques. OSG is focusing on the expansion of sales of carbide drills for high efficiency processing and the drilling of difficult-to-cut materials.

Continuous QUALITY Improvement

OSG is a comprehensive tool maker. In addition to having the top global market share in taps, we manufacture and sell drills, end mills, rolling dies, and various other products. Tools manufactured by OSG offer both precision and efficiency and play a vital role in global manufacturing industries, including the automotive, aerospace, and mold and die industries. The continual improvement of quality, precision, and processing efficiency is a constant priority in manufacturing industries. OSG is expanding its presence on the global market by using advanced technology that has been accumulated over many years to develop and supply high value-added products that satisfy the needs of its customers.

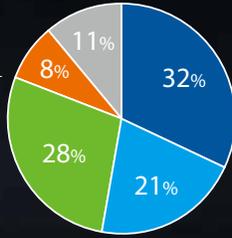


TAPS

Taps are used to cut "female" screw threads on the inside surfaces of holes. They are vital for the processing of precision screws, such as those used in automobile engines, and have been flagship products for OSG ever since its establishment.

Net sales by Product Category

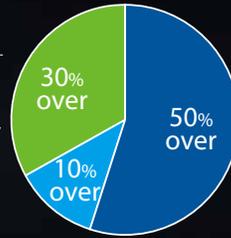
- Taps
- End mills
- Drills
- Rolling dies
- Other



[Fiscal year ended November 2018]

Net sales by Industry

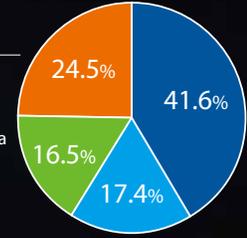
- Automotive industry
- Aerospace industry
- General industry (Precision parts, Mold, etc.)



[Fiscal year ended November 2018]
*Estimate

Net sales by Region

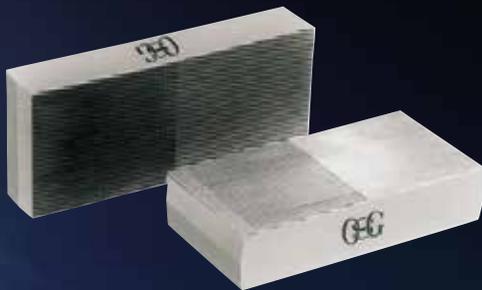
- Japan
- The Americas
- Europe and Africa
- Asia



[Fiscal year ended November 2018]

END MILLS

End mills are used to create shapes by cutting away metal. They are able to cut and contour molds for plastic parts, primarily for home appliances, die-casting dies for automotive parts, stamping molds, and the processing of aircraft parts.



ROLLING DIES

Rolling dies are used to form threads on round bars and are also applied to the production of automotive parts. OSG is working to expand its sales of counter-flow rolling dies.

INDEXABLE TOOLS

Indexable tools, which are cutting tools with exchangeable blades, are used to cut metal to produce dies and mechanical parts. While end mills are used for finishing, indexable tools are intended for roughing.



GAUGES

Gauges are used to measure the accuracy of threads, holes, and other parts. Accuracy inspection has become an extremely important process because of the trend toward increasing product precision and compliance with international standards.



Continuous Value Creation

OSG creates unique value by combining its innovation, services, total solutions, and out-of-the-box thinking to provide solutions for its customers' problems. In order to supply products and services that earn the trust of customers worldwide and provide real satisfaction, we will continue to develop high value-added products, commit to valuable communication with our customers, and strive to contribute to the development of manufacturing industries and the creation of a prosperous future.

Our Business Model

The power of OSG lies in our assured innovative technological know-how for producing high-quality and high-performance products; our exceptional services to respond to situations diligently; and our out-of-the-box thinking to provide total solutions that anticipate our customers' needs. We are committed to contribute to the advancement of the manufacturing industries by shaping our customers' dreams into reality.

Customer communication



shaping your dreams

Competitive Advantage Supporting Long-term Value Creation

Integrated production structures

Creating high added-value products with high productivity

The OSG Group procures carbide materials used to create our high added-value products in-house, and we also develop our own coatings to enhance the durability of our tools. By fabricating our own equipment, we have been able to create flexible production structures and achieve high productivity.



Platform sharing

Sharing knowledge worldwide to provide optimal solutions

OSG has tangible and intangible assets that can be used throughout the entire Group. OSG Group companies around the world can share our unique platforms, including our coating technologies, our test cutting experience, and our accumulated know-how for improving our customers' productivity.



Excellent corporate culture

The insights of management and the keys to successful M&A

Management insights have enabled OSG to cultivate an excellent corporate culture. By maintaining and improving this corporate culture, we can facilitate post-merger integration (PMI) and create a lot of synergy with new Group companies.



Global network

Monitoring customer needs through sales channels spanning five continents

Since establishing its first overseas subsidiary in the United States in 1968, OSG has built a network of sales offices in 33 countries. This network allows us to identify trends in the global cutting tool market while also monitoring customer needs through our local marketing activities.

33
countries

Our Goals

Creating economic value

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

Creating social value

We will continue to expand our business globally and contribute to the world's manufacturing industries.

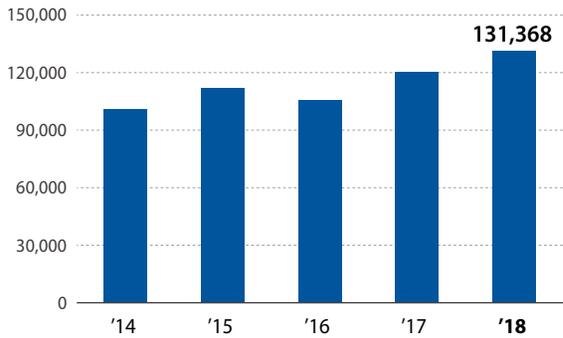
The Sustainable Development Goals (SDGs) were adopted by the United Nations in 2015 with the aim of achieving global sustainability by 2030. The OSG Group is determined to contribute to sustainable social development by incorporating the SDGs into its business activities.



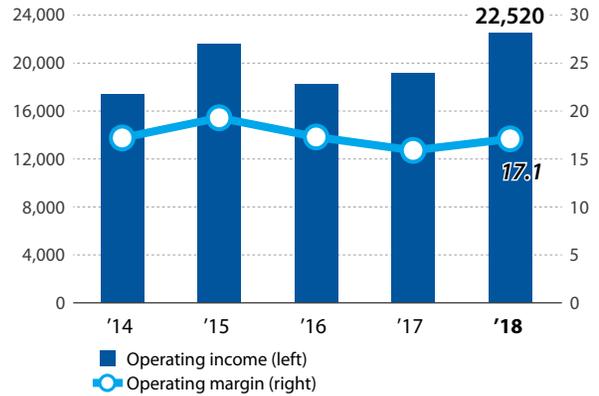
FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

Financial Highlights

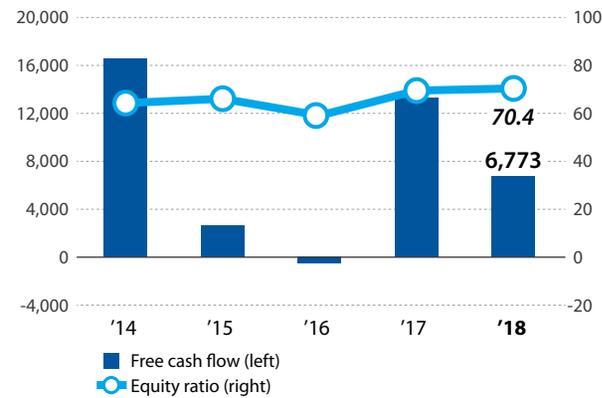
Net sales (millions of yen)



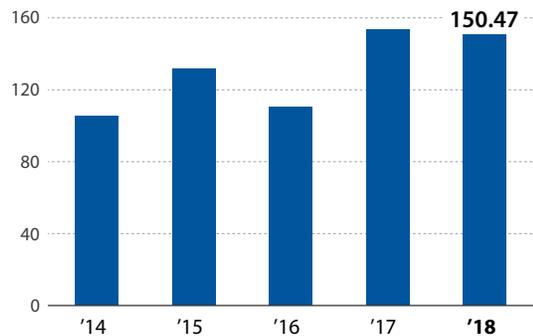
Operating income (millions of yen)
Operating income margin (%)



Free cash flow (millions of yen)
Equity ratio (%)

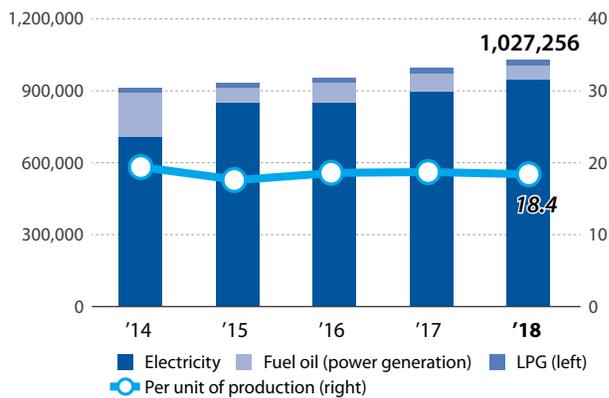


Earnings per share (EPS) (yen)

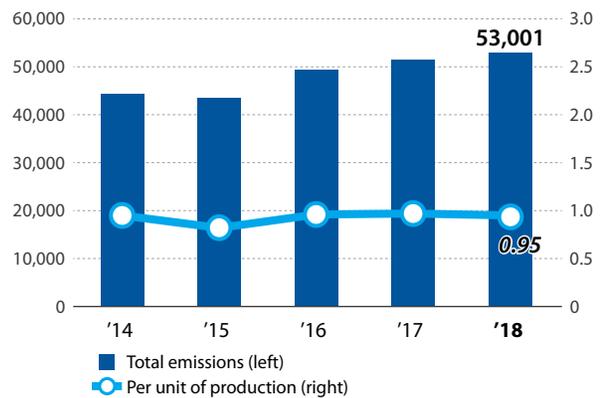


Non-Financial Highlights

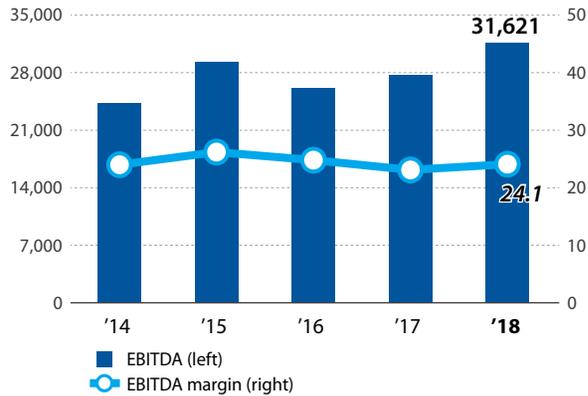
Energy consumption (GJ)
Energy consumption per unit of production (GJ/million yen)



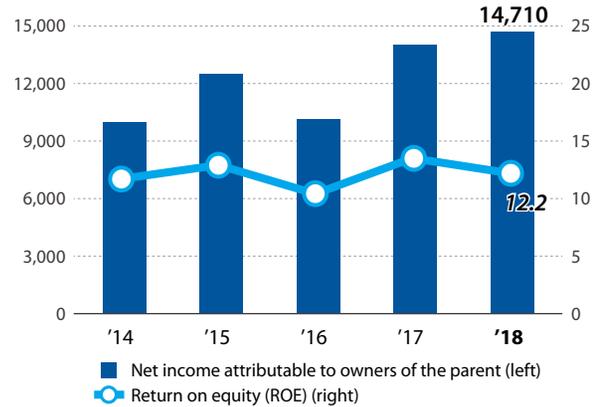
CO₂ emissions (t)
CO₂ emissions per unit of production (t/million yen)



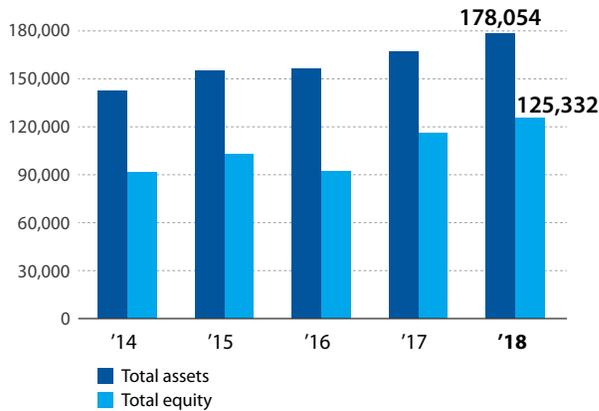
EBITDA (millions of yen)
EBITDA margin (%)



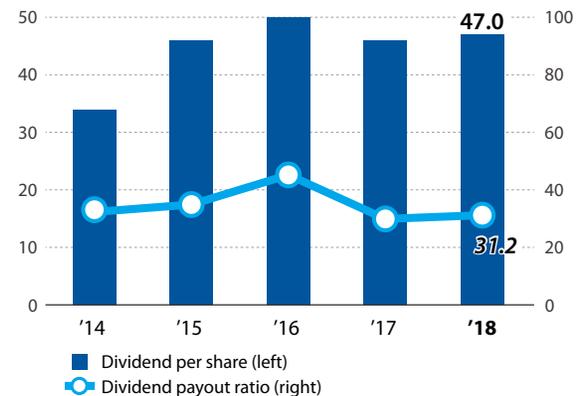
Net income attributable to owners of the parent (millions of yen)
Return on equity (ROE) (%)



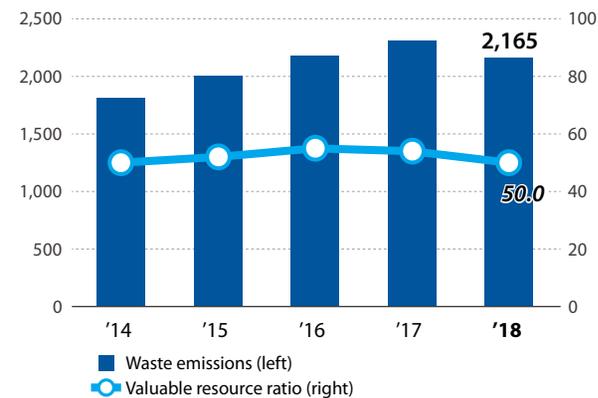
Total assets (millions of yen)
Total equity (millions of yen)



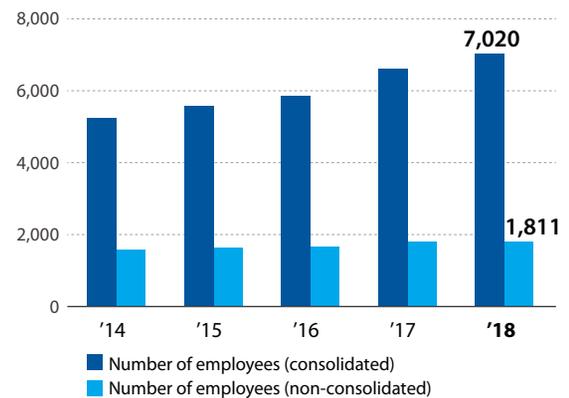
Dividend per share (yen)
Dividend payout ratio (%)



Waste produced (t)
Valuable resource ratio (%)



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



Starting from a Global Presence Mindset

OSG will create further value under a unique management strategy that incorporates the OSG DNA of continual challenge with creativity. We are determined to move forward as a company capable of giving shape to the dreams of customers throughout the world.



OSG Corpor

A handwritten signature in black ink, reading "Norio Ishikawa".

Norio Ishikawa
President and CEO

“ Our corporate culture is our most important driving force for sustainable growth. ”

Steps Toward Our 100th Anniversary

Global focus and differentiation



OSG marked its 80th anniversary on March 26, 2018. We could not have reached this milestone without the support of our stakeholders and we are extremely grateful.

Driven by our challenging spirit, the fiscal year ended November 2018, which was a meaningful year for us, also was the first step in a new phase of growth and progress leading up to OSG's 100th anniversary.

Under the corporate philosophy of Global Presence, which emphasizes differentiation and global value, OSG aims to contribute to the world's manufacturing industries. We pursue value by approaching every process differently from other companies, and by combining flexible thinking with global perspectives. In a rapidly changing business environment, we will continue to move forward with a sense of urgency while identifying both the things that need to be changed, and the things that need to remain the same.

We will focus all of our energy toward the challenges defined in our medium- and long-term visions as we take steps toward OSG's 100th anniversary in 2038.

Our corporate foundation—the OSG culture



Corporate culture is the most important and powerful management asset. While every company highly values this, OSG's corporate culture has been assimilated down to the smallest organizational units and even to individual employees. In general, the distance between those in upper management positions and those in lower job positions in the organization can be vast and the sense of a corporate culture will often shift, relying more and more on the actions and abilities of the individual employees. OSG's corporate culture reflects our awareness of the importance of open communication among all employees and across all organizational units, regardless of their size.

OSG has evolved along with its Global Presence mindset, as defined in its corporate philosophy. Many other companies are often described as “world-class companies” or “international corporations,” but OSG uses these words differently. Because of our commitment to building a Global Presence through our corporate culture, we have been able to maintain a more natural and modest approach that has allowed us to freely and flexibly achieve growth.



**“The Next Stage 17”
medium-term management plan
Achieving tangible results
through two core strategies**

Under our current medium-term management plan “The Next Stage 17,” ending fiscal 2020, we are striving to achieve our long-term vision of becoming the leading global manufacturer of hole-making cutting tools. In the fiscal year ended November 2018, which was the second year of the plan, we moved toward our medium-term targets of net sales of ¥150 billion and operating income of ¥30 billion in the fiscal year ending November 2020. We plan to achieve these through intensive efforts under our two core strategies—the major end-users strategy and the catalogue item sales strategy.

Our aim under the major end-users strategy is to offer tools and processing methods that match user needs by always working closely with customers. This strategy has resulted in strong growth in orders for drills, especially for use in the automotive industry. We have also maintained



steady growth in sales in the aerospace industry, which is our second-largest business area after the automotive industry.

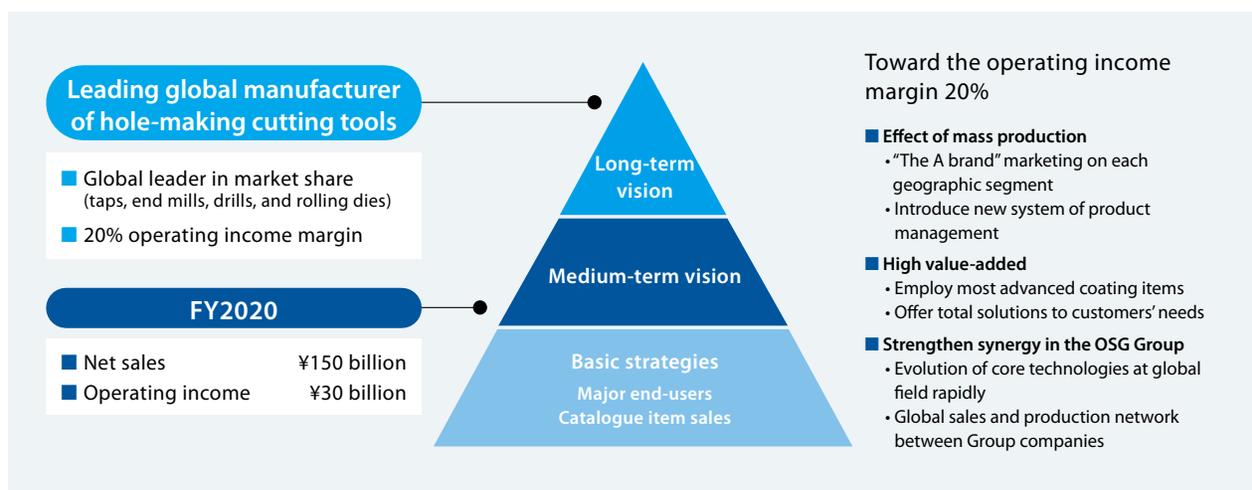
We continued contributing to the improvement of our customers’ productivity by offering an extensive line-up of products under our catalogue item sales strategy. There was also a dramatic increase in sales of the A Brand series of high-performance tools, which we launched in 2014. In addition, we expanded our “A-Club” distribution organization worldwide and built distribution networks,

particularly in the United States, Europe, and China, by globally integrating our brand image.

In the fiscal year ending November 2019, which will be the third year of our medium-term management plan, we anticipate continuing growth in the demand for cutting tools, but we will need to be aware of global economic trends, such as trade friction between the U.S. and China, and slower economic growth in some emerging countries.

Japan’s manufacturing industries have experienced serious labor

The Next Stage 17



shortages in recent years and many companies, including OSG, faced recruitment problems in fiscal 2018. This situation resulted in a surge of capital expenditure, including the installation of machine tools, semiconductor fabrication equipment, and robots. We expect this trend toward automation in the manufacturing sector to drive growth and a demand for mass-produced parts from general machinery manufacturers. OSG will step up its efforts to develop the general machinery industries as a new core user segment alongside the automotive, aerospace, and mold and die industries.

Management Priorities
Our immediate priority—
revamping our production
structure



Order levels were extremely high in the fiscal year ended November 2018, resulting in shortages in some product categories. We have made the solution of this issue an urgent priority. In particular, we are taking immediate action to increase our supply capacity

“ We will improve productivity by installing more “smart line” systems. ”

for our flagship taps range through the development of a highly efficient and optimized production structure.

One of our key priorities for taps production is to expand the capacity of our grinding and coating systems. We have been progressively investing in grinding systems since fiscal 2018, and our capacity is now increasing. We are currently updating our production structure, including the construction of a new building with increased production capacity at our Shinshiro Factory. We will focus on the manufacturing of carbide drills and carbide taps at this new facility, which will become operational in 2020. Additionally, we will install new equipment to expand coating capacity, which has also become a priority, and at our various plants, we will continue to establish “smart line” systems, which are highly efficient production lines connected to the Internet of Things (IoT) and were first introduced at the Oike Factory. Another priority going

forward will be the visualization of our worldwide production structures so that we can spread loads across our entire manufacturing organization, including Group companies.

The Path to
Future Business Growth
We will continue to create
value for our stakeholders



The automotive industry is a major user of OSG products. While remaining aware of the shift to electric vehicles (EV) and the long-term effects on the demand for cutting tools, we will work to expand our market share for parts categories in which there will be continuing or growing demand. We also aim to expand OSG’s share of overseas markets by focusing on the development and expansion of new customer relationships. In addition, we will continue to strengthen our marketing efforts in a wide range of

Basic Strategies

Major end-users

- Focus on the automotive industry
- Position the aircraft as a key industry as the automotive
- Develop new end-users in future fields

How? Face more customers, and suggest total solutions to meet their demands

- “Best delivery time” and “Cost competitiveness”
- Expand technical centers globally
- M&A (maximize synergy effect)

Catalogue item sales

- For more customers in the industry of general engineering and mold & die all over the world

How? Contributing to customers’ productivity by providing cost-performance tools in a timely manner

- Expand carbide items range
- Establish strong “A-Club” distribution networks in each region
- Strengthen inventory policy and supply chain

industries including aerospace, medical equipment, molds and dies, and the energy sector.

Initiatives to create greater value for OSG stakeholders include the development of the OSG Product Data Management (OPDM) system and the after-sales service, as well as participation in the Oregon Manufacturing Innovation Center (OMIC R&D).

We are developing the OPDM system through the integration of product-specific attribute data, design data, and customer-specific sales data into OSG databases. This work is leading to the creation of the infrastructure capable of linking a wide range of digital information. The database will be the heart of a structure to support the renewal of our production operations in Japan through the dynamic implementation of the OSG 4.0 Project.

In addition to regrinding services, which provide an environmentally responsible way of reusing tools, another core element of the after-sales services is recoating services, which drastically extend tool life spans. We are expanding our network of regrinding and recoating facilities in Japan and also overseas.

OMIC R&D is a research and development organization established through collaboration between industry, academia, and government. OSG has participated in this initiative from the outset and is raising its profile in the aerospace industry by offering advanced processing solutions.

Growth Drivers Three essential requirements for worldwide growth



We have identified three factors that will determine OSG's ability to achieve global success and sustainable growth. The first of these factors is our management systems. We have a "face-to-face" management system that allows us to work together as a group to accomplish our business goals. One example of this is our policy of sharing information about key management items, such as management and budgetary policies and medium- to long-term strategies, among all of the companies that form the OSG Group. Our approach is to explain our direction to Group companies directly through budget meetings and other forums. While it takes time to explain decisions in detail, I place great value on this process as a vital form of communication. It allows us to align the strategic vectors of our Group companies, which operate in various countries and economic environments and have different business practices and priorities. In recent years, we have also improved our organizational efficiency through cross-organizational activities. By removing barriers between departments and between Group companies, we have been collaborating better and have more synergy overall.

The second key factor is our corporate culture. OSG has created a



“ We will create new value through the revamping of our production structures in Japan under the OSG 4.0 Project. ”

flat organizational culture with a deep-rooted awareness of the importance of good communication. This culture is the driving force behind our growth and is a key characteristic of OSG that we need to preserve for the future. Companies are driven by people, and the OSG corporate culture plays an essential role in encouraging and nurturing people who have that initiative.

The third key factor driving OSG's global success is our core platforms. We take great pride in these platforms, which include our manufacturing and production technologies, our coating technologies, and the engineers who support our technologies. These core platforms, which are shared assets for the entire OSG Group, represent our accumulated experience acquired as we build relationships with customers worldwide through our face-to-face business activities.

These three factors are of vital importance to us and we are determined to achieve continuing growth in the global arena through their implementation.



“ We plan to enhance our medium- to long-term corporate value by investing ¥50 billion to increase our production capacity over the next three to four years. ”

Financial and Capital Strategy Balancing strategic growth investment and shareholder returns while maintaining a sound financial position



We believe that in the medium-term future, OSG will need to achieve a return on equity (ROE) in excess of 10%. We will also need to ensure appropriate profit distribution by maintaining a balance between shareholder returns and the provision of resources to support strategic growth investment and financial soundness. Our priority for profit distribution is the enhancement of our medium- to long-term corporate value through growth investment, including the expansion of existing core businesses and global business

development. In the fiscal year ended November 2018, we invested a total of ¥11.4 billion, which focused primarily on growth investment, including the expansion of production capacity through the introduction of “smart line” systems, increased R&D expenditure, and M&A activities. We plan to invest ¥50 billion over the next three to four years in order to increase our production capacity in Japan and overseas, which is in line with our immediate priority of revamping our production structures. Thanks to the steady accumulation of earnings since the 2008 global financial crisis, OSG has built up a strong financial structure with an equity ratio of 70.4%.

We regard shareholder returns as an important management priority and our basic policy is to set dividends according to cash flow, our financial position, and other factors, while maintaining a consolidated payout ratio of 30% or higher. On this basis, we have set the dividend for the fiscal year ended November 2018 at ¥47 per share, consisting of an interim dividend of ¥22 and a final dividend of ¥25.

The founding spirit of OSG can be summed up in the word “challenge.” Our challenge going forward will be to contribute to sustainable social development while working toward continual improvement in our corporate value through the supply of high-quality, high value-added cutting tools. We look forward to the continuing support and understanding of our stakeholders.

SPECIAL FEATURE

OSG's strengths for expanding its market share globally

OSG was first established in 1938 as the Osawa Screw Grinding Co., Ltd. Since then, it has built global markets for its products by focusing on the real needs in manufacturing environments. How was a small, local manufacturer able to grow and evolve into a global company? In this special feature, we will look at the three strengths that will be key to continuing OSG's market share expansion in today's rapidly changing business environment.

Overseas sales
Approx.
6.7 times
(Since fiscal 1999)



1

Global Expansion

Enhancing our potential to reach new markets

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 allows us to discover new market needs and deliver products and services in a timely manner to customers worldwide. The unique business model that we have developed through over 50 years of global expansion has become our most important advantage.



Our unique services reflect our deep knowledge of local needs in markets around the world. We will use our global network as the platform for the continuing evolution of those services in the global market.



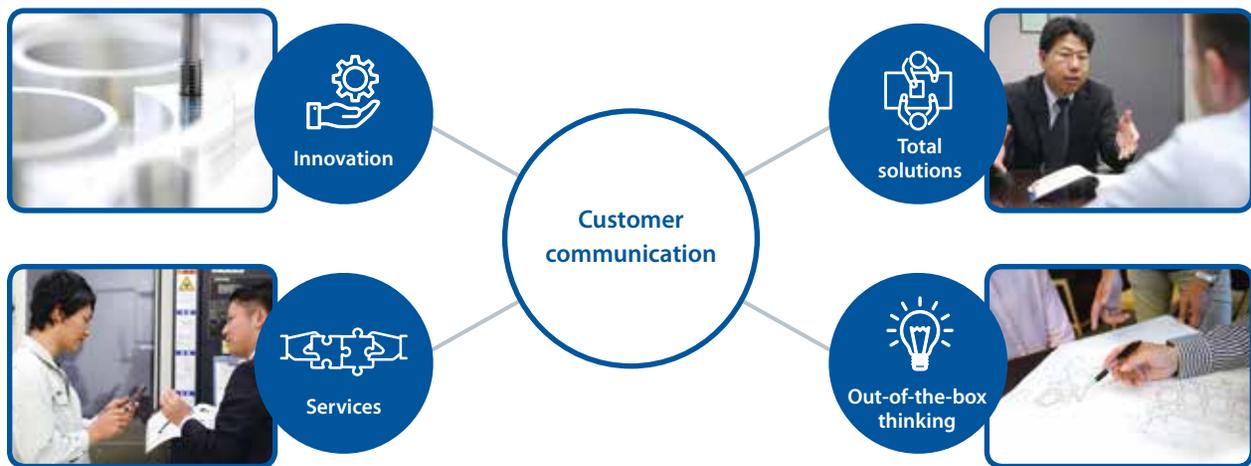
Kenichi Yoshikawa
OSG (India) Pvt. Ltd.

In simple terms, I believe that the global market is like a mixed martial arts competition. I am confident that OSG employees will continue to achieve growth in the global arena thanks to their ability to think on their feet, their fearless resilience, their pioneering ingenuity, their ability to move mountains, and the imagination that activates these abilities. Though we now have 80 companies in 33 countries around the world, we will still continue to take up new challenges. Differences between countries or individuals can change everything, but OSG employees have been able to turn dreams into reality by integrating their different values and linking isolated points into a connected whole through communication centering on our cutting tools and services. Today, we have many employees who can communicate in multiple languages, allowing us to evolve in the global market through activities that are closely tied to each region. OSG is no longer just a Japanese company, but a global company capable of encompassing the ideas and viewpoints of both Japanese and non-Japanese employees. OSG's global network represents an indispensable platform. When we consider potential business and development opportunities, OSG's global network is vital for our future potential and development. We will use this platform as the foundation for technological innovation as we work each day with a sense of excitement and a dream of changing the world with our own hands.

2 Problem Solving

Our problem-solving capabilities have evolved through the integration of sales, engineering, and manufacturing

The products created by OSG are used in manufacturing facilities. To meet the diverse requirements of our customers around the world and supply the best possible tools, we have integrated our sales, engineering, and manufacturing units. Our corporate motto, "shaping your dreams," expresses our determination to turn our customers' aspirations into reality.



OSG will achieve sustainable growth by thinking from the customers' perspective, by recognizing the importance of cross-organizational linkage, and by continuing to meet user expectations.



Atsushi Iwashiro
Applications Engineering Group

OSG places a high value on innovation, services, total solutions, and out-of-the-box thinking. If even one of these qualities was missing, we would be unable to meet the expectations of our customers. OSG has specialized departments that excel in each of these areas, but we are always thinking about the importance of linking these units together. What do we need in order to create and maintain these links?

We do not work merely to achieve numerical targets, such as cost savings, for our customers, we also try to realize their dreams by thinking and working from their perspective. Shaping the dreams of our customers is the message we want all of our organizational units to absorb and the idea that the purpose of our actions is to realize our customers' aspirations is already assimilated throughout those units. I believe that this approach gives OSG a unique advantage over its competitors. We will continue to place great importance on the creation of new links with customers around the world and by applying digital technology to every product we supply, we will respond to the need for innovation in manufacturing industries. How will we connect OSG assets to the future? These activities will be the key to OSG's sustainable growth.

3

Brand Improvement

The power of the OSG brand is based on OSG's unique strengths



OSG's unique strengths are embodied in the tools that we make, and in our corporate culture. These strengths, which help OSG stand out in the market, have been passed down through generations since the company's founding and are the power source of the OSG brand. We are proud there are tasks that can only be accomplished with OSG products, and we will continue to take up new challenges.



We will continue to enhance the OSG brand by prioritizing the interests of our customers and offering services to meet user needs.



Daiki Nakamura
Domestic Sales Division
Marketing Team

I believe the value of OSG is directly reflected in the value of our brand. The value expressed here is the value that the customer gains from the company through the product. For customers, the value of OSG is manifested in the efficiency of their processes and the benefits achieved through our products.

At a time when more and more tasks are being automated through the Internet of Things (IoT), we will enhance the provision of OSG's unique strengths for customers that can only be realized by OSG employees rather than with AI. Working hours are shrinking in Japan because of work-style reforms, however, we will keep focusing on face-to-face sales with customers to meet customer demands even in this new environment. We have taken up the challenge of ensuring the needs of the customer are always paramount by training not only the sales staff who work directly with customers, but also all of our employees. We will continue to strengthen our corporate brand so that every OSG employee can take pride in the fact that they represent the OSG brand as much as our products.



CORPORATE GOVERNANCE

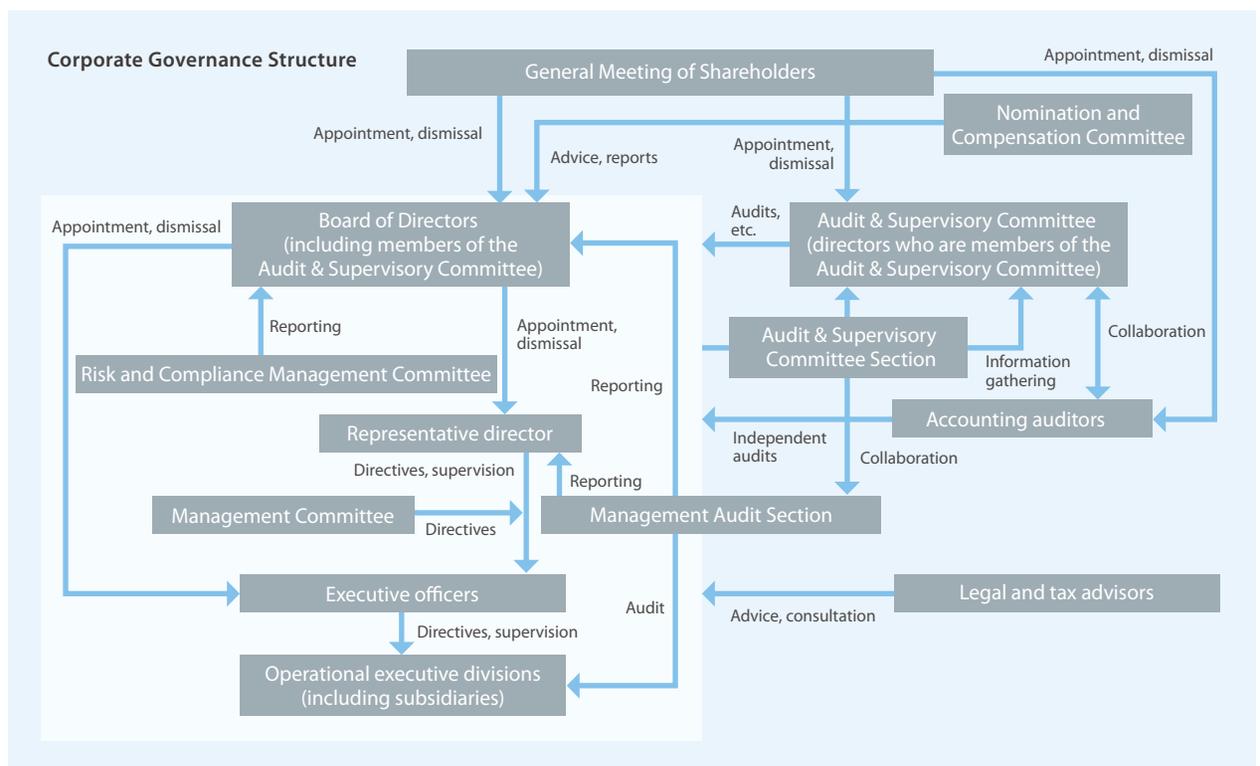
We will continue to develop a highly practical corporate governance structure and enhance our systems.

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.



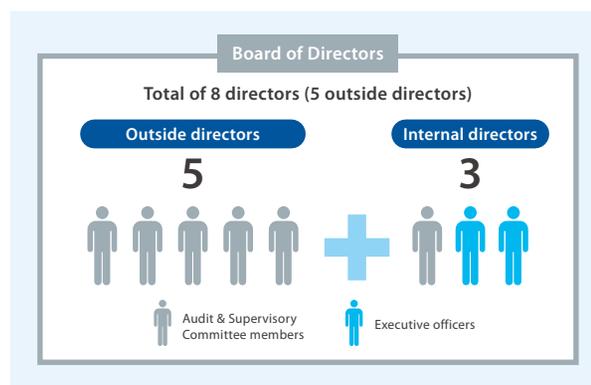
Overview of Corporate Governance Structure

In accordance with a resolution at the 103rd regular general meeting of shareholders held on February 20, 2016, OSG made the transition from a company with a board of company auditors to a company with an audit and supervisory committee. Since the 105th regular general meeting of shareholders held on February 17, 2018, we have maintained a clear division between the executive functions performed by executive officers, and the supervisory role of the Board of Directors.

The Board of Directors is currently comprised of eight directors, including a majority of five independent outside directors. By creating this structure, we aim to strengthen corporate governance by bringing in outside perspectives and enhancing the transparency, independence, and supervisory capabilities of the Board of Directors. In addition to its regular meetings, which are in principle held once each month, the Board of Directors holds special meetings as required. The purpose of these meetings is to deliberate on important matters and make management decisions, and to supervise the performance of the company's business operations.

OSG adopted the executive officer system to ensure an

effective response to changes in the business environment, and to clarify the roles and responsibilities of the executive organization. Executive officers are exclusively responsible for the execution of business operations in accordance with policies decided by the Board of Directors. Their task is to carry out the company's activities in a timely manner while continually improving flexibility and efficiency.



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 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.

Nomination and Compensation Committee

OSG has established a Nomination and 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. The Nomination and Compensation Committee consists of directors who are also members of the Audit & Supervisor Committee, and five of the six members are independent outside directors.

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 and 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 and 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	Internal directors	Outside directors	Outside experts	Chairperson
Nomination and Compensation Committee	6	1	5	0	Internal directors

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 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 Chairman, Fine Tech Corporation Outside Auditor, FANUC CORPORATION Outside Director, TSUGAMI CORPORATION Director, Osawa Scientific Studies Grants Foundation
Hiroyuki Omori	○	Mr. Omori 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. Omori 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. OSG has a business relationship with ONOCOM Co., LTD., of which Mr. Ono was a director until January 2016, pertaining to the purchase of equipment. This is a normal business relationship between the two corporations. Since Mr. Ono has no direct personal interest in the transactions, there is no risk of a conflict of interest between him and general shareholders. The company judges that there are no issues whatsoever concerning Mr. Ono's independence.	
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, Oriental Consultants Holdings Co., Ltd.

Compensation for Company Officers

Compensation for directors, excluding directors who are members of the Audit & Supervisory Committee (hereinafter referred to as “eligible directors”) consists of fixed basic compensation and variable compensation linked to business performance. From the fiscal year ending November 2019, we have also introduced compensation based on allocations of restricted stock. The purpose of this system is to provide an incentive to achieve continual improvement in the company’s performance and further promote shared value with shareholders.

Compensation for directors who are also members of the Audit & Supervisory Committee consists solely of fixed compensation. This is because they are independent from the other directors and are not involved in the execution of business operations.

1. Fixed Compensation

The amount of fixed compensation is determined with the upper limits defined by a resolution of the 103rd general meeting of shareholders held on February 20, 2016. Compensation is set at ¥396 million per year for the eligible directors, and ¥84 million per year for directors who are also members of the Audit & Supervisory Committee. The representative director is delegated by the Board of Directors to prepare proposed compensation amounts according to standards set by the company. The proposed amounts are then referred to the Nomination and Compensation Committee. Based on the response from the Nomination and Compensation Committee, the amounts are then finalized by a resolution of the Board of Directors. The amount of compensation for directors who are also members of the Audit & Supervisory Committee is determined through consultation among those directors.

2. Variable Compensation

Variable compensation is linked to the company’s business performance. The representative director calculates the proposed amounts for profit-linked bonuses and personal assessment bonuses using the methods outlined below and refers these proposals to the Nomination and Compensation Committee. Based on the report from the Nomination and Compensation Committee, the Board of

Directors decides the final amounts to be paid, which are subject to approval through a resolution of a general meeting of shareholders.

2-1 Profit-linked bonuses

- Eligibility: Eligible directors who are serving as executive officers and managing officers
- Calculation method: Profit-linked bonus = Consolidated operating income before provision for the cost of performance-linked bonuses x Rank-based bonus ratio (see table below)

The maximum amount for profit-linked bonuses is ¥700 million.

Rank-based bonus ratio

Rank	Percentage
Representative director and CEO	0.405%
Director and senior managing officer	0.183%
Managing officer	0.162%

2-2 Personal assessment bonuses

- Eligibility: Executive officers other than the representative director and CEO and managing officers
- Calculation method: Personal assessment bonuses are paid according to qualitative assessments of each person’s contribution to business performance.
- The maximum amount for personal assessment bonuses is ¥50 million.

3. Compensation Based on Allocations of Restricted Stock

- Eligibility: Directors who are serving as executive officers and executive officers
- In principle, each eligible person receives a yearly allocation of the company’s ordinary shares, subject to a restriction on transfer. The number is determined according to each recipient’s rank and other factors, as stipulated in a restricted stock allocation agreement concluded between the company and each recipient. To ensure that recipients share the same medium- to long-term values as shareholders, 30 years from the date of allocation will, in principle, be the period during which transferring of shares is restricted.
- The maximum value of shares allocated is ¥200 million per year. The maximum number of the company’s ordinary shares issued or disposed of is 100,000 per year.

The company discontinued the system of retirement bonuses for corporate officers as of February 19, 2005 at the conclusion of the 92nd regular general meeting of shareholders.

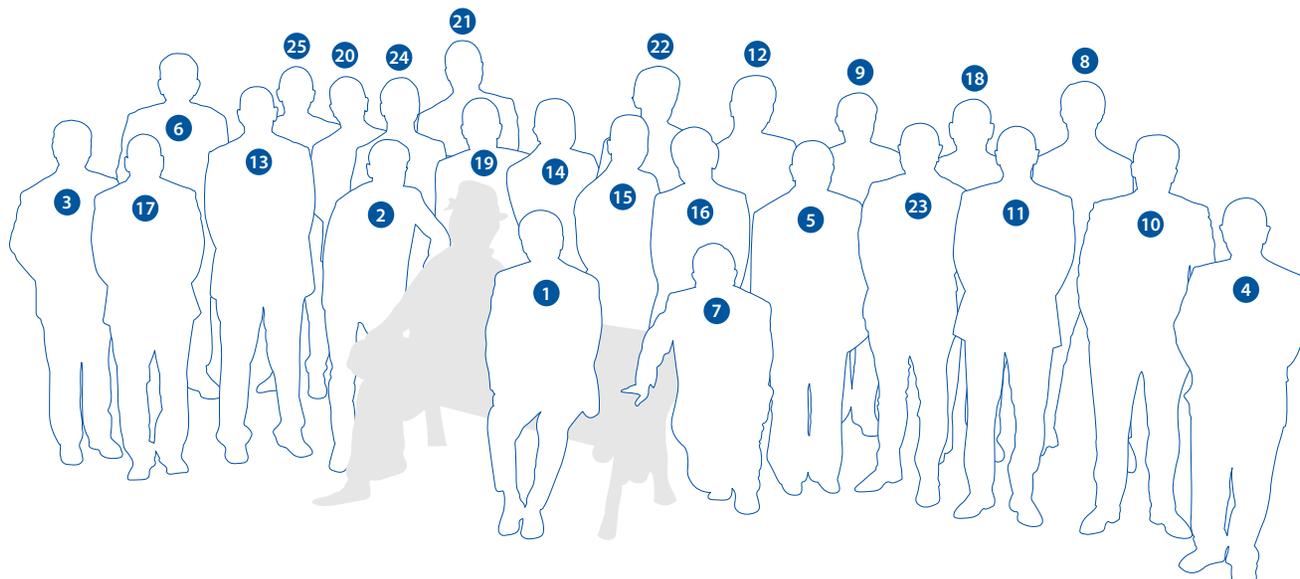
Basic Policy on Constructive Dialogue with Shareholders

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.



Photograph taken with a bronze statue of the late Teruhide Osawa, a former Chairman of OSG.



1 President, Representative Director,
and CEO
Norio Ishikawa

2 Senior Managing Officer, Director
Nobuaki Osawa

3 Director (Audit & Supervisory
Committee Member)
Gohei Osawa

4 Director (Audit & Supervisory
Committee Member)
Takeo Nakagawa*

5 Director (Audit & Supervisory
Committee Member)
Hiroyuki Omori*

6 Director (Audit & Supervisory
Committee Member)
Kyoshiro Ono*

7 Director (Audit & Supervisory
Committee Member)
Yoshiyuki Sakaki*

8 Director (Audit & Supervisory
Committee Member)
Akito Takahashi*

*Outside Director

9 Substitute Director (Audit &
Supervisory Committee Member)
Kunihiko Hara**

**Substitute Outside Director

10 Managing Officer
Jiro Osawa

11 Managing Officer
Hideaki Osawa

12 Managing Officer
Koji Takeo

13 Senior Executive Officer
Mike Grantham

14 Senior Executive Officer
Mitsuyoshi Hikosaka

15 Senior Executive Officer
Yasutaka Yoneda

16 Executive Officer
Hiromi Ono

17 Executive Officer
Jeffrey Tennant

18 Executive Officer
Kazuhisa Sawada

19 Executive Officer
Takehiro Tomiyoshi

20 Executive Officer
Toshihiro Hisadome

21 Executive Officer
Yasushi Suzuki

22 Executive Officer
Hideyuki Ohashi

23 Executive Officer
Kenya Sugihara

24 Executive Officer
Seungjin Chung

25 Executive Officer
Yukinori Chikada

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.

Environmental Performance in Fiscal 2018 and Targets for Fiscal 2019

No.	Environmental target		FY2018		FY2019 Target
	Item	Content	Target	Result	
1	Energy Conservation	Total Energy Use Reduction (Energy sources: Electric power, Fuel oil and LPG) Total use of energy BM: 95,676 GJ/month	1.0% reduction 957 GJ/month reduction	1.9% reduction 1,776 GJ/month reduction	1.0% reduction 957 GJ/month reduction
		Basic unit of production BM: 20 GJ/million yen	1.0% reduction 0.20 GJ/million yen reduction	1.4% reduction 0.27 GJ/million yen reduction	1.0% reduction 0.20 GJ/million yen reduction
2	Eco-Products	Eco-Friendly Product Development	29 points	35 points	31 points*
3	Eco-Factory	Eco-Friendly Production	31 points	38 points	34 points*

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

Promotion of Resources Recycling

OSG has been promoting zero emission activities to reduce waste. We have also developed a system to recycle reusable and recyclable resources and established a structure to ensure the proper disposal of waste from our operations. Therefore, our recycling rate has been over 99% since 2005.



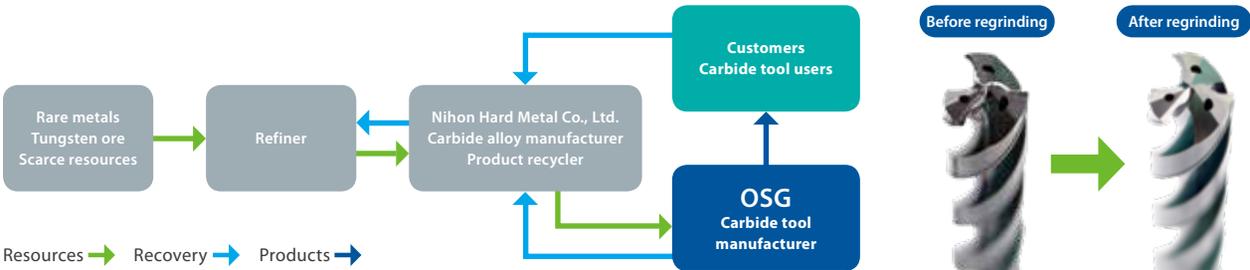
Metal scrap	799.8 tons
Cardboard boxes (sold for reuse)	76.8 tons
Waste oil (sold for reuse, recycled)	416.3 tons
Oil sludge (sold for reuse, recycled)	175.0 tons
Diatomaceous soil (sold for reuse, recycled)	462.9 tons
Waste grinding wheels (recycled)	41.9 tons
Waste plastic (recycled)	53.0 tons
Wood chips (recycled)	83.4 tons
Others (recycled)	56.1 tons
Total	2165.2 tons

Eco-friendly Products and Services

OSG is striving to produce eco-friendly products and provide them to our customers. We are actively working to reduce environmental impacts by enhancing regrinding services and developing energy-saving products and high-efficiency products that enable high speed and long life.

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.



TOPICS Eco-friendly Products

Development of the AT-1: Revolutionary 1-Pass Thread Mill

OSG is actively developing environment-friendly products. In 2018, we developed the AT-1 1-Pass Thread Mill, which can generate threads in one pass when, previously, systems required two passes for rough and final machining. The AT-1 has been welcomed by users as an environment-friendly tool with benefits that include longer tool life and reduced power consumption.

Right-hand cut and left-hand helix geometry

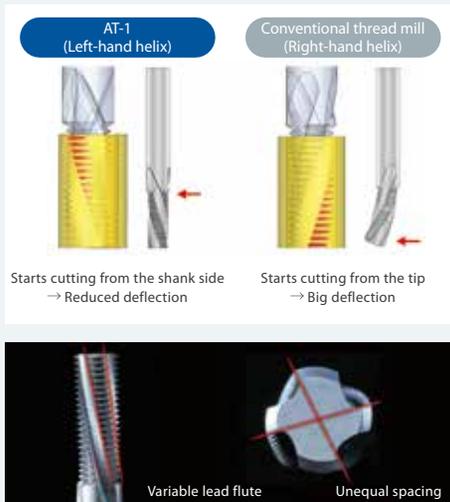
The AT-1's right-hand cut and left-hand helix geometry begins the cutting process from the shank side, thereby reducing deflection. With the elimination of zero-cutting, which is used for correcting deflection, longer tool life can be achieved.

Unequal spacing and variable lead flute

By applying the unequal spacing and variable lead flute geometry for reducing vibration, thread milling in one pass can be achieved, which enables superior and consistent surface finish.

Cutting in one pass

The AT-1's unique tool geometry enables to generate threads in one pass, which reduces machining time and contributes to the reduction of 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.

Gold Certification for Supporting Employees Who Keep Working while Undergoing Medical Treatment

OSG received this certification under a scheme designed to support people who wish to keep working while undergoing medical treatment. As Japan's population continues to shrink and age, policies are needed that will enable people suffering from various illnesses to coordinate their medical treatment with their work. The director general of the Aichi Labour Bureau has established a system to recognize companies that provide support for workers in these situations. In October 2018, at the Aichi Symposium on the Reconciliation of Work and Medical Treatment, OSG was awarded the gold certification under this system.

Key Reasons for the Gold Certification

When a person undergoing treatment requests support in the workplace, they are required to submit their treatment information to our full-time health support staff (made up of public and general health nurses). The health staff are not required to inform the company about serious conditions, such as cancer, stroke, heart disease, hepatitis, and diabetes. The system is designed and administered to give the greatest possible consideration and priority to the individual's privacy and feelings.



OSG is permitted to use the name and logo of the system for three years after being certified.



Under the Aichi Wish Employer system run by the Aichi Labour Bureau, companies that promote work-style innovation can obtain a three-star certification.

The Aichi Certification Standards for Companies that Support Employees Who Keep Working while Undergoing Medical Treatment (Extract)

● Gold certification

1. The employment rules must have provisions to allow employees, including informal employees, to take leave or adjust working hours to undergo treatment or go to the hospital as outpatients.
2. There must be an in-house organization to provide advice, and occupational health staff must be available.
3. The company must have full-time public health staff capable of helping employees to coordinate their medical treatment with their work.
4. Care must be taken to protect the privacy of any employee who seeks advice, and there must be clearly defined procedures governing collaboration and actions by those concerned.
5. The company must provide an education and training program about the system (items 1 through 4) for all employees at least once a year.
6. There must have been at least one case within the past year when those concerned cooperated to help a worker reconcile medical treatment with work.

▶ Donations to Special Support Schools and Welfare Facilities—Commemorating the 80th Anniversary of OSG's Founding

March 26, 2018 was the 80th anniversary of the founding of OSG. To mark this milestone, we donated goods to organizations and facilities in need who support people with disabilities or are in need of care for various other reasons. The donations were given primarily to special support schools and welfare facilities in Higashi-Mikawa.

[Items donated]

Projector system, children's swing sets, dining tables and chairs, indoor toys, AEDs, electric bicycles, etc.



General Administration Division General Manager Kawamura hands over a list of donated items to Mr. Tsunenori Kamiya, principal of the Kokuryo facility.

▶ OSG Hosts Seminars to Inspire Students to Follow Their Dreams

We arrange seminars for elementary and junior high school employees, students, and their guardians. On November 30, 2018, Managing Officer Jiro Osawa presented a seminar that encouraged the students to think about what their lives would be like when they become adults. The seminar focused on the relevance of polite greetings, the ability to change and grow as individuals, and the importance of having dreams. We will continue to run an active program filled with seminars that are designed to encourage children to develop wide-ranging interests and foster dreams.



▲ Students at a seminar.
◀ Managing Officer Jiro Osawa speaking at a seminar.

TOPICS Promoting Diversity

Active Commitment to the Employment of People with Disabilities

OSG actively employs people with disabilities and, in response to requests from various regions, we also hold seminars pertaining to our initiatives to create jobs for people with disabilities.



● Exceeding the statutory percentage of employees with disabilities

Statutory	2.20%
OSG	2.38%

● Hiring and long-term employment

We strive to facilitate employment, from the initial introduction of potential employees and onward throughout their employment, by working closely with the Hello Work employment service, support centers, special support schools, skill development schools, and other organizations. In addition, we aim to ensure long-term employment by selecting workplaces and tasks according to each individual's capabilities.

Job training provided for new employees
Advisory unit established in 2017 for people with disabilities
Follow-up support provided for employees with disabilities and their workplaces

● Community contributions

Tours of OSG factories for company and support center staff	Tours in the year ended November 2018	Individual: 28 Group: 11
Seminar for businesses about the employment of people with disabilities: "Examples of Employment Initiatives for People with Disabilities"	External seminars held in the year ended November 2018	9

FINANCIAL SECTION

Key Financial Data for the Past 10 Years

		2009/11	2010/11	2011/11
For the year	Net sales	53,325	69,513	80,959
	Cost of sales	39,203	44,605	48,439
	Selling, general and administrative expenses	16,857	17,383	20,214
	Operating income (loss)	(2,735)	7,524	12,305
	Ordinary income (loss)	(2,703)	6,699	11,374
	Net income (loss) attributable to OSG Corporation	(3,769)	3,772	5,904
	Cash flows from operating activities	6,049	14,095	11,344
	Cash flows from investing activities	(4,633)	(5,522)	(8,195)
	Cash flows from financing activities	5,470	(15,562)	(5,855)
	Depreciation and amortization	5,848	5,307	5,657
	EBITDA	3,113	12,832	17,962
	Capital expenditure	2,547	3,568	8,225
	Number of employees	4,686	4,843	5,078
	End of fiscal year	Total assets	113,382	105,635
Net assets		61,734	63,162	65,347
Interest-bearing debt		41,231	27,318	23,011
Total equity		55,931	57,117	59,367
Per share	Net income (loss) (yen)	(39.22)	39.34	62.18
	Net assets (yen)	582.19	601.44	625.14
	Dividends (yen)	3.00	12.00	18.00
Management indicators	Overseas sales ratio (%)	49.8	48.6	49.7
	Operating income margin (%)	(5.1)	10.8	15.2
	Return on equity (ROE) (%)	(6.3)	6.7	10.1
	Return on assets (ROA) (%)	(3.2)	3.4	5.6
	Equity ratio (%)	49.3	54.1	56.9
	EBITDA margin (%)	5.8	18.5	22.2
	Dividend payout ratio (%)	(7.6)	30.5	28.9
Data by product category	Taps	16,934	23,158	28,906
	Drills	11,770	16,265	18,284
	End mills	12,917	16,198	17,837
	Rolling dies	4,669	6,663	7,067
	Gauges	876	1,085	1,137
	Other	6,158	6,140	7,725
	Sales to external customers	Japan	27,115	36,196
The Americas		9,437	11,295	12,699
Europe/Africa		5,383	5,536	6,548
Asia		11,389	16,484	20,444

(Millions of yen)							(Thousands of U.S. dollars)
2012/11	2013/11	2014/11	2015/11	2016/11	2017/11	2018/11	2018/11
84,083	88,378	101,031	111,917	105,561	120,198	131,368	1,157,741
49,381	52,777	58,061	61,865	59,179	69,711	74,833	659,500
20,747	22,774	25,554	28,454	28,135	31,349	34,015	299,771
13,954	12,827	17,415	21,597	18,246	19,137	22,520	198,469
13,695	13,910	17,568	21,510	17,813	19,144	22,567	198,889
7,138	8,619	9,989	12,518	10,134	13,993	14,710	129,641
12,286	16,171	19,688	19,588	16,333	20,820	20,125	177,365
(19,746)	(2,972)	(3,119)	(16,976)	(16,843)	(7,566)	(13,351)	(117,667)
8,643	(9,423)	(12,813)	(6,216)	(778)	(11,137)	(4,723)	(41,626)
5,688	6,716	6,830	7,705	7,885	8,612	9,100	80,205
19,642	19,544	24,246	29,302	26,132	27,749	31,621	278,675
10,284	5,876	7,327	12,487	13,394	9,494	11,464	101,038
5,117	5,118	5,233	5,569	5,866	6,611	7,020	
121,689	134,503	142,302	155,129	156,081	166,712	178,054	1,569,173
71,471	87,621	100,943	113,637	103,059	128,394	138,354	1,219,302
34,284	29,063	20,009	20,195	33,506	16,325	15,612	137,590
64,482	80,024	91,458	102,566	92,216	115,810	125,332	1,104,543
75.16	90.76	105.20	131.78	110.59	153.70	150.47	1.33 (US dollars)
679.01	842.71	963.15	1,079.12	1,024.34	1,191.65	1,279.29	11.27 (US dollars)
23.00	30.00	34.00	46.00	50.00	46.00	47.00	0.41 (US dollars)
48.0	53.5	54.6	57.8	55.3	57.6	58.4	—
16.6	14.5	17.2	19.3	17.3	15.9	17.1	—
11.5	11.9	11.7	12.9	10.4	13.5	12.2	—
6.3	6.7	7.2	8.4	6.5	8.7	8.5	—
53.0	59.5	64.3	66.1	59.1	69.5	70.4	—
23.4	22.1	24.0	26.2	24.8	23.1	24.1	—
30.6	33.1	32.3	34.9	45.2	29.9	31.2	—
29,379	28,924	34,655	38,239	33,948	38,175	41,729	367,753
19,839	20,724	23,600	25,743	26,709	31,662	36,811	324,419
18,472	20,857	22,886	26,554	24,837	27,090	27,917	246,031
7,280	7,681	9,165	9,921	9,443	10,218	10,645	93,815
1,176	1,232	1,419	1,538	1,478	1,625	1,757	15,486
7,935	8,958	9,304	9,919	9,143	11,424	12,508	110,235
44,212	41,922	46,659	48,150	48,257	51,639	55,287	487,244
13,605	16,093	18,236	21,758	19,478	21,413	22,680	199,876
6,491	7,827	9,879	11,382	12,268	18,177	22,134	195,067
19,774	22,534	26,256	30,626	25,556	28,968	31,266	275,552

Consolidated Summary Balance Sheet

(Millions of yen)

	FY2017 As of Nov. 30, 2017	FY2018 As of Nov. 30, 2018
Assets		
Current assets		
Cash and time deposits	21,204	24,406
Notes and accounts receivable	23,961	25,128
Marketable securities	0	0
Merchandise and finished goods	22,946	24,237
Work in process	5,686	7,443
Raw materials and supplies	6,217	7,121
Deferred tax assets	1,786	1,676
Other	2,505	2,781
Allowance for doubtful accounts	(240)	(198)
Total current assets	84,069	92,596
Fixed assets		
Tangible assets		
Building and structures	20,178	19,871
Machinery and equipment	30,891	32,269
Tools, furniture, and fixtures	2,260	2,159
Land	15,102	15,172
Construction in progress	1,187	2,748
Other	1	4
Total tangible assets	69,622	72,226
Intangible assets		
Goodwill	3,517	3,367
Other	784	633
Total intangible assets	4,301	4,000
Investments and other assets		
Investment securities	5,119	4,610
Investment in capital	920	1,859
Long-term loans	398	412
Deferred tax assets	521	715
Net defined benefit asset	58	75
Other	2,087	1,937
Allowance for doubtful accounts	(387)	(381)
Total investments and other assets	8,718	9,229
Total fixed assets	82,642	85,457
Total	166,712	178,054

(Millions of yen)

	FY2017 As of Nov. 30, 2017	FY2018 As of Nov. 30, 2018
Liabilities and net assets		
Current liabilities		
Notes and accounts payable	5,325	6,067
Short-term loans payable	1,909	2,282
Current portion of long-term loans payable	421	1,175
Accrued expenses	7,200	7,878
Income taxes payable	3,458	2,732
Deferred tax liabilities	0	0
Reserve for directors' bonuses	385	390
Other	3,124	3,675
Total current liabilities	21,826	24,202
Long-term liabilities		
Convertible bonds	3,150	1,860
Long-term borrowings	10,844	10,294
Deferred tax liabilities	1,242	986
Retirement allowance for directors and corporate auditors	53	27
Liabilities for employees' retirement benefits	395	511
Other	804	1,815
Total long-term liabilities	16,491	15,496
Total liabilities	38,318	39,699
Shareholders' equity		
Common stock	11,954	12,124
Capital surplus	13,492	13,662
Retained earnings	90,308	100,260
Treasury stock	(1,229)	(161)
Total shareholders' equity	114,526	125,886
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	2,019	1,608
Deferred loss on derivatives under hedge accounting	(0)	—
Foreign currency translation adjustments	(735)	(2,161)
Total accumulated other comprehensive income	1,283	(553)
Subscription rights to shares	13	13
Noncontrolling interests	12,570	13,008
Total net assets	128,394	138,354
Total liabilities and net assets	166,712	178,054

Consolidated Summary Statement of Income

(Millions of yen)

	FY2017 (2016/12/1–2017/11/30)	FY2018 (2017/12/1–2018/11/30)
Net sales	120,198	131,368
Cost of sales	69,711	74,833
Gross profit	50,486	56,535
Selling, general and administrative expenses	31,349	34,015
Operating income	19,137	22,520
Other income		
Interest income	188	217
Dividend income	124	105
Purchase discounts	37	45
Equity in earnings of affiliates	13	—
Foreign exchange gain	276	—
Subsidy income	—	249
Other	533	846
Total other income	1,174	1,463
Other expenses		
Interest expense	129	164
Sales discounts	715	817
Equity in losses of affiliates	—	15
Foreign exchange loss	—	119
Other	322	297
Total other expenses	1,167	1,415
Ordinary income	19,144	22,567
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	—
Total extraordinary loss	266	—
Income before income taxes	21,086	22,567
Income taxes		
Current	6,533	7,111
Deferred	(266)	(184)
Total income taxes	6,267	6,926
Net income	14,819	15,641
Net income attributable to noncontrolling interests	825	930
Net income attributable to OSG Corporation	13,993	14,710

Consolidated Statement of Comprehensive Income

(Millions of yen)

	FY2017 (2016/12/1–2017/11/30)	FY2018 (2017/12/1–2018/11/30)
Net income	14,819	15,641
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(240)	(414)
Deferred gain (loss) on derivatives under hedge accounting	0	0
Foreign currency translation adjustments	3,466	(1,672)
Share of other comprehensive income in associates	7	(0)
Total other comprehensive income	3,233	(2,086)
Comprehensive income	18,052	13,554
(Breakdown)		
Comprehensive income attributable to OSG Corporation	16,447	12,877
Comprehensive income attributable to noncontrolling interests	1,605	677

FINANCIAL SECTION

Consolidated Statement of Changes In Equity

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

2018 (2017/12/1–2018/11/30)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance, November 30, 2017	11,954	13,492	90,308	(1,229)	114,526
Changes of items during period					
Issuance of new shares	170	170			340
Cash dividends			(4,583)		(4,583)
Net income attributable to owners of the parent			14,710		14,710
Purchase of treasury stock				(9)	(9)
Disposal of treasury stock			(127)	1,077	950
Adjustment of retained earnings for newly consolidated subsidiaries			(47)		(47)
Purchase of shares of consolidated subsidiaries					—
Net change in the year					
Total changes of items during period	170	170	9,952	1,067	11,359
Balance, November 30, 2018	12,124	13,662	100,260	(161)	125,886

(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

(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			
2,019	(0)	(735)	1,283	13	12,570	128,394
						340
						(4,583)
						14,710
						(9)
						950
						(47)
						—
(410)	0	(1,426)	(1,837)	—	437	(1,399)
(410)	0	(1,426)	(1,837)	—	437	9,960
1,608	—	(2,161)	(553)	13	13,008	138,354

Consolidated Summary Statement of Cash Flows

(Millions of yen)

	FY2017 (2016/12/1–2017/11/30)	FY2018 (2017/12/1–2018/11/30)
Operating Activities:		
Income before income taxes	21,086	22,567
Depreciation and amortization	8,612	9,100
Amortization of goodwill	817	477
Change in allowance for doubtful receivables	42	(16)
Change in liability for directors' bonuses	(70)	(1)
Change in liability for employees' retirement benefits	(20)	69
Change in retirement allowance for directors and corporate auditors	(54)	(42)
Interest and dividend income	(313)	(322)
Interest expense	129	164
Equity in loss (earnings) of an associated company	(13)	15
Gain on sales of tangible assets	(321)	—
Gain on sales of investment securities	(1,887)	—
Change in notes and accounts receivable	(1,690)	(1,494)
Change in inventories	(1,147)	(3,854)
Change in notes and accounts payable	(253)	768
Change in accrued expenses	584	593
Other—net	688	(725)
Sub-total	26,189	27,300
Interest and dividend income received	308	310
Interest expense paid	(132)	(125)
Payments for directors' retirement benefits and condolence money	(1,018)	—
Income taxes—paid	(4,525)	(7,359)
Net cash provided by operating activities	20,820	20,125
Investing Activities:		
Payments for time deposits	(1,500)	(2,788)
Proceeds from refund of time deposits	1,414	1,480
Proceeds from redemption of marketable securities	0	0
Purchases of investment securities	(265)	(243)
Proceeds from sales of investment securities	3,527	78
Acquisitions of property, plant and equipment	(9,494)	(11,464)
Proceeds from sales of property, plant and equipment	1,037	406
Acquisitions of intangible assets	(161)	(105)
Payment for purchase of subsidiaries' stock	(1,073)	(620)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(655)	—
Other—net	(395)	(94)
Net cash used in investing activities	(7,566)	(13,351)
Financing Activities:		
Change in short-term borrowings—net	(6,204)	424
Proceeds from long-term borrowings	614	420
Repayments of long-term borrowings	(542)	(539)
Purchase of investments in subsidiaries resulting in no change in scope of consolidation	(219)	(26)
Purchase of treasury stock	(5)	(4)
Dividends paid	(4,411)	(4,581)
Dividends paid to noncontrolling interests	(367)	(416)
Net cash used in financing activities	(11,137)	(4,723)
Effect of exchange rate change on cash and cash equivalents	540	(333)
Net increase in cash and cash equivalents	2,658	1,716
Cash and cash equivalents at beginning of year	16,555	19,598
Cash and cash equivalents from newly consolidated subsidiaries	300	229
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	84	—
Cash and cash equivalents at end of year	19,598	21,545

Company Profile (As of November 30, 2018)

Company name	OSG Corporation	Number of employees	7,020 (consolidated)/ 1,811 (non-consolidated)
Headquarters	3-22, Honnogahara, Toyokawa, Aichi Prefecture 442-8543, Japan	Business activities	Manufacture and sale of cutting tools, rolling dies, gauges, machine tools and machine parts, importation and sale of tools
Date established	March 26, 1938		
Capital	¥12,124 million		

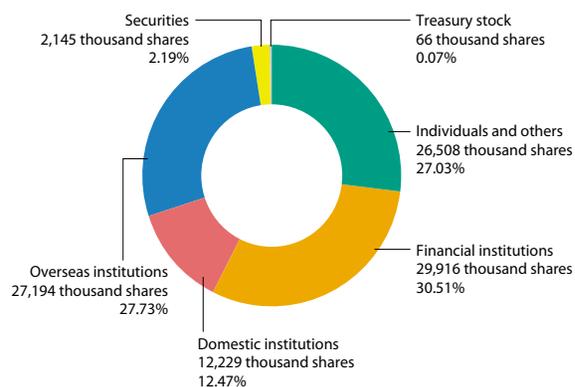
Status of Shares (As of November 30, 2018)

Number of shares issuable	200,000,000 shares
Number of shares outstanding	98,061,519 shares
Number of shareholders	7,606
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 (%)
SSBTC CLIENT OMNIBUS ACCOUNT	7,208	7.36
The Master Trust Bank of Japan, Co., Ltd. (Trust Account)	5,881	6.00
Japan Trustee Services Bank, Ltd. (Trust Account)	4,581	4.68
OSG Agent Association	2,957	3.02
OSG Stock Holding Association	2,455	2.51
Osawa Scientific Studies Grants Foundation	2,310	2.36
Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2,284	2.33
Sumitomo Mitsui Banking Corporation	2,100	2.14
Toyota Motor Corporation	2,100	2.14
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,906	1.95

Ownership breakdown



(Notes)

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

To Our Stakeholders

OSG's website provides a variety of timely information such as corporate information, product information, industry solutions, news releases and IR information.

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