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OSG Corporation

OSG CORPORATION

(incorporated with limited liability under the laws of Japan)

Offering of ¥22,000,000,000 Zero Coupon Convertible Bonds due 2030

Offer Price for the Bonds: 103.5 Per Cent

This Offering Circular relates to the issue by OSG Corporation (the “Company”) of ¥22,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2030 (being bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated therein).

The Bonds will be issued in registered form in the denomination of ¥10,000,000 each with a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Rights”). The Stock Acquisition Rights will be exercisable from, and including, 4 January 2024 to, and including, 6 December 2030 and will entitle the Bondholder (as defined in the terms and conditions of the Bonds (the “Conditions”)) to acquire fully-paid and non-assessable shares of common stock of the Company (the “Shares”) at an initial conversion price, subject to adjustment in certain events and as set out in the Conditions, of ¥2,096.0 per Share. However, from (and including) 4 January 2024 but prior to (and including) 20 August 2030, and subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights during any particular calendar quarter only if as at the last Trading Day of any immediately preceding calendar quarter, the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter. Such condition to the exercise of the Stock Acquisition Rights shall not be applicable, in general, (i) during any period in which any rating assigned by a specified rating agency to the Company’s issuer rating is below a specified level or certain other ratings events occur, (ii) if a notice of redemption is given to the Bondholders or (iii) if the Company is required to give notice of certain specified Corporate Events (as defined in Condition 6.1) to the Bondholders. In addition, where a Parity Event (as defined in Condition 5.1.9) has occurred pursuant to Condition 5.1.9, such conditions to the exercise of the Stock Acquisition Rights shall not be applicable during the period of 15 consecutive Tokyo Business Days (as defined in Condition 5.1.4) from and including the first Tokyo Business Day immediately following the Company Notification Date (as defined in Condition 5.1.9) in respect of the occurrence of such Parity Event.

Unless previously redeemed, acquired or purchased and cancelled, or unless the Bonds have become due and repayable, the Bonds will be redeemed at 100 per cent of their principal amount on 20 December 2030. Furthermore, the holder of any Bond may require the Company to redeem such Bond at 100 per cent of its principal amount on 21 December 2027.

At any time during the period from, and including, 21 August 2030 to, and including, 20 September 2030, the Company may, but shall not be bound to, give an Acquisition Notice (as defined in the Conditions) to the Bondholders, in which event the Company shall acquire each Bond on the Acquisition Option Date (as defined in the Conditions) specified on the Acquisition Notice from those Bondholders which deliver a duly completed Acquisition Election Notice (as defined in the Conditions) on or before the date falling 14 calendar days prior to the Acquisition Option Date.

The Shares are listed on the Prime Market of the Tokyo Stock Exchange, Inc. (the “Tokyo Stock Exchange”) and the Premier Market of the Nagoya Stock Exchange, Inc. (the “Nagoya Stock Exchange”). The closing price of the Shares on 5 December 2023, as reported by Tokyo Stock Exchange, was ¥1,791.5 per Share.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing of and quotation for the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Approval in-principle from the SGX-ST, admission to the Official List of the SGX-ST and the listing of and quotation for the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, its associated companies or the Bonds.

The Bonds will initially be evidenced by a global certificate (the “Global Certificate”), deposited with, and registered in the name of, or a nominee for, a common depository for each of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, S.A. (“Clearstream, Luxembourg”) on or about 21 December 2023 (the “Closing Date”) for the accounts of their respective accountholders. The Managers (as defined in “Subscription and Sale”) expect to deliver the Bonds to investors through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for, the Bonds in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) and, subject to certain exceptions, the Bonds may not be offered or sold within the United States. In addition, the Bonds have not been, and will not be, registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the “FIEA”) and may not be offered or sold within Japan or to, or for the account of, residents of Japan, including corporations incorporated under the laws of Japan, unless otherwise permitted under the FIEA. For a summary of certain restrictions on the offer and sale of the Bonds and the Shares, see “Subscription and Sale”.

See “Investment Considerations” for a discussion of certain factors that should be considered in connection with an investment in the Bonds.

Joint Bookrunners and Joint Lead Managers

Nomura

SMBC NIKKO

Co-Manager

Mizuho

The date of this Offering Circular is 5 December 2023.

The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company (the Company having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares (including all information in relation to the applicable laws of Japan) which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in this Offering Circular are in every material particular true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect, and (v) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

No person has been authorised to give any information or to make any representation not contained in this Offering Circular, and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by or on behalf of the Company, the Trustee (as defined in the Conditions) or the Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained in this Offering Circular is correct as at any time subsequent to the date hereof, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the Managers, the Trustee, the Principal Agent, the Custodian, the Registrar, the Custodian's Agent or the Calculation Agent (each as defined in the Conditions), to subscribe for, or purchase, any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offer and sale of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

To the fullest extent permitted by law, none of the Managers, the Trustee, the Principal Agent, the Custodian, the Registrar, the Custodian's Agent or the Calculation Agent, accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made on their behalf in connection with the Company, the Group or the issue and offering of the Bonds. Each of the Managers, the Trustee, the Principal Agent, the Custodian, the Registrar, the Custodian's Agent and the Calculation Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, the European Economic Area, the United Kingdom, Singapore, Hong Kong and to persons connected therewith. See "Subscription and Sale".

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds may not be offered or sold within the United States. The Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). See "Subscription and Sale".

There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done by any person in relation to the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds in, from or otherwise involving the United Kingdom must be complied with. See "Subscription and Sale".

PROHIBITION OF SALES TO EEA RETAIL INVESTORS—*The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); (ii) a customer*

within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “Prospectus Regulation”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK INVESTORS—The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or (iii) not a qualified investor as defined in the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “UK PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the UK PRIIPs Regulation.

NOTIFICATION UNDER SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE (THE “SFA”): In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time, the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Company has determined, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

DISCLOSURE OF DEMAND AND ALLOCATION: Each prospective purchaser who places an order for the Bonds consents to the disclosure by the Managers to the Company of the prospective purchaser’s identity, the details of such order and the actual amount purchased, if any.

STABILISATION AND OVER-ALLOTMENT

IN CONNECTION WITH THE ISSUE OF THE BONDS, NOMURA INTERNATIONAL PLC (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Circular, unless otherwise specified or the context requires, references herein to the “Company” are to OSG Corporation, and references to the “Group”, or “OSG” are to the Company or, as the context may require, the Company, its consolidated subsidiaries and affiliates accounted for by the equity method, taken as a whole.

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the “Companies Act”), the Company may issue new Shares to a Bondholder (as defined in the Conditions) and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right or upon acquisition by the Company of the Bonds. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by the Company as treasury stock and the words “issue”, “issued”, “issuance” and “issuable” shall be construed accordingly, except where the context otherwise requires. In addition, references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system of Japan Securities Depository Center, Inc. (“JASDEC”).

The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which differ in certain respects from accounting principles generally accepted in certain other countries, including International Financial Reporting Standards (“IFRS”). Potential investors should consult their own professional advisers for an understanding of the difference between Japanese GAAP and IFRS or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein.

In this Offering Circular, except as otherwise indicated, references to “yen” and “¥” are to Japanese yen.

In this Offering Circular, unless otherwise specified or the context requires, where information is presented in millions of yen, amounts of less than one million, one-tenth of one million or one-hundredth of one million have been rounded down, whereas percentages of less than one per cent, one-tenth of one per cent or one-hundredth of one per cent have been rounded off, as the case may be. In some cases, figures presented in tables in this Offering Circular may not total due to rounding or truncating.

Unless otherwise stated or the context requires, the description of the Company’s business and financial information relating to the Company contained herein are given on a consolidated basis.

The Company’s fiscal year-end is 30 November of each year.

FORWARD-LOOKING STATEMENTS

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as “may”, “might”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “project”, “believe” or similar phrases. The Company bases these statements on beliefs as well as assumptions made using information currently available to the Company. As these statements reflect the Company’s current views concerning future events, these statements involve risks, uncertainties and assumptions. The Company’s or the Group’s actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Company’s expectations include those risks identified in “Investment Considerations” and “Recent Business” and elsewhere in this Offering Circular, as well as other matters not yet known to the Company or not currently considered material by the Company. The Company does not undertake to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company’s behalf are qualified in their entirety by these cautionary statements.

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SUMMARY INFORMATION

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Shares or the Bonds, see “Investment Considerations”.

OSG CORPORATION

The Group is a comprehensive cutting tool manufacturer that operates in Japan and 31 countries and regions overseas with a total of 7,543 employees (consolidated basis) as at 30 November 2022. Its business mainly consists of the manufacturing and sale of cutting tools, rolling tools, measuring tools and other products, such as machine tools. Major products include taps, drills, end mills, rolling dies, gauges and others. Such products are widely used in automobiles, aircrafts, turbines, micro-precision processing and general engineering machineries to support various manufacturers. Moreover, under its “Global Presence” corporate philosophy, the Group has a global network which encompasses production, sales and technical support. This allows the Group to deliver prompt and reliable products and services to customers across its four reporting segments, namely Japan, the Americas, Europe/Africa and Asia.

The Group’s mission is to provide the best cutting tools to manufacturers around the world. It also aims to grow its business, contribute to its stakeholders and realise the sustainable development of the society. The Group operates its business under a Medium-Term Management Plan “Beyond the Limit 2024”, which instils among all employees the spirit of “going beyond your limits, setting no limits, pushing forward and evolving, and breaking out of the norm” to spur the Group to continue to advance. The Group will exploit opportunities in the business environment that lead to further growth and endeavour to sustainably enhance corporate value through a strengthened corporate culture and overall optimisation.

The Group consisted of the Company, 92 subsidiaries and four affiliates as at 30 November 2022. Business activities in Japan are controlled by the Company, as the Group’s head office, while overseas activities are controlled by the group management companies in each region. Overseas subsidiaries in each region conduct business activities pursuant to business strategies and business plans formulated centrally at the Group headquarters.

For the year ended 30 November 2022 and the nine months ended 31 August 2023, the Group recorded net sales of ¥142,525 million and ¥107,731 million, respectively, operating income of ¥21,898 million and ¥14,085 million, respectively, and net income attributable to owners of the parent of ¥16,534 million and ¥10,044 million, respectively, compared to net sales of ¥126,156 million and ¥103,502 million respectively, operating income of ¥16,105 million and ¥15,034 million, respectively, and net income attributable to owners of the parent of ¥10,989 million and ¥11,349 million, respectively, for the same periods of the previous year.

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki gaisha*). The Company’s registered head office is located at 3-22, Honnogahara, Toyokawa City, Aichi 442-8543, Japan.

As at 30 November 2022, the Group had 73 consolidated subsidiaries, 19 unconsolidated subsidiaries and two affiliates accounted for by the equity method. As at 30 November 2022, the Group had 7,543 employees on a consolidated basis.

The Group is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki kaisha*). The Group’s head office is located at 3-22, Honnogahara, Toyokawa City, Aichi 442-8543, Japan.

The Shares are listed on the Prime Market of the Tokyo Stock Exchange and the Premier Market of the Nagoya Stock Exchange under the securities code “6136”.

THE OFFERING

Bond Offering:

Issuer	OSG CORPORATION
Securities Offered	¥22,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2030 (bonds with stock acquisition rights, <i>tenkanshasaigata shinkabu yoyakuken-tsuki shasai</i>).
Issue Price per Bond	101.0 per cent
Offer Price per Bond	103.5 per cent
Joint Bookrunners and Joint Lead Managers	
	Nomura International plc
	SMBC Nikko Capital Markets Limited
Co-Manager	Mizuho International plc
Closing Date	On or about 21 December 2023
Delivery	It is expected that the Global Certificate in respect of the Bonds will be deposited with, and registered in the name of, or of a nominee for, a common depository for each of Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Form	The Bonds will be issued in registered form and evidenced on issue by a Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See “Summary of Provisions relating to the Bonds while in Global Form”.
Listing	Approval in-principle has been received for the listing of, and quotation for the Bonds on the Official List of the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies) with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.
Lock-up	In connection with the issue and offering of the Bonds, the Company has agreed not to, and not to direct any entities or any persons acting at the direction of the Company to, (i) issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, Shares or any other capital stock of the Company, (ii) enter into any derivative transaction or any other transaction that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale, (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depository receipt facility or (iv) publicly announce any intention to do any of the above, in each case, for a period beginning on the date of the Subscription Agreement (as defined in “Subscription and Sale”) and ending on the date 180 calendar days after the Closing Date without the prior written consent of the Joint Lead Managers (as defined

in “Subscription and Sale”), other than (a) the issue and sale by the Company of the Bonds (or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights by the Company), (b) the issue or transfer of Shares by the Company upon exercise of stock acquisition rights issued and outstanding as at the date of the Subscription Agreement, (c) the issue of Shares by the Company as a result of any stock split, (d) the issue, sale or disposition of Shares to its and the Group’s directors, officers, corporate auditors or employees pursuant to the Company’s stock compensation plans, (e) the sale by the Company of Shares held by unidentified shareholders and (f) any other issue or sale of Shares required by applicable Japanese laws and regulations. See “Subscription and Sale”.

Use of Proceeds The net proceeds from the issue of the Bonds are estimated to be approximately ¥22 billion after deducting expenses. The Company intends to apply the net proceeds towards the repurchase of Shares (as further described below) to maximise corporate value by improving capital efficiency.

Additionally, as the amount which the Company is able to repurchase will be dependent on market conditions and other factors, there can be no assurance that such repurchase will be executed in full. To the extent any portion of the net proceeds remain unused, the Company may invest such portion of the net proceeds in property, plant and equipment. See “Use of Proceeds”.

Proposed Repurchase of Shares by the Company Concurrently with the offering of the Bonds, the Company announced on 5 December 2023 that:

- (i) the Company intends to repurchase up to 15,000,000 Shares (approximately 15.63 per cent of the issued Shares (excluding treasury stock) as at 30 November 2023) at a maximum cost of ¥22,000,000,000 from the market in the period from and including 6 December 2023 to and including 29 November 2024; and
- (ii) to implement the abovementioned share repurchase plan, the Company intends to repurchase Shares up to a value of approximately ¥10,000,000,000 through the ToSTNeT-3 system at 8:45 a.m. (Tokyo time) on 6 December 2023 at the closing price of the Shares on the Tokyo Stock Exchange on 5 December 2023. The result of such repurchase will be announced in Japan on 6 December 2023. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is entirely dependent on the volume of Shares offered by investors at a certain price and at a certain time, there can be no assurance that such repurchase will be executed in full or at all. To the extent any Shares remain to be repurchased (within the maximum cost of ¥22,000,000,000 and the maximum number of 15,000,000 Shares) after the repurchase through the ToSTNeT-3 system on 6 December 2023, the Company may repurchase further Shares on the auction market, at the market prices prevailing at the relevant time until 29 November 2024.

There can however be no assurance that any such repurchase will be proposed by the Company as currently intended or, if proposed by the Company, executed in full, or at all. See “Information Concerning the Shares—Proposed Share Repurchase by the Company”.

Selling Restrictions The Bonds are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further

restrictions on the offer and sale of the Bonds and the Shares, see “Subscription and Sale”.

Bond Terms:

Form and Denomination The Bonds are issued in registered form in the denomination of ¥10,000,000 each.

Initial Conversion Price ¥2,096.0 per Share, subject to adjustment in certain circumstances.

Coupon Zero.

Exercise of Stock Acquisition Rights ... Subject to and upon compliance with the provisions of Condition 5, a Bondholder may exercise the Stock Acquisition Right at any time during the period from, and including, 4 January 2024 to, and including, the close of business (at the place where the Bond is deposited for the exercise of the Stock Acquisition Right) on 6 December 2030 (except for the period from, and including, 21 August 2030 to, and including, 20 September 2030 or (if an Acquisition Notice (as defined in Condition 7.2.1) is given pursuant to Condition 7.2) to and including the Elected Redemption Date (as defined in Condition 3.1)), to acquire fully-paid and non-assessable Shares.

Conditions to the Exercise of Stock

Acquisition Rights From (and including) 4 January 2024 but prior to (and including) 20 August 2030, and subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights only if, as at the last Trading Day of any calendar quarter, the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter, as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19, subject to adjustment in the manner provided in Condition 5.2.

If the relevant condition as set out above is satisfied, then a Bondholder may (subject to the Conditions) exercise the Stock Acquisition Rights on and after the first day of the immediately following calendar quarter (or, in the case of the calendar quarter commencing on 1 January 2024, on and after 4 January 2024) until the end of such calendar quarter, provided the relevant Deposit Date falls during the Exercise Period.

The above conditions to the exercise of the Stock Acquisition Rights shall not be applicable (i) during any period in which the issuer rating assigned to the Company by Rating and Investment Information, Inc. or its successors (together, “R&I”) is BBB (or equivalent if the rating category is changed) or lower, an issuer rating is no longer assigned to the Company by R&I, or the issuer rating assigned to the Company by R&I has been suspended or withdrawn; (ii) if a notice of redemption is given pursuant to Condition 7.3, 7.4 (except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed), 7.5, 7.6 or 7.7 of the Conditions; or (iii) if the Company is required to give notice of certain Corporate Events to the Bondholders. See Condition 5.

In addition, where a Parity Event has occurred pursuant to Condition 5.1.9, the above conditions to the exercise of the Stock Acquisition Rights shall not be applicable during the period of 15 consecutive Tokyo Business Days from and including the first Tokyo Business Day immediately following the Company Notification Date in respect of the occurrence of such Parity Event. See Condition 5.1.9.

For the avoidance of doubt, during the period from, and including, 21 August 2030 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 6 December 2030), the conditions to the exercise of the Stock Acquisition Rights set forth above shall not be applicable.

Status The obligations of the Company in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

Negative Pledge So long as any of the Bonds remains outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Condition 2) unless the same security or such other security or guarantee as provided in Condition 2 is accorded to the Bonds. See Condition 2.

Redemption at Maturity Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 per cent of their principal amount on 20 December 2030.

Acquisition by the Company of

Bonds At any time during the period from, and including, 21 August 2030 to, and including, 20 September 2030, the Company may, but shall not be bound to, give an Acquisition Notice to the Bondholders, in which event the Company shall, subject to the provisions of Condition 7.2, acquire each Bond on the Acquisition Option Date specified on the Acquisition Notice from those Bondholders which deliver a duly completed Acquisition Election Notice on or before the date falling 14 calendar days prior to the Acquisition Option Date. As consideration for each Bond so acquired, the Company will (i) pay an amount equal to 100 per cent of the principal amount and (ii) issue and deliver any Acquisition Shares (as defined in Condition 7.2.1), in each case to each such Bondholder.

Bonds in respect of which a duly completed Acquisition Election Notice has not been received on or prior to the Acquisition Election Date will be redeemed at 100 per cent of their outstanding principal amount on the date falling two Tokyo Business Days after the Acquisition Option Date. See Condition 7.2.

Early Redemption—Reduced

Outstanding Amounts The Company may, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof. See Condition 7.3.

Early Redemption—Taxation

Reasons If the Company satisfies the Trustee, immediately prior to giving the notice to the Bondholders, that (i) as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 5 December 2023, the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9) in accordance with Condition 9 and (ii) the Company is unable to avoid such obligation by taking reasonable measures available to it, the Company may, but shall not be bound to, having given not less than 30 nor more than 60 days' prior irrevocable notice to the Bondholders in accordance with Condition 19 redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount.

If, however, the outstanding principal amount of the Bonds at the time of such notice of redemption is 10 per cent or more of the aggregate principal amount of Bonds as at the date of issue thereof, each holders of such Bonds will have the right to elect that its Bonds should not be redeemed and that, in respect of payments on such Bonds to be made after that date, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Condition 7.4.

Early Redemption—Corporate

Events In the case of a Corporate Event, the Company shall give notice to the Bondholders in accordance with Condition 19 of such Corporate Event and the anticipated effective date of such transaction and the provisions set out in Condition 6 shall apply. See Condition 6.

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the then outstanding Bonds at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out in Condition 7.5 and in accordance with the provisions of Condition 7.5 on the Corporate Event Redemption Date (as defined in Condition 7.5) specified in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date (as defined in Condition 6.3) or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given by the Company as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

- it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1;
- it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1;
- despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing (as

defined in Condition 6.4.2) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1), and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or

- the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director of the Company stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate.

See Condition 7.5.

Early Redemption—Delisting of the

Shares In certain circumstances where an offer is made to all holders of Shares of the Company by an Offeror (as defined in Condition 7.6.1) where, *inter alia*, the Company expresses its opinion to support such offer, the Company or the Offeror states in the offer or publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Condition 3.1), and the Offeror acquires any Shares pursuant to the offer, then the Company shall give notice to Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at a redemption price determined by reference to the table set out in Condition 7.5. (subject to the provisions of Condition 7.6). See Condition 7.6.

Early Redemption—Squeezeout

Redemption Upon the occurrence of a Squeezeout Event (as defined in Condition 3.1), the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price determined by reference to the table set out in Condition 7.5 (subject to the provisions of Condition 7.7). See Condition 7.7.

Redemption at the Option of the

Bondholders The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond at 100 per cent of its principal amount on 21 December 2027 (the “Bondholders’ Optional Redemption Date”). Such notice of redemption must be given not less than 30 days nor more than 60 days prior to the Bondholders’ Optional Redemption Date. See Condition 7.8.

Cross Default The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥500,000,000 (or its equivalent in any other currency or currencies).

See Condition 10.

Taxation All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 9.

Governing Law English law

Jurisdiction English courts

International Securities Identification
Number (“ISIN”) XS2730213290

Common Code 273021329

Legal Entity Identifier (LEI) for the
Company 353800IWJAOVAFO6X450

Trustee and Custodian The Law Debenture Trust Corporation p.l.c.

Principal Agent, Registrar and
Calculation Agent Mizuho Trust & Banking (Luxembourg) S.A.

Custodian’s Agent in Japan Mizuho Bank, Ltd.

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should carefully consider, along with other matters set out in this Offering Circular, the following factors. All of these factors are contingencies which may or may not occur and the Company is not in a position to express a view on the likelihood of any such contingency occurring.

Considerations Relating to the Group's Business and Industry

Changes in market conditions relating to product demands

The Group's products are widely used in automotives, aircrafts, turbines, micro-precision processing and general engineering machineries to support manufacturers around the world. Moreover, the Group has a global network which allows it to deliver prompt and reliable products and services to customers in Japan, the Americas, Europe/Africa and Asia. Accordingly, demands for the Group's products may be impacted by a decrease in demand for end products in such industries and any deterioration in general economic conditions in such regions. While the Group seeks to diversify its customer base in terms of both industries and regions, any sudden change in market conditions may adversely affect its results of operations and financial condition.

Moreover, in light of an intense global competition, manufacturers of various industries have been pressuring their suppliers to reduce material and component prices. Although the Group continuously endeavours to reduce costs while developing new products of high quality and high-added-value, such downward pressure on market prices may adversely affect its results of operations and financial condition. While the Group seeks to avoid competing with its peers solely on product pricing and seeks to compete based on its technology, quality and services, such measures may not prove successful in retaining its existing customers or acquire new customers, and there's no guarantee that the Group will not lose its market share to certain competitors who may offer the same or similar products in lower prices.

Furthermore, in the year ended 30 November 2022, a large portion of the sales of its products were made to the automotive industry. The automotive industry is highly cyclical and is characterised by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards and fluctuations in product supply and demand. The industry has experienced significant downturns, often in connections with, or in anticipation of, declines in general economic conditions and geopolitical tensions such as the U.S.-China trade conflicts. In particular, the automotive industry in Japan and overseas has faced significant challenges from the widespread semiconductor shortage as well as the accelerated adoption of EVs and electrification, measures towards carbon neutrality, increased globalisation and consolidation, increased pricing pressure, the introduction of new models and technologies by competitors as well as labour union activities such as the United Auto Workers (UAW) strike in the United States from September 2022. Moreover, the recent economic downturn in China has resulted in reduced demand across a wide range of industries operating in China, including Japanese automotive manufacturers, which have affected and may continue to affect the sales of many tool and component suppliers, including the Group. Furthermore, the increasing adoption of EV and electrification may lead to reduction of market size for automobile parts and tool suppliers, as EVs generally carry fewer components compared to internal combustion engine vehicles (ICEVs). While the Group focuses on expanding the sales of its products for other industries aircraft and energy, micro-precision processing and general engineering under its Medium-Term Management Plan "Beyond the Limit 2024" and continuously modify its product line-ups to reduce its dependence on the automotive industry, such strategy may fail to achieve the Group's intended results in the near term, or at all, which may adversely affect its results of operations and financial condition.

Competition

Given the wide range of its products and the scope of its global operations, the Group competes with various manufacturers of cutting tools, rolling tools, measuring tools and other equipment for the industries to which it supplies its products. See also "Business—Competition". These competitors may have certain advantages, including:

- more substantial financial, human and other resources;
- more extensive and well-developed sales and marketing networks;
- greater ability to fund research and development activities and develop new products;
- larger or more stable customer bases;
- stronger market recognition; and
- competing products offered at cheaper price by the Group's industry peers, particularly emerging OEM manufacturers in Asia.

The Group's business would be adversely affected if the Group is unable to maintain its competitiveness.

Global operations

The Group produces and sells a significant proportion of its products overseas. 64.9 per cent of the Group's net sales in the year ended 30 November 2022 and 57.6 per cent of its employees (consolidated basis) as at 30 November 2022 were accounted in overseas. See "Business—Global Operations". To better serve its customers, particularly automotive and other manufacturers who are expanding their business globally, as at 30 November 2022, the Group has established a global network of manufacturing, sales and technical support bases in 31 overseas countries and regions across its three major markets, namely Americas, Europe/Africa and Asia. Through such global network, the Group ensures the manufacturing of its products in optimal locations and timely delivery of its products to the customers.

Dependence on overseas production or sales, particularly in developing countries, and managing international operations expose the Group to a number of additional risks associated with foreign commerce, which may include some or all of the following:

- unexpected changes in or imposition of new laws, regulations or licensing requirements;
- unexpected changes to jurisdiction-specific or cross-border tax regulations;
- unexpected suspension or restriction in production by the Group's customers;
- unexpected interruption or suspension in the IT systems or accounting systems of the Group's overseas subsidiaries;
- difficulties associated with hirings and managing international operations;
- relatively low technology levels in certain developing nations and unstable labour relations;
- prolonged impact of Russia's invasion of Ukraine, the conflicts in the Middle East and other military conflict or political instability;
- global or regional economic slowdown in the relevant industries in foreign markets;
- foreign exchange fluctuations;
- trade restrictions or changes in tariffs, including the imposition or the increase in anti-dumping duties;
- relatively limited protection for intellectual property rights in some countries; and
- negative impact of the COVID-19 pandemic and other current or future epidemics.

While the Group endeavours to collect and share information within the Group to prevent and avoid such risks, any occurrence of such risk may adversely affect its results of operations and financial condition, including a decrease in its net sales and profitability or downward adjustment to its business forecasts.

Rising costs and shortage of raw material, energy and transportation

Raw material, energy and transportation represent a significant portion of the costs incurred by the Group in its business. Raw materials and components procured by the Group mainly include cemented carbide, high-speed steel and die steel, which contain cobalt, vanadium, molybdenum, tungsten and other rare metals. Rare metals have limited origins and suppliers and are subject to significant price fluctuations due to market conditions. In particular, deterioration of U.S.-China and China-Taiwan relationships may result in increased difficulty in procuring tungsten from China. Accordingly, the Group's procurement costs are also affected by such price fluctuations and potential shortages.

While the Group endeavours to manage its procurement costs, the prices of raw materials, energy and transportation are largely determined by global economic conditions based on factors that are outside the Group's control, including inflation, international oil prices, geopolitical events and global economic trend and demands. In the recent years, increased at-home consumption as result of the COVID-19 pandemic, coupled with the shortages in containers, congestion in ports and harbours as well as uncertainties resulting from Russia's invasion of Ukraine and conflicts in the Middle East, caused a significant increase in raw materials, energy and transportation costs. The Group has had varying success in passing the increases in raw material, energy and transportation costs to its customers from time to time. For example, the Group faced more challenges in raising the product prices for Japan compared to its overseas markets. When further increases in such costs cannot be offset through higher prices for the Group's products, they may become less competitive and result in lower profitability for the Group, thereby adversely affecting the Group's operations, financial position and earnings. On the other hand, higher product pricing in response to such cost increase may result in the loss of customers. Moreover, if there were to be interruptions to the raw materials and semi-finished goods supply chains, and temporary shortages of certain materials, especially steel, this could impact the deliveries of the Group's products to its customers, which could have an adverse effect on the Group's operations, sales and earnings.

Natural disasters and epidemics

During periods of unfavourable market or economic conditions, the market demand for certain end applications of the Group's products, such as automotives, may decrease, thereby reducing the demand for the Group's products and services. The businesses of the Group and its business partners may be affected by natural disasters such as earthquakes, flooding, fires and the spread of infectious diseases. In particular, the Group's headquarters and a large number of manufacturing and R&D bases, including its mother factories, are located in the Higashi-Mikawa region of Aichi Prefecture, Japan. Accordingly, in the event of natural disasters such as large-scale earthquakes in the region, the Group's manufacturing and other operations may be materially and adversely impacted. In preparation for such large-scale disasters, the Group has formulated a business continuity plan (BCP) and implemented measures such as seismic retrofitting work to its buildings, trainings that simulates emergencies and safety confirmation systems for employees. While the Group prepares to minimise damage by taking immediate action in the event of a crisis, it is difficult to completely avoid such risk, and as a result, the Group's financial position, business results and cash flows may be adversely affected.

In the past, the Group experienced a decline in its sales partially due to market downturn and uncertainty caused by the COVID-19 pandemic. COVID-19 and any other existing or future epidemic may present adverse impacts which are driven by factors that are beyond the Group's control. Additionally, such epidemics may present a threat to the well-being of the Group's employees and impact its operations. In order to combat the spread of infectious diseases, the Group has taken various measures, such as formulating a basic response plan for COVID-19 pandemic, implementing remote working and active use of web meetings, mandating the use of masks and handwashing during work. However, such measures cannot anticipate all scenarios, and the Group may experience a potential loss of productivity. If a pandemic results in economic downturn or suspends business activities, the progress of the Group's ongoing projects may be delayed or suspended, which could adversely affect the Group's business, results of operation and financial condition.

Management Plan

On 21 January 2022, the Group announced the Medium-Term Management Plan "Beyond the Limit 2024". Under the Medium-Term Management Plan, the Group strives to enhance operating efficiency and profitability, build a robust corporate culture and contribute to the global manufacturing industry as it advances toward the era of carbon neutrality. For details, see "Business – Strategy". The ability of the Group to conduct, and the effectiveness of, the Group's management plan will affect the Group's management, competitiveness and profitability. The Group's business plans and strategies are based on current assumptions of future events which may entail certain risks and are inherently subject to uncertainties. These assumptions may not be correct, including as result of changes in underlying market conditions, which could affect the commercial viability of its business plans and strategies. There is no assurance that the Group's Medium-Term Management Plan will be successful in achieving its aims or meeting the quantitative or qualitative targets that have been set, that the Group's Medium-Term Management Plan will not be adversely affected by external or unforeseeable factors (such as economic conditions) or that the Group's business, financial condition or results of operations will not be adversely affected by the continued implementation of this plan.

Foreign exchange

The Group operates in many parts of the world and, as a result, is affected by fluctuations in foreign exchange rates. In the year ended 30 November 2022, 64.9 per cent of its net sales originated in overseas. In preparing its consolidated financial statements, the Group converts sales, costs, assets, liabilities and other items denominated in local currencies into Japanese yen. Accordingly, the Group is impacted by the relevant foreign exchange rates at the time of conversion regardless of any impact to the value of the local currencies. Moreover, the Group manufactures certain proportion of its products overseas and procures some of its raw materials from overseas vendors. Accordingly, the Group's results of operations may be affected by fluctuations in the relative value of the currencies in which it receives payment or in which it pays its production, procurement and other costs and expenses. Furthermore, these fluctuations can affect the Japanese yen value of the Group's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. While the Group aims to manage foreign exchange risks by manufacturing products in the markets in which its customers are located, settling transactions through its foreign currency cash accounts and entering into foreign exchange forward contracts, there is no guarantee that such measures will prove to be successful.

The "OSG" brand and goodwill

The Group's success in the markets for its services depends in part on its brand name and goodwill. The Group considers the "OSG" brand as central to its corporate identity and has been providing products and services to customers under a variety of "OSG"-related brand names. Additionally, under the Medium-Term Management Plan, the Group has been promoting "A Brand" as its premium tool brand which harnesses cutting-edge technology and made it available with the Group's catalogue items. Although the Group works to enhance the value of the "OSG"

brand, if any subsidiary or affiliate within the Group uses the brand, or operates its business, in a manner that is inconsistent with the Group's standards, the value attributed to the "OSG" brand will suffer together with the reputation of the Company and its each subsidiary and affiliate that is associated with the brand. Any material damage to the "OSG" brand could negatively affect customers' perception of the quality of products and services rendered under the "OSG" brand generally, which could adversely affect the Group's business, results of operation and financial condition.

Human resources

Recruiting and retaining qualified personnel is essential for the Group to maintain its product quality, service standards as well as the safety and security of operations. It is also important for the Group to attract and retain skilled workforce to expand the business areas which are more profitable or strategically significant as and when the Group so plans. Moreover, the Group strives to achieve and maintain the quality of products and services required through continuous training and investment in its personnel. The Group aims to effectively utilise the capabilities of its human resources and promote employee well-being with the goal of creating an environment where its personnel may confidently take up the challenge of successfully performing their work. However, partially due to widespread labour shortages in major economies including Japan, the Group may find it increasingly difficult to attract and retain qualified personnel in some of its business areas. There is no assurance that the Group will be able to continue to attract and retain qualified personnel in the future.

Data security

In the course of its businesses, the Group obtains, stores and maintains business knowhow and other confidential information concerning its technology, products or customers through the sale of the Group's products or the provision of its services. Any unauthorised access, leakage or misuse of such information, whether by the Group's employees or by third parties, could harm the Group's reputation and otherwise adversely affect its operations. In particular, in April 2023, the Company experienced IT malfunctions due to unauthorised access by a third party through ransomware, which resulted in suspension of order acceptance and product delivery for certain periods of time. While the Company's IT system has recovered from such incident, the Group has been formulating measures to prevent the recurrence of such incident based on the advice of external professionals and is determined to continuously enhance its data security.

The Group employs measures to ensure the integrity of data security, including by establishing the Basic Information Security Policy to maintain the trust of its customers and society as well as protect information assets from threats such as accidents, natural disasters and criminal activities. The Group has also conducted information system risk evaluations in response to continuously changing cybercrime techniques, and adopted a series of measures to address any element of risk. However, there is no assurance that unauthorised access, hacking, leakage, phishing or other misuse of such information will never occur. If the Group's business knowhow and other confidential information is leaked or improperly accessed and subsequently misused, the Group may be held responsible and may be subject to civil liability and regulatory action. Moreover, such incidents could cause the Group to lose its competitive advantage with respect to its technology or products as well as damage the credibility and reputation of the Group's products and services, thereby adversely affecting the Group's results of operations and financial condition.

Cybersecurity

The Group's routine business operations rely on the proper functioning of its IT systems. The Group utilises a number of IT systems to manage all aspects of its operations. The Group also utilises core system and applications developed by external system vendor and relies on external vendor for their maintenance. However, the Group cannot assure that its IT systems will always operate without interruption.

In particular, the Group could experience cyber-attacks of varying degrees. In July 2023, the Group experienced a leakage of funds at one of its overseas subsidiaries based on false instructions from a malicious third party. Even though the Group has implemented control and measures to safeguard the integrity of its IT systems and operations, cyber-attacks may nevertheless lead to data leaks or financial loss. The Group's security measures may also be breached or circumvented by errors or malfeasance by its employees or other parties involved in its business activities. The Group may be unable to prevent all breaches because the techniques used to obtain unauthorised access, disable or degrade service or sabotage systems change frequently and often are not recognised until launched against a target. Any malfunction and mismanagement, including but not limited to cyber-attacks, unauthorised access or control, of a particular component of the Group's IT systems may adversely affect its business and results of operations.

Intellectual property rights

Patents and other intellectual property are an important competitive factor because of the emphasis on product innovation in the markets for the Group's products, many of which are subject to frequent technological innovations. The Group relies to a large extent on technology it has developed and it seeks to protect such technology through a combination of patents and other intellectual property rights. See also "Business – Intellectual Property".

There are a number of risks which the Group faces in this context:

- competitors may be able to develop similar technology independently;
- the Group's pending patent applications may not be approved;
- steps the Group takes to prevent misappropriation or infringement of its intellectual property may not be successful; and
- intellectual property laws may not adequately protect the Group's intellectual property.

Although the Group is not aware of any actual or potential significant impairment of, or adverse claim to, its intellectual property rights, any interference in the Group's exercise of such rights, together with the Group's prosecution of costly and time-consuming legal action required by such interference, could have a material adverse effect on the Group's results of operations and financial condition.

Meanwhile, in the course of its business, the Group may be subject to claims by third parties alleging that the Group's products or processes infringe upon their intellectual property rights. If these claims were successful, the Group could incur substantial settlement costs and the Group may not be able to obtain a licence at reasonable cost.

Moreover, some of the products manufactured by the Group incorporate intellectual property rights developed by third parties. The Group maintains many licences to use Japanese and foreign patents. There can be no assurance, however, that in the future the owners of such patents will continue to maintain their patents or extend such patents to the Group on the same basis as at present or at all.

Changing customer requirements and frequent introduction of new technologies

The markets in which the Group operates are subject to rapidly changing technology, changes in customers' requirements and the frequent introduction of new products and services, with the development of new technologies, products and services often making existing products or services obsolete or unmarketable, or significantly reducing their prices within a relatively short time frame. For example, the increasing adoption of EVs and electrification may lead to the Group's automotive customers requiring products with higher quality or new functions. The process of developing new products can be lengthy and costly and may also require the Group to commit a significant amount of capital and resources in advance of any sales.

The Group may not be successful in identifying new technologies, or developing new products in response to changes in technology or customers' requirements. Moreover, technology may advance while the Group is engaged in the development of a product, rendering such product uncompetitive before its introduction in the market. Failure to anticipate or respond rapidly to advances or changes in technology and to adapt the Group's products to customer requirements and to introduce new high-value added strategic products could adversely affect the Group's business, results of operations and financial condition.

Product defects

The Group strives to maintain and improve product quality globally as well as offer product quality and specification that meet customer demand and guarantee the safety of the product use. The Group promotes global quality assurance and certification systems to maintain the quality of all products that the Group manufactures anywhere in the world. However, the Group's products may not perform in line with customer expectations or result in significant accidents, claims or product recalls due to design and manufacturing defects or any other failure. If any of the Group's products fail to perform or operate as expected, whether as a result of human error or otherwise, the Group may need to delay deliveries, initiate product recalls, provide servicing or updates under warranty at its expense and face potential lawsuits, which could adversely affect its brand, business, results of operations and financial condition. While the Group maintains a range of insurance policies which cover certain liability risks, such insurance coverage might not be sufficient to cover all potential product liability claims.

Litigation and government proceedings

In the course of its ordinary business operations, the Group may become a party to litigation, claims, other legal or regulatory proceedings and disputes from time to time. Any ongoing litigation, claims, other legal or regulatory proceedings and disputes may distract the Group's senior management's attention and consume the Group's time and other resources. In addition, even if the Group ultimately succeed in such litigation, claims, other legal or regulatory proceedings and disputes, there may be negative publicity attached to such litigation, claims, other legal or regulatory proceedings and disputes, which may materially and adversely affect the Group's reputation and brand names. In the case of an adverse verdict, including in the near term, the Group may be required to pay monetary damages, assume liabilities or suspend or terminate parts of its operations. As a result, the Group's business, financial condition, results of operations and prospects may be materially and adversely affected.

Environmental regulations

The Group's operations and manufacturing processes are subject to a wide range of environmental laws and regulations in the countries in which the Group has manufacturing facilities. These regulations may become more stringent over time. For example, introduction of carbon taxes may increase the Group's procurement costs for raw materials and energy. In such a case, the amount of capital expenditure and other expenses which might be required to complete remedial actions and to continue to comply with applicable environmental laws could be significant. Additionally, the Group's products are used to manufacture a wide range of end products across industries such as automotive, aerospace and energy. Accordingly, the use of the Group's products in such downstream industries may affect the Group's efforts to reduce its CO₂ emissions, particularly with respect to the calculation and evaluation of Scope 3 greenhouse gas emissions. These events may increase the Group's cost of production and materially and adversely affect the Group's business, results of operations and financial condition.

Internal controls

The Group has established and operate internal controls with the aim of ensuring the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with applicable laws and regulations relevant to its business operations. Pursuant to the "Basic Policy regarding the Establishment of Internal Control System" which was approved by the Board of Directors, the Group has promulgated its corporate code of ethics, risk management rules and other internal policies at both Company-level and subsidiary-level. The Group requires its Directors and employees to strictly comply with applicable laws and its Articles of Incorporation and endeavours to establish for the Company and its subsidiaries an internal control system that could earn the trust of the Group's stakeholders. However, there is no assurance that the Group will be able to establish and operate effective internal controls on a continuous basis since there are inherent limitations to such controls. If the internal controls that the Group implements fail to function effectively, or if there are deficiencies or material weaknesses in such internal controls, it may adversely affect the reliability of the Group's financial reporting and compliance processes.

Considerations Relating to Financial Information

There are differences in the Company's financial reporting under Japanese GAAP and financial reporting standards in other jurisdictions

The Company's consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain material respects from IFRS and generally accepted accounting principles and financial reporting standards in other jurisdictions. The Company's consolidated financial statements may therefore differ from those prepared for companies outside Japan. This Offering Circular does not include a reconciliation of the Company's financial statements to IFRS or to any other generally accepted accounting principles or reporting standards. It is likely that such reconciliation would identify material quantitative differences between Japanese GAAP and IFRS or between Japanese GAAP and such other generally accepted accounting principles or reporting standards.

Interim and annual financial and operating information included in this Offering Circular may not be directly comparable

This Offering Circular contains the Company's interim consolidated financial statements and financial and operating information as at the dates and for the periods indicated in this Offering Circular, which have not been audited by the Company's independent auditor. In addition, interim financial and operating information may reflect seasonal factors and/or may reflect temporary economic or market trends that cannot be extrapolated. Accordingly, the interim consolidated financial statements and financial and operating information contained in this Offering Circular are not wholly comparable with the annual consolidated financial statements and financial and operating information contained in this Offering Circular and should not be so compared.

Considerations Relating to the Bonds and the Shares

The Company intends to repurchase its Shares

On 5 December 2023, the Company's Board of Directors authorised the repurchase of up to 15,000,000 Shares (approximately 15.63 per cent of the issued Shares, excluding treasury stock as at 30 November 2023) at a maximum cost of ¥22,000,000,000 from the market, such repurchase to be made at any time in the period from and including 6 December 2023 to and including 29 November 2024. The Company has decided to repurchase such Shares to maximise corporate value by improving capital efficiency.

As part of its repurchase plan, the Company intends to repurchase up to approximately ¥10,000,000,000 worth of Shares at 8:45 a.m. (Tokyo time) on 6 December 2023 at the closing price of the Shares on the Tokyo Stock Exchange on 5 December 2023 through the ToSTNeT-3 system. The amount of Shares which the Company is able to repurchase through the ToSTNeT-3 system is dependent on the amount of Shares market participants offer to sell at the relevant price at the relevant time. The result of such repurchase will be announced in Japan on 6 December 2023.

To the extent any Shares remain to be repurchased (within the maximum cost of ¥22,000,000,000 and the maximum number of 15,000,000 Shares) after the above-mentioned repurchase through the ToSTNeT-3 system, the Company may repurchase further Shares (on the auction market (at the market prices prevailing at the relevant time) or otherwise), until 29 November 2024. However, there can be no assurance that any such repurchase will be proposed or effected.

The Company does not undertake to review or revise this Offering Circular to reflect any repurchases of Shares (or lack thereof) as referred to above. See “Information Concerning the Shares—Proposed Share Repurchase by the Company”.

Even if the Company is able to successfully repurchase its Shares as originally planned, it will result in decreased shareholders’ equity and the replacement of cash with debt. Although the Company believes such changes will not adversely affect its creditworthiness, there can be no assurance that rating agencies, banks, other financial institutions or investors will view any share repurchase similarly, which may adversely impact credit rating, financing, share price or investor relations.

There are limitations on the timing of exercise of Stock Acquisition Rights that will impact Bondholders’ rights

Under the current handling rules and practices of JASDEC, it will take a minimum of three business days for Shares to be delivered to a Bondholder after the Stock Acquisition Date (as defined in Condition 5.9.4). The Stock Acquisition Rights may not be exercised during any such period in which the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined in Condition 3.1). Bondholders should therefore note, in particular, that exercise of Stock Acquisition Rights will be restricted during the period surrounding any record date in respect of Shares set by the Company (as at the date of this Offering Circular, 31 May and 30 November in each year).

No cash amounts will be payable in respect of Shares that constitute less than one full unit

The rights of holders of Shares not constituting one whole unit are limited under the Company’s Articles of Incorporation, and may not be tradable on the stock exchange on which they are listed. Currently, the Company’s Articles of Incorporation provide that one unit comprises 100 Shares. Since the introduction of the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including the regulations promulgated thereunder, the “Book-Entry Act”), making it possible for listed shares of Japanese companies comprising less than one full unit to be delivered through the JASDEC book-entry transfer system, JASDEC’s guidance requires that stock acquisition rights issued by Japanese companies should be structured such that shares that constitute less than one full unit are delivered to the account of the exercising holder, instead of being automatically sold back to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not receive cash amounts in respect of Shares that constitute less than one full unit.

Shares that constitute less than one full unit may not be traded on the stock exchange on which they are listed. Accordingly, a holder of Shares that constitutes less than one full unit will need to request the Company to purchase such Shares in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, the Company’s Articles of Incorporation and the Company’s Share Handling Regulations if they would like the Company to do so. See “Description of the Shares and Certain Regulations—Unit Share System”.

Limitations on Anti-Dilution Protection

The Conversion Price at which the Stock Acquisition Rights for the Bonds may be exercised will be adjusted upon certain events having a dilutive impact on the Shares, to the extent described in the Conditions. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

The trading price of the Bonds will be affected by fluctuations in the trading price of the Shares

The trading price of the Bonds is expected to be affected by fluctuations in the trading price of the Shares and it is impossible to predict whether the trading price of the Shares will rise or fall. Any decline in the trading price of the Shares will have an adverse effect on the trading price of the Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, the financial position and results of operations of the Group, including the reporting of financial results.

A trading market for the Bonds may not develop

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of the Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, there can be no assurance that the Bonds will not trade at prices lower than the initial Offer Price.

The Bonds are unsecured

The Bonds do not benefit from any security and the Bondholders' claims will rank behind any secured creditors in the event of the Company's liquidation or bankruptcy.

Because of daily price range limitations under Japanese stock exchange rules, investors may not be able to sell their Shares at a particular price on any particular trading day, or at all

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell Shares received upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds at a price above or below the relevant daily limit may not be able to sell his or her Shares at such price on a particular trading day, or at all.

Future changes to Japanese law relating to Stock Acquisition Rights and the Shares may have a mandatory effect under Japanese law

Future changes to provisions relating to Stock Acquisition Rights and/or the Shares may have a mandatory effect under Japanese law. Condition 15.2 provides for amendments to be made to the Conditions relating to the Stock Acquisition Rights where those amendments become necessary in order to comply with mandatory provisions of Japanese law even if those amendments are materially prejudicial to the interests of Bondholders.

The rights of shareholders under Japanese law may be different from those that apply to companies incorporated in other jurisdictions

The corporate affairs of the Company are governed by, and in accordance with, the Company's Articles of Incorporation, the Company's Share Handling Regulations and the Company's Regulations of the Board of Directors and other related regulations thereunder, as well as the Companies Act. Legal principles relating to such matters as the validity of corporate procedures, Directors' and officers' fiduciary duties (including actions that may legitimately be taken by them in respect of unsolicited takeover attempts) and liabilities, and shareholders' rights under Japanese law may be different from those that apply to companies incorporated in other jurisdictions. Bondholders who acquire Shares upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of the Bonds may have more difficulty in asserting their rights as a shareholder than they would as a shareholder of a corporation organised in other jurisdictions.

The Trustee may request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances (including giving notice to the Company pursuant to Condition 10 and taking enforcement steps as contemplated in Condition 16), the Trustee may (at its sole discretion) request an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

Prior notification under the Foreign Exchange and Foreign Trade Act of Japan may be required in the case of acquisition by foreign investors of a certain portion of our Shares

Because the Group is engaged in certain businesses designated by the Foreign Exchange and Foreign Trade Act of Japan (Act No. 228 of 1949, as amended) (the "FEFTA") and its related cabinet orders and ministerial ordinances (collectively, the "Foreign Exchange Regulations"), if a foreign investor intends to acquire Shares in circumstances that constitutes an "inward direct investment" under the Foreign Exchange Regulations, the foreign investor, in general, must file prior notification of such inward direct investment with the Minister of Finance of Japan (the "Minister of Finance") and any other competent Ministers (the "Ministers"). "Inward direct investment" includes an acquisition of Shares as a result of which such foreign investor, in combination with any existing holdings, directly or indirectly holds one per cent or more of the total number of issued Shares or the total number of voting rights. While certain exemptions from the prior notification requirements are provided for under the Foreign Exchange Regulations, certain foreign investors seeking to make such acquisition may not be eligible for such exemptions. If such prior notification is filed, the proposed acquisition may not be consummated until a prescribed screening period expires. In some cases, the Ministers may extend the screening period, and may recommend or order a modification or abandonment of such acquisition. In addition, if certain conditions, including those prescribed in light of national security of Japan under the

Foreign Exchange Regulations are met, the Ministers may order the disposal of the Shares acquired or take other measures. Consequently, any foreign investor seeking to acquire Shares in a transaction that constitutes an “inward direct investment” may not consummate such acquisition in an expected time frame, in accordance with an intended plan, or at all.

Additionally, if a foreign investor directly or indirectly holds one per cent or more of the total voting rights and, at a general meeting of shareholders, consents to certain proposals having a material influence on the Company’s management such as the (i) election of such foreign investor or any of its related persons (as defined in the Foreign Exchange Regulations) as the Company’s Directors or (ii) transfer or discontinuation of its business, such consent, subject to certain exemptions, also constitutes an “inward direct investment” requiring prior notification. If such prior notification is filed, such consent cannot be given until the prescribed screening period expires. As a result, such foreign investors may have difficulties giving such consent in accordance with an intended plan, or at all.

The discussion above is not exhaustive of all possible foreign exchange control considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall foreign exchange controls consequences of the acquisition, ownership and disposition of Shares or voting rights by consulting their own advisors. For a more detailed discussion on the requirements and procedures regarding the prior notifications under the Foreign Exchange Regulations, see “Japanese Foreign Exchange Regulations”.

Acquisition Option

Under Condition 7.2 of the Bonds, at any time during the period from, and including, 21 August 2030 to, and including, 20 September 2030, the Company may, but shall not be bound to, give an Acquisition Notice (as defined in the Conditions) to acquire each Bond at a consideration of 100 per cent of the principal amount in cash plus any Acquisition Shares calculated in accordance with the provisions of Condition 7.2.1, provided that any Bondholder who wishes its Bonds to be so acquired must deliver a duly completed Acquisition Election Notice on or before the date falling 14 calendar days prior to the Acquisition Option Date. In accordance with Condition 7.2.3, any Bonds in respect of which a duly completed Acquisition Election Notice has not been delivered prior to such deadline will be redeemed at 100 per cent of their outstanding principal amount on the Elected Redemption Date (as defined in the Conditions), which amount may be lower in economic value than what the Bondholder would have been able to receive had it delivered a duly completed Acquisition Election Notice prior to the relevant deadline. Investors shall also note that pursuant to Condition 5.1.4(b), the Stock Acquisition Rights may not be exercised during the period from, and including, 21 August 2030 to, and including, 20 September 2030 or (if the Acquisition Notice is given pursuant to Condition 7.2) to and including the Elected Redemption Date.

Considerations Related to Forward-looking Statements

Forward-looking statements in this Offering Circular involving risks and uncertainties

Statements in this Offering Circular with respect to the Group’s plans, strategies and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, the impact of general economic and market conditions in the markets where the Group operates, the level of demand for the Group’s products and services, the level of competition, and the Group’s ability to adapt itself to market, industry and general economic, political and business conditions.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions of the Bonds will, subject to completion and amendment and save for the paragraphs in italics, be endorsed on the Certificates (as defined herein) evidencing the Bonds.

The ¥22,000,000,000 Zero Coupon Convertible Bonds due 2030 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated in the Bonds) issued by OSG CORPORATION (the “Company”) are constituted by a trust deed (the “Trust Deed”) dated 21 December 2023 made between the Company and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include its successors as trustee and any other trustee appointed under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 and a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Right”), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the “Shares”) as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the “Agency Agreement”) dated 21 December 2023 relating to the Bonds among, *inter alios*, the Company, the Trustee, Mizuho Trust & Banking (Luxembourg) S.A. as principal agent (the “Principal Agent”), as calculation agent (the “Calculation Agent”) and as registrar (the “Registrar”) and the other agents referred to therein are available for inspection by Bondholders by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom or electronically upon request to the Trustee, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the “Agents” shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of and are bound by all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

1 Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights

1.1 Form, Denomination and Issue Price

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) is 101.0 per cent of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a “Certificate”) will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the “Register”) of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

1.2 Title

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a “Bondholder” and (in relation to a Bond) “holder” mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

Upon issue, the Bonds will be evidenced by a global certificate (the “Global Certificate”) deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.

1.3 Status

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

1.4 Transfers of Bonds

1.4.1 *The Register:* The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers, acquisitions and redemptions of the Bonds and exercise of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers:* A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent, the Registrar or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the Registrar or the relevant Agent (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon written request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form" of this Offering Circular.

1.4.3 *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within three Transfer Business Days (as defined below) of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge:* Registration of a transfer of Bonds and issuance of Certificates in relation thereto shall be effected without charge by or on behalf of the Company, the Registrar or the relevant Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); and (ii) the Company and the Registrar or the relevant Agent being reasonably satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer:* No Bondholder may require the transfer of a Bond to be registered:

- (i) during the period of seven days ending on (and including) the due date for redemption pursuant to Condition 7.1, 7.2.3, 7.5, 7.6 or 7.7;
- (ii) with respect to any Bond for which Condition 7.2.2 applies, during the period from and including the Acquisition Determination Date (as defined in Condition 3.1) or, if earlier, the time at which an Acquisition Election Notice (as defined in Condition 3.1) in respect of such Bond has been given pursuant to Condition 7.2, up to but excluding the Acquisition Option Date (as defined in Condition 3.1);

- (iii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4 in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn);
- (iv) after a notice of redemption has been given pursuant to Condition 7.3 or 7.4 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.4); or
- (v) after a notice of redemption is deposited in respect of such Bond pursuant to Condition 7.8.

1.5 Relationship between Bonds and Stock Acquisition Rights

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

2 Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time or prior thereto, according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

- (a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and
- (b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

3 Definitions and Construction of References

3.1 Definitions

In these Conditions (unless the context otherwise requires):

"3-Month Deposit Rate" means, as at any specified time on any date, the rate per annum as at such specified time on such date as shown on Bloomberg page JYDRC Curncy (setting "Bid", and using the pricing source "CMPL") (or any successor page, setting or pricing source), or, if no such rate is available as at the specified time on such day (for the purposes of this definition, the "Original Date"), the 3-Month Deposit Rate on the Original Date shall be the 3-Month Deposit Rate, determined as aforesaid, as at the specified time on the immediately preceding day on which the same can be so determined, provided however that if such immediately preceding day falls prior to the fifth day before the Original Date, or if the 3-Month Deposit Rate cannot be determined as aforesaid (including without limitation because such Bloomberg page (or any successor) has ceased to exist), the 3-Month Deposit Rate as at the specified time on the Original Date shall be determined in such other manner as determined in good faith to be appropriate by an Independent Financial Adviser. If the 3-Month Deposit Rate determined as aforesaid shall be less than zero, then the 3-Month Deposit Rate shall be deemed to be zero.

“Account Management Institution” means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

“Acquisition Determination Date” has the meaning provided in Condition 7.2.1;

“Acquisition Election Notice” has the meaning provided in Condition 7.2.2;

“Acquisition Notice Period” means the period from, and including, 21 August 2030 to, and including, 20 September 2030;

“Acquisition Notice” has the meaning provided in Condition 7.2.1;

“Acquisition Option Date” has the meaning provided in Condition 7.2.1;

“Acquisition Share Value” has the meaning provided in Condition 7.2.1;

“Acquisition Shares” has the meaning provided in Condition 7.2.1;

“Additional Amounts” has the meaning provided in Condition 9;

“Additional Shares” has the meaning provided in Condition 5.3;

“Annual Fiscal Period” means a period commencing on 1 December and ending on the following 30 November; provided that, if the Company shall change its fiscal year so as to end on a date other than 30 November, “Annual Fiscal Period” shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Articles of Incorporation” means the articles of incorporation of the Company from time to time in effect;

“Asset Transfer Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the “Asset Transferee”), pursuant to the terms of which the Company’s obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

“Asset Transferee” has the meaning provided in the definition of Asset Transfer Event;

“Auditors” means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested of them under these Conditions or the Trust Deed, such other auditors or firm of auditors as may be appointed by the Company to act as such and promptly notified in writing to the Trustee by the Company;

“Authorised Officer” means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have notified to the Trustee in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

“Average VWAP per Share” has the meaning provided in Condition 7.2.1;

“Bankruptcy Act” means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

“Base Dividend” has the meaning provided in Condition 5.2.4;

“Bid Price” has the meaning provided in Condition 5.1.9;

“Board of Directors” of a company means the board of directors of that company within the meaning of the Companies Act; provided that, if any individual director is authorised by such board of directors to make the relevant decision in accordance with the Companies Act and such company’s articles of incorporation and other internal regulations, any reference to the Board of Directors of such company shall be deemed to mean such director, and any reference to the relevant resolution or approval at a meeting of such Board of Directors shall be deemed to mean the relevant decision of such director;

“Bondholder” and “holder” have the meaning provided in Condition 1.2;

“Bondholders’ Optional Redemption Date” has the meaning provided in Condition 7.8;

“Bonds without Acquisition Election Notice” has the meaning provided in Condition 7.2.3;

“Book-Entry Act” means the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended);

“Business Day” in respect of any place means a day, other than a Saturday or Sunday, on which banks are open for business in such place;

“BVAL Price” has the meaning provided in Condition 5.1.9;

“Certificate” has the meaning provided in Condition 1.1;

“Civil Rehabilitation Act” means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

“Clean-up Redemption Notice” has the meaning provided in Condition 7.3;

“Closed Period” has the meaning provided in Condition 7.11;

“Closing Date” means 21 December 2023;

“Closing Parity Value” has the meaning provided in Condition 5.1.9;

“Closing Price” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be);

“Companies Act” means the Companies Act of Japan (Act No. 86 of 2005, as amended);

“Company Notification Date” has the meaning provided in Condition 5.1.9;

“Company’s Territory” has the meaning provided in Condition 12.2;

“Consolidated Financial Statements” means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared as aforesaid;

“Consolidated Subsidiary” means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

“Controlling Shareholder” means a shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as provided in the Articles of Incorporation) or more of the Company’s voting rights as calculated in accordance with the Companies Act;

“Conversion Notice” means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the Agency Agreement;

“Conversion Price” has the meaning provided in Condition 5.1.3;

“Corporate Event” has the meaning provided in Condition 6.1;

“Corporate Event Effective Date” has the meaning provided in Condition 6.3;

“Corporate Event Redemption Date” has the meaning provided in Condition 7.5;

“Corporate Event Redemption Price” has the meaning provided in Condition 7.5;

“Corporate Reorganisation Act” means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

“Corporate Split Counterparty” has the meaning provided in the definition of Corporate Split Event;

“Corporate Split Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of

Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company's obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the "Corporate Split Counterparty");

"Current Market Price per Share" has the meaning provided in Condition 5.2.9;

"Custodian" means The Law Debenture Trust Corporation p.l.c. at its specified office at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

"Custodian's Agent" means Mizuho Bank, Ltd. at its specified office at 15-1, Konan 2-chome, Minato-ku, Tokyo 108-6009, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

"Delisting Redemption Date" has the meaning provided in Condition 7.6.1;

"Deposit Date" has the meaning provided in Condition 5.9.4;

"Deposit Time" has the meaning provided in Condition 5.9.4;

"Dividend Adjustment Amount" has the meaning provided in Condition 7.2.1;

"Due Date" has the meaning provided in Condition 9;

"Elected Redemption Date" has the meaning provided in Condition 7.2.3;

"Ex-Dividend Date" has the meaning provided in Condition 7.2.1;

"Exercise Period" has the meaning provided in Condition 5.1.4;

"Extraordinary Dividend" has the meaning provided in Condition 5.2.4;

"Extraordinary Resolution" means a resolution passed (i) at a meeting of the Bondholders duly convened (including satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon, or (ii) by a written resolution or electronic consent in accordance with the provisions contained in the Trust Deed;

"FATCA withholding" has the meaning provided in Condition 9;

"Financial Instruments and Exchange Act" means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

"Fiscal Period" means, as the context may require, (i) a period commencing on 1 December and ending on the following 30 November; or (ii) three month periods each commencing on 1 December, 1 March, 1 June and 1 September; provided that, if the Company shall change its fiscal year so as to end on a date other than 30 November, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Holding Company" has the meaning provided in the definition of Holding Company Event;

"Holding Company Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the "Holding Company") by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

"Independent Financial Adviser" means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and approved in writing by the Trustee;

"Last Day Conversion Price" has the meaning provided in Condition 7.2.1;

“Leading Institution” means the meaning provided in Condition 5.1.9;

“Listing” has the meaning provided in Condition 6.4.2;

“Merged Company” means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

“Merger Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

“New Obligor” has the meaning provided in Condition 6.1;

“New Obligor Current Market Price per Share” has the meaning provided in Condition 6.5.3;

“New Stock Acquisition Rights” has the meaning provided in Condition 12.2;

“New Territory” has the meaning provided in Condition 12.2;

“Non-unit Shares” has the meaning provided in Condition 5.1.2;

“Notification Date” has the meaning provided in Condition 5.1.9;

“Number of Deliverable Shares” has the meaning provided in Condition 6.5.3;

“Number of Held Shares” has the meaning provided in Condition 6.5.3;

“Offeror” has the meaning provided in Condition 7.6.1;

“Parity Event” has the meaning provided in Condition 5.1.9;

“Parity Notification Event” has the meaning provided in Condition 5.1.9;

“Payment Business Day” has the meaning provided in Condition 8.3;

“Principal Subsidiary” means any Consolidated Subsidiary of the Company (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company’s opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Proceedings” has the meaning provided in Condition 21.2;

“Quote for the Bonds” has the meaning provided in Condition 5.1.9;

“R&I” has the meaning provided in Condition 5.1.6;

“Record Date” means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the “Record Date” shall be construed as a reference to the date of any event in question coming into effect;

“Reference Parity” has the meanings provided in Conditions 7.5, 7.6 and 7.7;

“Reference Period” has the meaning provided in Condition 5.1.9;

“Register” has the meaning provided in Condition 1.1;

“Registered Account” has the meaning provided in Condition 8.1;

“Relevant Debt” has the meaning provided in Condition 2;

“Relevant GAAP” means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in Japan or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or its successor) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or its successor));

“Relevant Number of Shares” has the meaning provided in Condition 5.2.4;

“Relevant Period” has the meaning provided in Condition 5.2.15;

“Relevant Securities” has the meaning provided in Condition 5.2.8;

“Relevant Stock Exchange” means Tokyo Stock Exchange, Inc. (or its successor) or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on Tokyo Stock Exchange, Inc. (or its successor), the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

“Relevant VWAP Period” has the meaning provided in Condition 7.2.1;

“Representative Director” means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

“Retroactive Adjustment” has the meaning provided in Condition 5.3;

“Securities” includes, without limitation, the Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

“Shareholder Determination Date” means (i) any Record Date and (ii) any other date set for the purpose of determination of the holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act;

“Shareholder Determination Date Restriction Period” means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date);

“Squeezeout Effective Date” has the meaning provided in Condition 7.7.1;

“Squeezeout Event” means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) by way of an amendment to the Articles of Incorporation, for the purpose of, including but not limited to, making the Company a wholly-owned subsidiary of another corporation, (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder’s wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*) under the Companies Act, or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving a consolidation of Shares (*kabushiki no heigo*) under the Companies Act after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing;

“Squeezeout Redemption Date” has the meaning provided in Condition 7.7.1;

“Stock Acquisition Date” has the meaning provided in Condition 5.9.4;

“Stock Split” means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

“Subsidiary” means a company, more than 50 per cent of the outstanding shareholders’ voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, “voting rights” means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

“Tax Redemption Date” has the meaning provided in Condition 7.4;

“Tax Redemption Notice” has the meaning provided in Condition 7.4;

“Tokyo Business Day” has the meaning provided in Condition 5.1.4;

“Trading Day” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day, other than a Saturday or Sunday, on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

“Transfer Business Day” has the meaning provided in Condition 1.4.3;

“VWAP” has the meaning provided in Condition 7.2.1; and

“yen” and “¥” mean Japanese yen, the lawful currency of Japan.

3.2 Construction of Certain References

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the “issue” of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words “issue”, “issued” and “issuable” shall be construed accordingly), references in these Conditions to the word “acquire” used in conjunction with the Shares shall be read as including both the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly (other than where such references to “acquired” and “acquisition” are to the acquisition of the Bonds pursuant to Condition 7.2), and references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system operated by the Japan Securities Depository Center, Incorporated. The words “substitution” and “grant” used in relation to the exchange of the Company’s obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

4 Default Interest

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum as being equal to the 3-Month Deposit Rate as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5 Exercise of Stock Acquisition Rights

5.1 Conversion Price, Exercise Period, Shares Issuable and Procedure

5.1.1 *Exercise of Stock Acquisition Rights and Contribution of the Bond:* Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right

incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which having been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as at the Stock Acquisition Date as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond.

- 5.1.2** *Number of Shares:* The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares not constituting a unit (*tangen*) of Shares (“Non-unit Shares”) or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

As at the date of this Offering Circular, the Articles of Incorporation provide that 100 Shares constitute one unit. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares constituting less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares constituting less than one unit may at any time require the Company to purchase such Shares through the relevant Account Management Institution.

- 5.1.3** *Conversion Price:* The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the “Conversion Price”) shall initially be ¥2,096.0 per Share, subject to adjustment in the manner provided in Condition 5.2.

- 5.1.4** *Exercise Period:* Subject to Condition 5.1.5, each Stock Acquisition Right may be exercised at any time during the period from, and including, 4 January 2024 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 6 December 2030, or:

- (i) if the relevant Bond shall have been acquired by the Company pursuant to Condition 7.2 and cancelled pursuant to Condition 7.2.1, then up to the time when such Bond is so cancelled;
- (ii) if the relevant Bond shall have been called for redemption pursuant to Condition 7.3 or 7.4, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.4, the relevant Bondholder has elected that such Bond shall not be redeemed);
- (iii) if the relevant Bonds shall become due to be redeemed pursuant to Condition 7.2.3, 7.5, 7.6 or 7.7, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof;
- (iv) if the relevant Bond shall become due to be redeemed pursuant to Condition 7.8, then up to the time when the relevant notice of redemption is deposited at the specified office of an Agent pursuant to Condition 7.8;
- (v) if the relevant Bond shall have been purchased by the Company or a Subsidiary pursuant to Condition 7.9 and cancelled by the Company pursuant to Condition 7.10, then up to the time when such Bond is so cancelled; or
- (vi) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

- (a) in no event shall the Stock Acquisition Rights be exercised after 6 December 2030;

- (b) the Stock Acquisition Rights may not be exercised during the period from, and including, 21 August 2030 to, and including, 20 September 2030 or (if the Acquisition Notice is given pursuant to Condition 7.2) to and including the Elected Redemption Date;
- (c) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.6 and 7.7); and
- (d) the Stock Acquisition Rights may not be exercised where the relevant Stock Acquisition Date (or the next following Tokyo Business Day, if the Stock Acquisition Date would not be a Tokyo Business Day) would fall on a date within any Shareholder Determination Date Restriction Period; provided that if there is a change to the mandatory provisions of Japanese law, regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(d) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Trustee in writing and to the Bondholders in accordance with Condition 19.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of the determination and period referred to in Condition 5.1.4(c) above at least 30 days prior to the commencement of such period.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of each such Shareholder Determination Date Restriction Period at least three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

As at the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31 May and 30 November. By way of example, in respect of the Record Date falling on 31 May 2024, it is anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 29 May 2024 to (and including) 31 May 2024.

The term “Tokyo Business Day” means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo.

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is referred to in these Conditions as the “Exercise Period” (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purposes.

5.1.5 Condition to Conversion:

Prior to (and including) 20 August 2030, and subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights only if, as at the last Trading Day of any calendar quarter, the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter, as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19, subject to adjustment in the manner provided in Condition 5.2.

If the relevant condition as set out above is satisfied, then a Bondholder may (subject to the Conditions) exercise the Stock Acquisition Rights on and after the first day of the immediately following calendar quarter (or, in the case of the calendar quarter commencing on 1 January 2024, on and after 4 January 2024) until the end of such calendar quarter, provided the relevant Deposit Date falls during the Exercise Period.

The conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable (A) during any period that Condition 5.1.6, 5.1.7 and/or 5.1.8 apply, and/or (B) where a

Parity Event has occurred pursuant to Condition 5.1.9, during the period of 15 consecutive Tokyo Business Days commencing on (and including) the first Tokyo Business Day immediately following the Company Notification Date in respect of such Parity Event.

The conditions to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 shall not be applicable during the period from, and including, 21 August 2030 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 6 December 2030).

Further, for the avoidance of doubt, even where a condition to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 is not applicable by virtue of Condition 5.1.6, 5.1.7, 5.1.8 or 5.1.9, the Stock Acquisition Rights shall not be exercisable after the expiration of the Exercise Period.

- 5.1.6** *Conditions to Conversion - Rating Requirements:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during any period in which the issuer rating assigned to the Company by Rating and Investment Information, Inc. or its successors (together, “R&I”) is BBB (or equivalent if the rating category is changed) or lower, an issuer rating is no longer assigned to the Company by R&I, or the issuer rating assigned to the Company by R&I has been suspended or withdrawn.

Upon the occurrence of the event set out above, the Company shall forthwith give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

- 5.1.7** *Conditions to Conversion - Redemption Events:* If a notice of redemption is given pursuant to Condition 7.3, 7.4, 7.5, 7.6 or 7.7, the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable on and after the date of notice of such redemption except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed pursuant to Condition 7.4.

- 5.1.8** *Conditions to Conversion – Corporate Events:* Subject to the suspension by the Company as referred to in Condition 5.1.4(c), the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period from (and including) the date upon which the Company is first required to give notice to the Bondholders in accordance with Condition 6.2 to (and including) the relevant Corporate Event Effective Date.

- 5.1.9** *Conditions to Conversion – Parity Event:* The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period of 15 consecutive Tokyo Business Days from and including the first Tokyo Business Day immediately following the Company Notification Date in respect of the occurrence of a Parity Event. Whether or not a Parity Event has occurred for the purposes of these Conditions shall be determined by the Calculation Agent in accordance with the provisions of this Condition 5.1.9.

Any Bondholder shall be entitled to give notice (each, a “Parity Notification Event Notice”) to the Company in writing, with a copy to the Calculation Agent, in each case in accordance with this Condition 5.1.9, if and to the extent that a Parity Notification Event has occurred, provided that such notice shall be accompanied by reasonable supporting evidence (such evidence to be accepted in the opinion of the Company in its absolute discretion) regarding the occurrence of such Parity Notification Event. If any Parity Notification Event Notice is received after 4:00 p.m. in the place of the specified office of the Calculation Agent, such Parity Notification Event Notice shall be deemed for all purposes of these Conditions to have been provided on the date which is the immediately following Business Day in the place of the specified office of the Calculation Agent.

A Parity Notification Event Notice shall include a certification by or on behalf of the relevant Bondholder that it holds at least one Bond and evidence of the holding of such Bondholder to the satisfaction of the Company, on which certification the Company and the Calculation Agent shall be able to rely, in the absence of manifest error, without further investigation. If a Parity Notification Event Notice is delivered in accordance with the foregoing, neither the Company nor the Calculation Agent shall be entitled or required to demand any further information from such person.

Each Parity Notification Event Notice to be given by a Bondholder to the Company shall be delivered to the Company by electronic mail only to project_sunrise_osg@osg.co.jp, and shall simultaneously be copied to the Calculation Agent by electronic mail only agencyparity@mizuho.lu, or in each case to such other electronic mail address as may be notified to Bondholders in accordance with Condition 19.

Any Parity Notification Event Notice shall be deemed to be received by the Company or the Calculation Agent, as the case may be, only if received by the relevant party in legible form.

At any time when the relevant Bonds are evidenced by the Global Certificate, a Parity Notification Event Notice may be given by (or on behalf of) a person with an entitlement to such Bond, and which may be an accountholder in Euroclear or Clearstream, Luxembourg. Such Parity Notification Event Notice shall include a certification that such person holds (or is delivering such Parity Notification Event Notice on behalf of a person that holds) an entitlement to at least one Bond. Parity Notification Event Notices shall be submitted by electronic mail in accordance with this Condition 5.1.9 rather than through the Euroclear or Clearstream, Luxembourg systems.

The date on which any Parity Notification Event Notice is provided (or deemed to be so provided) to the Company and the Calculation Agent in accordance with the foregoing shall be the “Notification Date” in respect of such Parity Notification Event Notice. Once a Parity Notification Event Notice has been provided (or deemed to be so provided) on a Notification Date (such Parity Notification Event Notice being, for the purposes of this paragraph, the “earlier Parity Notification Event Notice”), any subsequent Parity Notification Event Notice that is provided (or deemed to be provided) on or prior to the Company Notification Date in respect of the earlier Parity Notification Event Notice shall be disregarded, and no Notification Date shall occur in respect of that subsequent Parity Notification Event Notice.

The following shall apply in respect of each Notification Date which is deemed to occur under this Condition 5.1.9:

- (a) no later than the second Business Day in Luxembourg and Tokyo immediately following the Notification Date, the Company shall give notice of the receipt of the relevant Parity Notification Event Notice, the relevant Notification Date and the expected Reference Period to the Bondholders in accordance with Condition 19 and to the Trustee;
- (b) the Calculation Agent shall determine whether or not a Parity Event has occurred in respect of the relevant Reference Period and shall notify the Company of such determination by no later than the second Business Day in Luxembourg and Tokyo immediately following (1) the last Business Day in Tokyo of the Reference Period if the Parity Event shall be deemed to have occurred in such Reference Period, or (2) the first day in the relevant Reference Period on which none of the events set out in the definition of Parity Event has occurred (and therefore it is determined that no Parity Event has occurred in respect of the relevant Reference Period); and
- (c) the Company will give notice of such Calculation Agent’s determination to the Bondholders in accordance with Condition 19 and the Trustee no later than the second Business Day in Luxembourg and Tokyo immediately following the date on which the Calculation Agent notifies the Company of the determination set out in paragraph (b) above (the date on which notice is given by the Company in accordance with this paragraph (c) being referred herein to as the “Company Notification Date”).

None of the Company, the Calculation Agent, the Trustee, the Agents, the Registrar, the Custodian or the Custodian’s Agent will be required to monitor any BVAL Price or Quotes for the Bonds or to take any steps or to perform any related calculations to verify whether a Parity Notification Event or Parity Event has occurred, and they shall not be liable to the Bondholders or any other person for not doing so, save (in the case of the Company and the Calculation Agent only and only as expressly provided in this Condition 5.1.9) where a Notification Date has occurred pursuant to this Condition 5.1.9.

In these Conditions:

“Bid Price” means, in respect of any day, the bid price per ¥10,000,000 in principal amount of the Bonds quoted by a Leading Institution for the purchase by that Leading Institution of a minimum principal amount of the Bonds equal to ¥10,000,000 on such day;

“BVAL Price” means, in respect of any day, the price of the Bonds as derived from the Bloomberg page: XS2730213290 Corp HP (setting “BVAL” or any successor setting) provided by Bloomberg (or any successor service) as the bid price of the Bonds as at 4:00 p.m. (New York time) on such date, multiplied by 100,000, as determined by (i) the Calculation Agent, in the case of the determination of a Parity Event, or (ii) the relevant Bondholder, in the case of the determination of a Parity Notification Event;

“Closing Parity Value” means, in respect of any day, the amount determined in good faith by the Calculation Agent and calculated as follows:

$$CPV = N \times CP$$

where:

CPV = the Closing Parity Value;

N = ¥10,000,000 divided by the Conversion Price in effect on such day (for the avoidance of doubt, without taking into account Retroactive Adjustments, if any); and

CP = the Closing Price of the Shares on such day (or if such day is not a Trading Day, the most recent Trading Day prior thereto);

“Leading Institution” means any bank or financial institution which is a leading, internationally recognised market maker in trading exchangeable and/or convertible bonds;

A “Parity Event” shall be deemed to have occurred on the last day of any Reference Period, where the Calculation Agent determines that, in respect of each of the five Tokyo Business Days comprised in such Reference Period, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (for any reason, including but not limited to by reason of the temporary unavailability of the relevant page or setting, or the permanent cessation of the provision of such price by the relevant provider), the Quote for the Bonds in respect of such Tokyo Business Day is less than 97 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (iii) neither the BVAL Price nor Quote for the Bonds is available in respect of such Tokyo Business Day;

A “Parity Notification Event” shall occur if, on each Tokyo Business Day during any period of five consecutive Tokyo Business Days ending no earlier than the fifth Business Day in Luxembourg and Tokyo immediately before the relevant Notification Date, either:

- (i) the BVAL Price in respect of such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day; or
- (ii) if no BVAL Price is available on such Tokyo Business Day (provided that it is not necessary for the relevant Bondholder to provide any evidence that such BVAL Price was so unavailable), such other reasonable evidence to show that the price of the Bonds (indicated as a percentage and multiplied by 100,000) as at 4:00 p.m. New York time on such Tokyo Business Day is less than 98 per cent of the Closing Parity Value on such Tokyo Business Day is available;

“Quote for the Bonds” means, in respect of any Tokyo Business Day and in respect of Bid Prices as at or around 4.00 p.m. (Tokyo time) on such Tokyo Business Day, the Bid Price so provided by a Leading Institution selected by the Company (in its absolute discretion) as informed by the Company to the Calculation Agent, provided that where no Bid Price is provided to the Company in respect of such Tokyo Business Day, it shall be deemed that no Quote for the Bonds is available in respect of such Tokyo Business Day; and

“Reference Period” means, in respect of any Notification Date, the period of five consecutive Tokyo Business Days commencing on the third Business Day in Luxembourg and Tokyo immediately following such Notification Date.

References in these Conditions to any Bloomberg page means the relevant page on the Bloomberg terminal (or, if not available from Bloomberg, any successor information service provider thereto determined by the Company in its absolute discretion).

- 5.1.10** *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights:* Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

5.2 Adjustments of the Conversion Price

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

5.2.1 *Stock Split and Consolidation of Shares:* if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

- (i) the Record Date for the allotment, grant, issue or offer of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3; or
- (ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8; or
- (iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8; or
- (iv) the date of grant, issue, transfer or offer of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item “n” of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Shares:* if the Company shall allot, grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of “n” immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.3 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Convertible/Exchangeable Securities:* if the Company shall grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.4 *Distribution to All, or a Class of, Shareholders of Assets (including Extraordinary Dividends):*

if the Company shall distribute to the holders of Shares (i) evidence of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being “distribution of surplus” within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{CMP} - \text{fmv}}{\text{CMP}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution, including a distribution of an Extraordinary Dividend.

fmv = (i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director or an Authorised Officer and delivered by the Company to the Trustee) of the portion of the evidence of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares in respect of such Extraordinary Dividend.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of

the evidence of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

“Extraordinary Dividend” means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period:

“Base Dividend” means: ¥286,200

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥60.

“Relevant Number of Shares” means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were such Bond, and only such Bond, to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

- 5.2.5** *Issue to Non-shareholders of Convertible/Exchangeable Securities:* if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of such convertible or exchangeable securities;

- 5.2.6** *Issue to Non-shareholders of Shares:* if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares

for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*) or which becomes a subsidiary of the Company by a share delivery (*kabushiki-kofu*), in proportion to their shareholding in such corporation immediately prior to such merger, exchange or delivery or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares being issued or transferred as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue or transfer) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/Exchangeable Securities:* if the Company shall grant, issue or offer any rights or warrants (including stock acquisition rights) entitling non-shareholders to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant, issue or offer of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the grant, issue or offer of such rights or warrants.

- n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the grant, issue or offer of such rights or warrants;

5.2.8 Combined Adjustment: if the Company shall grant, issue, transfer or offer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of grant, issue, transfer or offer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the “relevant date”) is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto (all such securities being hereafter referred to as “Relevant Securities”), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of “n2” below to the extent that such Shares are then issued and outstanding.
- n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.
- n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.
- n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.
- v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).
- v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue, transfer or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of grant, issue, transfer or offer which is the relevant date;

5.2.9 *Current Market Price per Share*: for the purpose of these Conditions, “Current Market Price per Share” on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as at which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question, and any event which requires an adjustment with reference to the same Current Market Price per Share) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

5.2.10 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

- (i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;
- (ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;
- (iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the allotment, grant, issue, transfer or offer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);
- (iv) in the case of the allotment, grant, issue, transfer or offer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the

aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and

- (v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

5.2.11 *Later Adjustments*: if, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, the allotment, grant, issue, transfer or offer of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.12 *Meaning of “Fixed”*: any reference in this Condition 5.2 to the date on which the consideration is “fixed” shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;

5.2.13 *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination;

5.2.14 *Modification to Operation of Adjustment Provisions*: notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

5.2.15 *Adjustment during the Relevant Period or the Reference Period*: for the purposes of Conditions 5.1.5 and 5.1.9, if the Conversion Price in effect on the last Trading Day of the period of 20 consecutive Trading Days referred to in Condition 5.1.5 (the “Relevant Period”) or the Reference Period reflects any adjustment which has become effective pursuant to this Condition 5.2 during the Relevant Period or the Reference Period, then the Closing Price of the Shares for each Trading Day which occurs during the Relevant Period or the Reference Period but before the effective date of such adjustment shall be adjusted to reflect the same adjustment. For the avoidance of doubt, if the Closing Price of the Shares for any Trading Day within the Relevant Period or the Reference Period reflects (by reason of having become ex-rights or otherwise) an event which gives rise to an adjustment to the Conversion Price

pursuant to this Condition 5.2 becoming effective immediately after the end of the Relevant Period or the Reference Period, then such Closing Price shall be appropriately adjusted to be such price prior to such event having been so reflected, for the purposes of Conditions 5.1.5 and 5.1.9.

5.3 Retroactive Adjustments

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a “Retroactive Adjustment”), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares (“Additional Shares”) as is equal to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as at the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the “Stock Acquisition Date” shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

5.4 Limitation on Reduction of Conversion Price

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

5.5 Employee Share Schemes

No adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, officers, corporate auditors or directors (including directors holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees’ or executives’ share or option scheme.

5.6 Minimum Adjustments

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least one yen provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

5.7 Calculations

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall, unless otherwise expressly specified herein, be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth of a yen. None of the Trustee, the Principal Agent, the Registrar, the Calculation Agent, the Custodian, the Custodian’s Agent or any other Agents shall be under any duty or responsibility to any Bondholder or any other person to determine, calculate or verify the adjusted Conversion Price or whether any adjustment is required to be made, and none of them will be responsible to Bondholders or any other person for any loss arising from any failure to do so or any erroneous calculation.

5.8 Notification of Adjustments

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Registrar, the Calculation Agent, the Custodian and the Custodian’s Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

5.9 Procedure for Conversion

5.9.1 Conversion Notice: To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of

the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the *Certificate* evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian's Agent:* The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed Mizuho Bank, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent fail to do so. The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent:* As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent pursuant to this Condition 5.9.3 (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such *exercise* in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The relevant Agent will not be bound to make any payments until the relevant Agent has received the full amount of such taxes and duties due and payable in respect of the Bonds, the Stock Acquisition Rights in respect of which are being exercised, or other arrangements satisfactory to the relevant Agent have been made. Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights (which for the avoidance of doubt does not include the exercising Bondholder's own costs and expenses for holding such Shares) and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the relevant Agent with details of the relevant tax authorities to which such Agent must pay moneys received from the Bondholder for payment of taxes and duties. The payment of such moneys received from the Bondholders to the relevant tax authority will be made at the risk and expense of the Bondholder exercising the relevant Stock Acquisition Rights and such Bondholder will be required to submit any necessary duly completed and signed documents that may be required by the Agent in order to effect the payment of such moneys. The relevant Agent shall be entitled to assume without duty to enquire and without liability that any information provided by the Bondholder exercising the relevant Stock Acquisition Rights in connection with any such amounts payable and as to the details of the relevant tax authorities to which the Agent must pay moneys received in settlement of the taxes and duties payable pursuant to this Condition 5.9.3 is true, accurate and complete. The Bondholders (and, if applicable, the person other than the Bondholders to whom the Shares are to be delivered) shall, upon exercising the relevant Stock Acquisition Rights, be deemed to have consented to the relevant Agent disclosing otherwise confidential information for the purposes of the relevant Agent's carrying out the duties herein. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) arising upon exercise of any Stock Acquisition Rights.

5.9.4 *Deposit Date and Stock Acquisition Date:*

- (i) The time at which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Time" applicable to such Bond, and the date in London on which the Deposit

Time falls is hereinafter referred to as the “Deposit Date” applicable to such Bond. For the avoidance of doubt, a Deposit Date may not occur during any period when the Stock Acquisition Rights may not be exercised;

- (ii) The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the relevant Certificate therefor will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the “Stock Acquisition Date” applicable to such Bond);
- (iii) A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company; and
- (iv) If deposit of the Conversion Notice is made on a day which is not a Business Day or after 16:00 hours in the place of the specified office of the Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such Business Day.

At any time when the relevant Bonds are evidenced by the Global Certificate, the exercising Bondholder shall, in lieu of depositing the Conversion Notice in the manner aforesaid, transmit the Conversion Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder’s account pro tanto. The time at which such duly completed Conversion Notice is received by the Agent through the relevant clearing systems shall be deemed for the purposes of these Conditions to be its time of deposit. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder’s account with the number of the Bonds the Stock Acquisition Rights incorporated in which have been exercised and the Register shall be amended accordingly.

5.9.5 Delivery of Shares: The Company shall procure that the relevant Agent shall, with effect as at the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law or regulation (including any administrative order or guidelines issued by any relevant authority) or the Articles of Incorporation or the share handling regulations of the Company:

- (i) as soon as practicable and in any event within 14 days after the Stock Acquisition Date, in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian’s Agent (as an Account Management Institution), and the Custodian’s Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian’s Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purposes of such transfer); and
- (ii) as soon as practicable, the Company shall deliver to the Custodian’s Agent for the account of the Custodian or its nominee, securities (other than the Shares) required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian’s Agent shall, according to the request made in the relevant Conversion Notice as soon as practicable, and in any event within 21 days after the Stock Acquisition Date, despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than Shares) required to be delivered upon exercise (unless the Company fails to make delivery

thereof to the Custodian's Agent as aforesaid) and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

Any Conversion Notice transmitted electronically is not required to be endorsed and shall be processed in accordance with the operating procedures of the relevant clearing systems.

5.9.6 *Amount of Stated Capital and Additional Paid-in Capital:* With effect as at the Stock Acquisition Date, one-half of the "maximum capital and other increase amount", as calculated pursuant to Article 17 of the Rules of Account Settlement of *Corporations* (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

6 Certain Corporate Events

6.1 Corporate Events

In the case of a proposal for:

- (i) any Merger Event; or
- (ii) any Asset Transfer Event; or
- (iii) any Corporate Split Event; or
- (iv) any Holding Company Event; or
- (v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (the passing of any such resolution and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a "Corporate Event") pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a "New Obligor"),

the following provisions of this Condition 6 shall apply.

6.2 Notice of Proposal

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

6.3 Notice of Passing of Resolution

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company's proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its "Corporate Event Effective Date".

6.4 Transfer of Obligations Following a Corporate Event

6.4.1 *Transfer:* If a Corporate Event occurs and

- (i) it is legally possible under then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the

Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;

- (ii) a practical structure for such substitution and grant has been or can be established; and
- (iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing:* In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as “Listing”) on the relevant Corporate Event Effective Date.

6.4.3 *Condition:* The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.5(iv).

6.5 New Stock Acquisition Rights

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted:* The number of New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights:* Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights:* The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by the New Obligor by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

- (i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the “Number of Deliverable Shares”) receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the “Number of Held Shares”) which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or

- (ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall, upon its exercise immediately after the Corporate Event Effective Date, receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the “New Obligor Current Market Price per Share” means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

- 6.5.4** *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof:* Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be *deemed* to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;
- 6.5.5** *Exercise Period of the New Stock Acquisition Rights:* The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of *implementation* of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;
- 6.5.6** *Other Conditions for the Exercise of the New Stock Acquisition Rights:* No New Stock Acquisition Right may be exercised in part and the exercise of the New Stock Acquisition Rights shall be subject to conditions substantially the same as those described in Conditions 5.1.5 to 5.1.9;
- 6.5.7** *Acquisition at the Option of the New Obligor:* The New Stock Acquisition Rights together with the Bonds may be acquired by the New Obligor *substantially* in the same manner as described in Condition 7.2;
- 6.5.8** *Amount of Stated Capital and Additional Paid-in Capital:* As at the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the “maximum capital and other increase amount” as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and
- 6.5.9** *Others:* Fractions of a share of common stock of the New Obligor will not be issued upon *exercise* of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

6.6 No Statutory Put Rights

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

6.7 Subsequent Corporate Events

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

7 Redemption, Acquisition, Purchase and Cancellation

7.1 Final Maturity

Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent of their principal amount on 20 December 2030. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

7.2 Acquisition at the Option of the Company

7.2.1 Acquisition Notice: At any time during the Acquisition Notice Period, and subject to the Shares being listed on the Relevant Stock Exchange, the Company may, but shall not be bound to, give notice (the “Acquisition Notice”) to the Trustee and the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), to acquire from those Bondholders which deliver a duly completed Acquisition Election Notice, on or after the date of the Acquisition Notice, and on or before the Acquisition Determination Date pursuant to Condition 7.2.2, the Bonds which are the subject of such Acquisition Election Notice outstanding on the Acquisition Option Date (as defined below). Such Acquisition Notice shall specify the date fixed for such acquisition (the “Acquisition Option Date”), which (a) shall be a date not less than 60 and not more than 75 calendar days after the date that the Acquisition Notice is first given; (b) shall be a date that is a Business Day in each of Tokyo, London and Luxembourg, and if the Acquisition Option Date specified in the Acquisition Notice is not such a Business Day, the Acquisition Option Date shall be moved to the next day that is such a Business Day; and (c) which must be a date falling on or before 6 December 2030; and upon giving such notice, all such Bonds which are the subject of a duly completed Acquisition Election Notice shall be deemed to be so acquired by the Company on the Acquisition Option Date. Each Bondholder which delivers a duly completed Acquisition Election Notice, by accepting or acquiring any Bond, agrees that the relevant Bond shall be so acquired by the Company on the Acquisition Option Date.

Subject to Conditions 7.2.2, 7.2.3 and 7.2.4, the Company shall, as consideration for each Bond (including the Stock Acquisition Rights) acquired by the Company:

- (a) pay in the same manner as provided in Condition 8, an amount equal to 100 per cent of the principal amount of the Bonds on the Acquisition Option Date in cash; and
- (b) issue and deliver the Acquisition Shares in accordance with Condition 7.2.2, if any, registered in the name of the Custodian or its nominee, with effect as at the Acquisition Option Date,

to the Bondholders which have delivered a duly completed Acquisition Election Notice.

Any expenses or taxes incurred in connection with the acquisition of the Bonds by the Company and the delivery of the Acquisition Shares pursuant to this Condition 7.2 shall be borne by the Company.

Bonds that have been so acquired by the Company shall be cancelled upon acquisition in accordance with these Conditions, and all Certificates in respect of Bonds so cancelled shall be promptly forwarded to the Principal Agent for cancellation.

In these Conditions:

“Acquisition Determination Date” means the date falling 14 calendar days prior to the Acquisition Option Date.

“Acquisition Shares” means such number of Shares per Bond, if positive, calculated in accordance with the formula below:

$$\text{Acquisition Shares} = \frac{\text{The amount by which the Acquisition Share Value exceeds the principal amount of each Bond}}{\text{Average VWAP per Share}}$$

provided that:

- (a) fractions of a Share shall be disregarded and no adjustment or cash payment will be made in respect thereof; and

- (b) if during the period from but excluding the last day of the Relevant VWAP Period to but excluding the Acquisition Option Date any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the Acquisition Option Date) to the Conversion Price under the provisions of Condition 5.2, the Acquisition Shares, as determined above, shall be adjusted in such manner and to such extent as the Company ((A) in its reasonable opinion, or (B) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained).

“Acquisition Share Value” means the yen amount per Bond calculated in accordance with the formula below:

$$\frac{\text{Principal Amount of the Bond}}{\text{Last Day Conversion Price}} \times \text{Average VWAP per Share}$$

“Average VWAP per Share” means the average of the Volume Weighted Average Prices (“VWAP”) of the Shares reported by the Relevant Stock Exchange on each of the Trading Days during the Relevant VWAP Period, provided that:

- (a) if an Ex-Dividend Date falls, or will fall, within the period from but excluding the first day of the Relevant VWAP Period to and including the Acquisition Option Date, the Average VWAP per Share used as the denominator in the formula for calculating the Acquisition Shares (as set out in the definition of “Acquisition Shares”) shall be adjusted by subtracting the Dividend Adjustment Amount from the VWAP of the Shares on each Trading Day during the period from and including the first day of the Relevant VWAP Period to and including the earlier of (x) the Trading Day immediately prior to the Ex-Dividend Date and (y) the last day of the Relevant VWAP Period;
- (b) if an Ex-Dividend Date falls within the period from and including the third Tokyo Business Day after the date of the Acquisition Notice to and including the last day of the Relevant VWAP Period, the Average VWAP per Share for the purpose of calculating the Acquisition Share Value (as set out in the definition of “Acquisition Share Value”) shall be adjusted by adding the Dividend Adjustment Amount to the VWAP of the Shares reported by the Relevant Stock Exchange in yen on each Trading Day during the period from and including the later of (x) the Ex-Dividend Date and (y) the first day of the Relevant VWAP Period, to and including the last day of the Relevant VWAP Period;
- (c) if on any Trading Day within the Relevant VWAP Period, VWAP of the Shares is not reported by, nor otherwise available from, the Relevant Stock Exchange, or VWAP reported by the Relevant Stock Exchange is manifestly incorrect, the average trading prices of the Shares using a volume weighted method on the Relevant Stock Exchange on such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company in its sole discretion (acting in a commercially reasonable manner) shall be deemed to be the VWAP on such Trading Day (but subject to adjustment pursuant to (a) and/or (b) above, if required); and
- (d) if during the Relevant VWAP Period any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the last day of the Relevant VWAP Period) to the Conversion Price under the provisions of Condition 5.2, the Average VWAP per Share as determined above shall be adjusted in such manner and to such extent as the Company ((a) in its reasonable opinion, or (b) at its option, after consultation with an Independent Financial Adviser) shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser, if obtained) in order to compensate for the effect of such event.

The Company shall give notice to the Bondholders in accordance with Condition 19 of the Average VWAP per Share as soon as reasonably practicable upon determination thereof.

As a consequence of the adjustments identified in (a) and (b) above, the Average VWAP per Share for the purposes of calculating the Acquisition Shares may differ from the Average VWAP per Share used for the purposes of calculating the Acquisition Share Value.

“Dividend Adjustment Amount” for the purposes of the calculation of an adjustment to the Average VWAP per Share means the amount determined by the Company as at the last day of the Relevant VWAP Period, which shall be:

- (i) the expected cash dividend per Share most recently publicly announced by the Company with respect to the Record Date relating to the relevant Ex-Dividend Date; or
- (ii) if no public announcement has been made as to an expected cash dividend per Share as set out in (i) above, the actual cash dividend per Share in respect of the corresponding Record Date one year prior to the relevant Record Date; or
- (iii) if, in the opinion of the Company, neither the expected nor the actual cash dividend as set out in (i) or (ii) above (as the case may be) provides a reasonable basis for adjustment of the Average VWAP per Share, the amount determined by the Company in its sole discretion as being appropriate and fair to give effect to the impact of the Ex-Dividend Date on the relevant VWAP.

For the purposes of this Condition 7.2.1, a “dividend” means a “distribution of surplus”, within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act.

“Ex-Dividend Date” means the Tokyo Business Day immediately prior to any Record Date for a dividend declared or to be declared by the Company (provided that if such Record Date falls on a date that is not a Tokyo Business Day, then the Ex-Dividend Date means the second Tokyo Business Day immediately prior to such Record Date); provided further that if, in the opinion of the Company, there has been a change to the mandatory provisions of Japanese law, regulation or practice which affects the timing or application of ex-dividend dates, the definition of Ex-Dividend Date may be amended by the Company, and/or the Company may make such other changes to this Condition 7.2.1 as it shall consider appropriate and fair, in each case, to the extent permitted by applicable law and to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders, and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

“Last Day Conversion Price” means the Conversion Price in effect on the last day of the Relevant VWAP Period.

“Relevant VWAP Period” means the 20 consecutive Trading Days beginning on, and including, the fifth Trading Day from, but excluding, the date on which the Company gives the Acquisition Notice to the Bondholders in accordance with Condition 19.

All calculations with respect to the Acquisition Share Value and the Average VWAP per Share shall be made to the nearest one-tenth of a yen, with five one-hundredths or more of a yen to be considered a full tenth.

7.2.2 *Acquisition Election Notice:* In order to elect to have its Bonds acquired by the Company and to obtain delivery of the Acquisition Shares (if any) pursuant to this Condition 7.2, the electing Bondholder must deliver to the specified office of an Agent, on or after the date of the Acquisition Notice, and no later than the Acquisition Determination Date, a duly completed election notice substantially in the form set out in the Agency Agreement (an “Acquisition Election Notice”, a copy of which may be obtained from the specified office of any Agent) with respect to all, but not part, of the Bonds held by such Bondholder, together with the relevant Certificates for the relevant Bonds held by it and to which the Acquisition Election Notice relates. An Acquisition Election Notice shall be irrevocable once delivered.

At any time when the relevant Bonds are evidenced by the Global Certificate, the Bondholder shall, in lieu of depositing the Acquisition Election Notice in the manner aforesaid, transmit the Acquisition Election Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder’s account pro tanto.

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice (including but not limited to any administrative orders or guidelines issued by any relevant authority), the Articles of Incorporation or the share handling regulations of the Company, delivery of the Acquisition Shares by or on behalf of the Company pursuant to this Condition 7.2 will be made on or as soon as practicable after the Acquisition Option Date in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, to the Custodian or its nominee at the account maintained with the Custodian’s Agent (as an Account Management Institution), and the Custodian’s Agent will

transfer the relevant Acquisition Shares to or to the order of the relevant Bondholders at such account maintained with an Account Management Institution in Japan as specified in the relevant Acquisition Election Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the relevant Bondholder in the relevant Acquisition Election Notice is inaccurate, incomplete or insufficient for the purposes of such transfer). The provisions of Condition 5.1.10 shall apply with any necessary changes to the Acquisition Shares with references to the Stock Acquisition Date therein being construed as references to the Acquisition Option Date.

Any determination as to whether an Acquisition Election Notice has been properly completed and delivered as provided in these Conditions shall be made by the Principal Agent in its sole discretion and shall be conclusive and binding on the relevant Bondholders, the Company and the Trustee.

An Acquisition Election Notice may be delivered by a holder with respect to one or more Bonds. To the extent that an Acquisition Election Notice is delivered with respect to more than one Bond, the number of Acquisition Shares to be delivered pursuant to this Condition 7.2 shall be calculated on the basis of the aggregate number of Bonds referred to in such Acquisition Election Notice.

7.2.3 *Bonds in Respect of Which an Acquisition Election Notice was Not Delivered:* If, on the day immediately following the Acquisition Determination Date, there are any Bonds in respect of which a duly completed Acquisition Election Notice has not been received by an Agent on or prior to the Acquisition Determination Date ("Bonds without Acquisition Election Notice"), such Bonds without Acquisition Election Notice shall be redeemed at 100 per cent of their outstanding principal amount on the date falling two Tokyo Business Days after the Acquisition Option Date (the "Elected Redemption Date"), and payment in respect thereof shall be made in accordance with Condition 8.

7.2.4 *Acquisition Notice Void:* Notwithstanding the provisions of Condition 7.2.1, if the Shares are not listed on the Relevant Stock Exchange on the Acquisition Option Date, the Acquisition Notice shall be treated as null and void and the relevant Bonds will be redeemed, subject as provided herein, for cash in accordance with the provisions of Condition 7 other than this Condition 7.2 and payment in respect thereof shall be made in accordance with Condition 8.

If the Company becomes aware, after the Acquisition Notice having been given, that the Shares will not be listed on the Relevant Stock Exchange on the Acquisition Option Date (other than in the circumstances set out in Condition 7.6 in which case the provisions of Condition 7.6 shall apply), the Company shall give notice of the nullification of the Acquisition Notice to the Bondholders in accordance with Condition 19 forthwith upon becoming so aware, provided that failure to give such notice shall not invalidate such nullification.

7.2.5 *Exercise of Stock Acquisition Rights:* The Company's right to acquire the Bonds in the manner set forth in this Condition 7.2 does not affect a Bondholder's right to exercise its Stock Acquisition Rights hereunder during the Exercise Period. For the avoidance of doubt, the Stock Acquisition Rights may not be exercised for the Acquisition Notice Period or (if the Acquisition Notice is given pursuant to Condition 7.2) to and including the Elected Redemption Date, subject to Condition 7.2.4.

7.3 Redemption at the Option of the Company upon Reduced Outstanding Amounts

The Company may, but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof.

7.4 Redemption for Taxation Reasons

The Company may, but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice that (i) it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority

thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 5 December 2023 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or an Authorised Officer stating that the obligation referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Trustee, and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent or more of the aggregate principal amount of the Bonds as at the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

7.5 Corporate Event Redemption

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.5 (the "Corporate Event Redemption Price"), together with all Additional Amounts due on the Bonds (if any), on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event), if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Condition 6.4.1; or
- (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company is not able to effect such a scheme in compliance with Condition 6.4.1; or
- (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5 and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate.

Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.5(iii) or 7.5(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

If the Corporate Event Redemption Date falls on or prior to 6 December 2030, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)										
	60.00	70.00	80.00	90.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00
21 December 2023	97.23	98.96	101.62	105.30	110.05	115.90	122.85	130.89	140.03	150.00	160.00
21 December 2024	97.54	99.04	101.50	105.03	109.72	115.57	122.59	130.73	140.00	150.00	160.00
21 December 2025	98.06	99.23	101.39	104.72	109.31	115.17	122.27	130.55	140.00	150.00	160.00
21 December 2026	98.80	99.48	101.16	104.19	108.69	114.61	121.86	130.35	140.00	150.00	160.00
21 December 2027	100.00	100.00	100.00	103.06	107.92	114.09	121.54	130.21	140.00	150.00	160.00
22 December 2027	95.79	97.13	99.49	103.06	107.92	114.09	121.54	130.21	140.00	150.00	160.00
21 December 2028	96.80	97.68	99.54	102.72	107.38	113.55	121.15	130.08	140.00	150.00	160.00
21 December 2029	98.16	98.43	99.43	101.82	106.10	112.39	120.46	130.00	140.00	150.00	160.00
6 December 2030	100.00	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00

“Reference Parity” means:

- (i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and
- (ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:
 - (a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or
 - (b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement,

divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

If the Reference Parity or Corporate Event Redemption Date does not appear in the above table, and:

- (x) if the Reference Parity falls between two numbers in the first row of the above table and/or the Corporate Event Redemption Date falls between two dates in the above table, then the Corporate Event Redemption Price shall be determined by straight-line interpolation between such two numbers and/or two dates, on the basis of a 365-day year, as the case may be, with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth;
- (y) if the Reference Parity is higher than the number in the far right column in the first row of the above table, the Reference Parity shall be deemed to be equal to that number; and
- (z) if the Reference Parity is less than the number set forth in the far left column in the first row of the above table, the Corporate Event Redemption Price shall be 100.00 per cent.

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is less than 100.00 per cent, the Corporate Event Redemption Price

shall be 100.00 per cent. Conversely, if the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is more than 160.00 per cent, the Corporate Event Redemption Price shall be 160.00 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 7 December 2030 to (and excluding) 20 December 2030, the Corporate Event Redemption Price shall be 100.00 per cent.

7.6 Redemption on Delisting of the Shares

7.6.1 Offers and Redemption: If (i) any offer is made by a party or parties (the “Offeror”) other than the Company in accordance with the Financial Instruments and Exchange Act to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares, (ii) the Company expresses its opinion to support such offer in accordance with the Financial Instruments and Exchange Act, (iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition), and (iv) the Offeror acquires any Shares pursuant to the offer, then the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the “Delisting Redemption Date”) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee shall be entitled to assume, without being required to take any action and without liability, until it has written notice to the contrary that the Offeror has not so acquired any Shares.

7.6.2 Redemption Price: The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Delisting Redemption Date and the Reference Parity shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer divided by the Conversion Price in effect on the same day (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer divided by the Conversion Price in effect on the last day of the offer (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.6.3 Offer Followed by Corporate Event or Squeezeout Event: Notwithstanding the above provisions of this Condition 7.6, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company’s obligation to redeem the Bonds under this Condition 7.6 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.5, or Condition 7.7, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in Condition 7.6.2 (for the avoidance of doubt, the Reference Parity applicable to such redemption being equal to the Reference Parity that would have been applicable had the Bonds been redeemed under Condition 7.6.1 without being subject to the provisions

of this Condition 7.6.3), together with all Additional Amounts due on the Bonds (if any), on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice).

7.6.4 Irrevocable Notice: Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.6.5 Notice to Bondholders: Upon the occurrence of:

- (a) any of the events set out in (i) through (iv) of Condition 7.6.1; or
- (b) any of the events set out in Condition 7.6.3 which results in the cancellation or revival of the Company's obligation to redeem the Bonds,

the Company shall as soon as practicable give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

7.7 Squeezeout Redemption

7.7.1 Redemption: Upon the occurrence of a Squeezeout Event, the Company shall give notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with Condition 7.7.2, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition, sale or consolidation of the Shares with respect to the Squeezeout Event, as the case may be; provided however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice, the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date).

7.7.2 Redemption Price: The redemption price applicable to the redemption under this Condition 7.7 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the amount of cash which the holder of a Share would receive in exchange for Shares following the Squeezeout Event, divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.8 Redemption at the Option of the Bondholders

The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond at 100 per cent of its principal amount on 21 December 2027 (the "Bondholders' Optional Redemption Date"). To exercise such option, the holder of such Bond shall complete, execute and deposit at the specified office of an Agent, at such Bondholder's own expense, during normal business hours of such Agent, a notice of redemption in the form (for the time being current) obtainable from any Agent, together with the Certificate in respect of such Bond. Such

notice of redemption must be given not less than 30 days nor more than 60 days prior to the Bondholders' Optional Redemption Date. Such notice may only be withdrawn with the consent in writing of the Company; provided, however, that if, prior to the Bondholders' Optional Redemption Date, the Bonds evidenced by any Certificate so deposited become immediately due and payable pursuant to Condition 10, or, upon due presentation of any Certificate on the Bondholders' Optional Redemption Date, payment of the redemption moneys is improperly withheld or refused, such Certificate shall, without prejudice to the exercise of the option contained in this Condition 7.8, be returned to the relevant holder by uninsured first class mail (airmail if overseas) at the address specified by such holder in the relevant notice of redemption.

At any time when the relevant Bond(s) is/are evidenced by the Global Certificate, the Bondholder exercising the option shall, in lieu of depositing a notice of redemption in the manner aforesaid, transmit such notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems. The time at which such duly completed notice of redemption is received by the Agent through the relevant clearing systems shall be deemed for the purposes of these Conditions to be its time of deposit.

7.9 Purchase of Bonds by the Company

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on any Extraordinary Resolution or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

7.10 Cancellation

All Bonds which are redeemed or acquired or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.8 shall be forwarded to the Principal Agent for cancellation.

7.11 Notice of Redemption or Acquisition

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares as at the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption, the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.3 or 7.4 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(a) or within 15 days following the last day of a Closed Period.

7.12 Priorities among Redemption and Acquisition Provisions

If any notice of redemption or acquisition is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, no other notice may be, or as the case may be, is required to be, given pursuant to any other of such Conditions, subject as provided in Condition 7.2.4 and 7.6.3 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or 7.7, or (b) the events set out in (i) to (iv) of Condition 7.6.1 occur, then a notice pursuant to Condition 7.2, 7.3, or 7.4 may not subsequently be given.

If the Company becomes obliged to redeem the Bonds pursuant to both Condition 7.6 and either Condition 7.5 or 7.7, the procedure pursuant to Condition 7.5 or 7.7, as the case may be, shall apply.

If any notice of redemption or acquisition is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, that notice shall take priority over a notice given by a Bondholder pursuant to Condition 7.8 (whether such notice is given before or after any notice being given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7) so long as such notice by the Company is given prior to the Bondholders' Optional Redemption Date. If any notice is given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7 after

a notice of redemption is given by a Bondholder pursuant to Condition 7.8, the Certificate for the relevant Bond shall be deemed to have been surrendered for payment as provided in Condition 8 for the purpose of redemption under Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, as the case may be.

8 Payments

8.1 Method of Payment

Payments in respect of principal, default interest (if any) and premium (if any) will be made (subject to surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the Registrar or any Agent, if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) to the person shown on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date for payment thereof, by transfer to its Registered Account. All payments are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

“Registered Account” means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the third Business Day in the place of the specified office of the Registrar and the Principal Agent before the due date of payment.

8.2 Agents

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar, the Calculation Agent or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed; and (v) a Calculation Agent. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar, the Calculation Agent or any other Agent will be given to the Bondholders in accordance with Condition 19.

8.3 Payments on Payment Business Days

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. “Payment Business Day” means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried out both in Tokyo and in such place.

9 Taxation

All payments by the Company in respect of the Bonds, subject to Condition 7.4, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts (“Additional Amounts”) as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

- (i) to a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or the receipt of payment in respect of any Bond; or

- (ii) in respect of which the relevant Certificate is presented for payment, more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting such Certificate for payment as at the expiry of such 30-day period.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds in accordance with and subject to Condition 7.4.

No Additional Amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the U.S. Internal Revenue Service (“FATCA withholding”). Further, the Company will have no obligation to otherwise indemnify for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

As used herein, the “Due Date” for any payment means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable at their principal amount together with accrued interest (if any) to the date of payment on the occurrence of any of the following events:

- 10.1** *Non-Payment*: the Company defaults in the payment of principal of any of the Bonds under Condition 7.4 or Condition 7.8 as and when the same shall become due and payable, and such default is not remedied within 14 days; or
- 10.2** *Breach of Obligations*: the Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed, the Agency Agreement or in the Bonds and on its part to be performed or observed (other than the covenant to pay principal in respect of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or
- 10.3** *Cross Default on Indebtedness*: the obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (on demand or otherwise) (or at the expiration of any applicable grace period as originally provided); or
- 10.4** *Cross Default on Guarantee/Indemnity*: the Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or
- 10.5** *Initiation of Insolvency Proceedings*: proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

- 10.6** *Decree of Insolvency/Dissolution*: a final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or (in the opinion of the Trustee) any material part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or
- 10.7** *Resolution for Dissolution*: a resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:
- 10.7.1** (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed, the Agency Agreement and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such winding-up, dissolution or liquidation, or, (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or
- 10.7.2** if the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or
- 10.8** *Institution of Insolvency Proceedings*: the Company or any Principal Subsidiary institutes proceedings seeking adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or (in the opinion of the Trustee) any material part of its property, or makes a general assignment for the benefit of its creditors; or
- 10.9** *Stoppage of Payment*: the Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or
- 10.10** *Cessation of Business*: the Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on all of its business, except:
- 10.10.1** (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed, the Agency Agreement and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such cessation of business, or (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or
- 10.10.2** the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or
- 10.11** *Encumbrancer*: any encumbrancer takes possession of the whole or (in the opinion of the Trustee) any material part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or (in the opinion of the Trustee) any material part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days;

and, in the case of any of the events described in Condition 10.2, 10.3, 10.4, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee, in forming any opinion or in making any determination under or required or contemplated by this Condition 10, may exercise any or all of the rights, powers and discretions vested in it under and in accordance with the Trust Deed, the Agency Agreement and applicable law and may also seek instructions or directions from the Bondholders.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than yen may be translated into yen at the spot rate for the sale of relevant currency against the purchase of yen quoted by any leading bank selected in its sole discretion by the Trustee on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent of their principal amount (together with premium, if any, and default interest) as provided in the Trust Deed.

11 Undertakings

11.1 Undertakings with Respect to the Stock Acquisition Rights

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares*: issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be delivered upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully-paid and non-assessable;

11.1.2 *Transfers*: not close its register of shareholders or take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise of the Stock Acquisition Rights, if any, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;

11.1.3 *Fiscal Year and Record Date*: give notice to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its fiscal year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;

11.1.4 *Listing*: use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that, (i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan, and (ii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.5, 7.6 or 7.7 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.5(iv), (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1, or (z) proposing an amendment to the Articles of Incorporation for

transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*), proposing a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing after the acquisition or consolidation of Shares pursuant to a Squeezeout Event, as the case may be);

- 11.1.5** *Other Securities*: procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);
- 11.1.6** *Capital*: not create or issue any class of share capital other than Shares, without giving notice to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;
- 11.1.7** *Limitation on Reduction of Conversion Price*: not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;
- 11.1.8** *Corporate Event*: if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds are to be redeemed pursuant to Condition 7.5 or 7.6); and
- 11.1.9** *Consents*: obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.

11.2 Charges

Except as otherwise provided in Condition 5.9, the Company will pay all costs, expenses, liabilities and charges of the Trustee, the Principal Agent, the Registrar, the Calculation Agent, the other Agents, the Custodian and the Custodian's Agent (including the cost of providing notices) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities pursuant to Condition 5.9.5 following such deposit.

12 Substitution

12.1 Substitution other than under a Corporate Event

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate and (ii) satisfaction of such other conditions as are set out in the Trust Deed. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

When determining pursuant to these Conditions whether an event or circumstance is materially prejudicial to the interests of Bondholders, the Trustee may obtain such directions from Bondholders and/or expert advice as

it considers appropriate and rely thereon without responsibility or liability to the Bondholders or any person for delay occasioned by so doing.

Further conditions to such substitution are set out in the Trust Deed.

12.2 Substitution under a Corporate Event

Prior to a Corporate Event Effective Date, the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

- (i) under such supplemental trust deed, the New Obligor agrees, in form and manner satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;
- (ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director of the Company that, as at the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt and which certificate the Trustee shall be entitled to rely upon without further investigation and without incurring any liability to any person for doing so. In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;
- (iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/or the guarantor, if any);
- (iv) a Representative Director of the New Obligor certifies that the New Obligor will be solvent immediately after such substitution (if the Trustee receives such certification, the Trustee need not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company);
- (v) the Company shall have certified (by a certificate of a Representative Director) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;
- (vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and
- (vii) such substitution and grant of the New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split

Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

12.3 Release of Obligations

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed, the Agency Agreement and the Bonds.

12.4 Deemed Amendment

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed, the Agency Agreement and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed, the Agency Agreement and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

- (i) the terms “Stock Acquisition Rights” and “Shares” shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and
- (ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

13 Prescription

Claims in respect of the Bonds will become void unless made within the period of 10 years from the Due Date for the payment thereof.

14 Replacement of Certificates

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15 Meetings of Bondholders; Modification and Waiver

15.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions, the Agency Agreement or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds, the Agency Agreement or of the Trust Deed (including, inter alia, modifying the date of maturity of the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned such meeting not less than 50 per cent, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in these Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders. A meeting of Bondholders may be held electronically in accordance with the procedures set out in the Trust Deed.

15.2 Modification and Waiver

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed, the Agency Agreement or the Bonds (including these Conditions) or to any waiver or authorisation of any breach, continuing breach or potential breach by the Company of the provisions of the Trust Deed, the Agency Agreement or the Bonds or determine that any Event of Default shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of applicable law or pursuant to Condition 6 or 12. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and shall be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.2, 7.5 and/or 7.7 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.6, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed (i) imposes obligations, responsibilities or liabilities on it which are greater than those it has as Trustee under the Trust Deed or (ii) decreases the protections it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such supplemental trust deed (in a form and substance satisfactory to it) to effect such change (even if that change may be prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing and may rely on any opinion or any certificate of a Representative Director or an Authorised Officer provided pursuant to this Condition 15.2 without liability to any person and without further investigation. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

15.3 Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15.4 Authority to the Trustee

To the fullest extent permitted by applicable law, by acquiring a Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action, step or proceeding before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action, step or proceeding unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action, step or proceeding. The Trustee shall not take any action, step or proceeding on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

16 Enforcement

At any time after the Bonds shall have become due and repayable, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed, the Agency Agreement and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds

then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails or is unable to do so within a reasonable time following such direction or request or provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure or inability shall be continuing.

17 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed, the Agency Agreement or the terms of the Bonds. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions, the Agency Agreement and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors or the Independent Financial Adviser or such other expert (as the case may be) in respect thereof is limited by a monetary cap or otherwise; any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18 Independent Financial Adviser

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

19 Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20 Contracts (Rights of Third Parties) Act 1999

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21 Governing Law and Submission to Jurisdiction

21.1 Governing Law

The Trust Deed, the Agency Agreement and the Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Agency Agreement and the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Agency Agreement or the Bonds ("Proceedings") may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and shall not limit the right of the Trustee to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 Agent for Service of Process

The Company has irrevocably appointed Cogency Global (UK) Limited as its agent in England to receive service of process in any Proceedings in England. If for any reason Cogency Global (UK) Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed or the Agency Agreement shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Trust Deed and the Global Certificate contain provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meanings in the paragraphs below. The following is a summary of those provisions.

Notices

So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is registered in the name of a nominee on behalf of Euroclear and/or Clearstream, Luxembourg or any other clearing system as shall have been approved in writing by the Trustee (the "Alternative Clearing System"), notices required to be given to the Bondholders shall be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or, as the case may be the Alternative Clearing System for communication by it to the entitled accountholders in substitution for publication and mailing as required by the Conditions. Such notices shall be deemed to have been given in accordance with the Conditions on the date of delivery to Euroclear or Clearstream, Luxembourg or such Alternative Clearing System.

Meetings

The registered holder of the Bonds (or any proxy or representative appointed by it) in respect of which the Global Certificate is issued shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each such Bond in respect of which the Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to the Bonds in respect of which the Global Certificate has been issued to attend and speak (but not to vote) at a meeting of Bondholders on appropriate proof of his identity.

Exercise of Stock Acquisition Rights

Subject to the requirements of Euroclear or Clearstream, Luxembourg or Alternative Clearing System, the Stock Acquisition Right incorporated in a Bond in respect of which the Global Certificate is issued may be exercised by the transmission in electronic form to any Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bond and otherwise in accordance with the procedures of Euroclear or Clearstream, Luxembourg or Alternative Clearing System. Deposit of the Global Certificate with an Agent together with the relevant Conversion Notice shall not be required. The exercise of the Stock Acquisition Right shall be notified by the Agent to the Registrar and the holder of the Global Certificate.

Parity Event

A Parity Notification Event Notice may be given to the Company by (or on behalf of) a person with an entitlement to such Bond, and which may be an accountholder in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. Such Parity Notification Event Notice shall include a certification that such person holds (or is delivering such Parity Notification Event Notice on behalf of a person that holds) an entitlement to at least one Bond and evidence of such holding to the satisfaction of the Company. Parity Notification Event Notices should be submitted in accordance with Condition 5.1.9 rather than through the systems of Euroclear, Clearstream, Luxembourg or Alternative Clearing System.

Payments

Payments of principal and premium (if any) and any other amount in respect of the Bonds evidenced by the Global Certificate shall be made against presentation of, or, if no further payment falls to be made in respect of such Bonds, against presentation and surrender of, the Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the Bondholders for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register on the close of business on the Clearing System Business Day immediately prior to the date of payment, where "Clearing System Business Day" means Monday to Friday inclusive, except 25 December and 1 January.

So long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, a "Payment Business Day" for the purposes of Condition 8.3 shall be any day on which dealings in foreign currency may be carried out in Tokyo.

Transfers

Transfers of interests in the Bonds in respect of which the Global Certificate is issued shall be effected through the records of Euroclear or Clearstream, Luxembourg (or an Alternative Clearing System) and their respective

participants in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg or Alternative Clearing System, as the case may be, and their respective direct and indirect participants.

Prescription

Claims in respect of the Bonds in respect of which the Global Certificate is issued shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Conditions).

Trustee's Powers

Notwithstanding anything contained in the Trust Deed, in considering the interests of Bondholders evidenced by the Global Certificate while such Global Certificate is registered in the name of a nominee for any one or more of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by or on behalf of such clearing system or its operator as to the identity of its accountholders (either individually or by category) with entitlements to the Bonds in respect of which the Global Certificate is issued and may consider such interests (and treat such accountholders) as if such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

Cancellation

Cancellation of any Bond in respect of which the Global Certificate is issued will be effected by a reduction in the principal amount of the Bonds in the Register and the endorsement (for information only) of the Global Certificate by the Principal Agent.

Early Redemption or Acquisition by the Company

The options and obligations of the Company to redeem or acquire the Bonds prior to maturity provided for in any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7 shall be exercised or performed by the Company giving notice to the Bondholders within the time limits set out therein and containing the information required of the Company in accordance with the relevant Condition.

If the Company exercises its option to acquire Bonds under Condition 7.2, subject to the requirements of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System, an Acquisition Election Notice may be duly completed by, or on behalf of, an accountholder in such system with an entitlement to the relevant Bonds as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems. Deposit of the Global Certificate with an Agent shall not be required.

Election of Bondholders

The election of the Bondholders provided for in Condition 7.4 may be exercised by the holder of the Bonds evidenced by the Global Certificate by giving notice in electronic form to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and within the time limits relating thereto set out in that Condition and otherwise in accordance with the procedures of the relevant clearing system in the form acceptable thereto from time to time.

Electronic Consent

While the Global Certificate is registered in the name of any nominee, or a nominee for any common depositary for, a clearing system, then (a) approval of a resolution proposed by the Company or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent in nominal amount of the Bonds then outstanding (an "Electronic Consent" as defined in the Trust Deed) shall, for all purposes, take effect as an extraordinary resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, subject to certain requirements set out in the Trust Deed, the Company and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Company and/or the Trustee, as the case may be, (i) by accountholders in the relevant clearing system with entitlements to the Bonds evidenced by such Global Certificate or, (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds are estimated to be approximately ¥22 billion after deducting expenses.

The Company intends to apply the net proceeds towards the repurchase of Shares to maximise corporate value by improving capital efficiency. Additionally, as the amount which the Company is able to repurchase will be dependent on market conditions and other factors, there can be no assurance that such repurchase will be executed in full. To the extent any portion of the net proceeds remain unused, the Company may invest such portion of the net proceeds in property, plant and equipment.

INFORMATION CONCERNING THE SHARES

Authorised and Issued Share Capital

As at 31 August 2023, the Company had an authorised share capital of 200,000,000 Shares, of which 99,182,517 Shares were issued and outstanding (including treasury stock of 3,252,899 Shares, of which 16,100 Shares are held by OSG Employee Stock Ownership Trust). The following table shows recent changes in the Company issued share capital as at the dates indicated:

Period/Date	Description	Number of new Shares	Total number of issued and outstanding Shares ⁽¹⁾
12 May 2018	Exercise of stock acquisition rights and conversion of convertible bonds	128,581	97,981,921
14 November 2018	Exercise of stock acquisition rights and conversion of convertible bonds	79,598	98,061,519
31 October 2019	Exercise of stock acquisition rights and conversion of convertible bonds	42,860	98,104,379
13 November 2019	Exercise of stock acquisition rights and conversion of convertible bonds	42,860	98,147,239
19 March 2020	Exercise of stock acquisition rights under Restricted Stock Compensation System	32,503	98,179,742
19 March 2021	Exercise of stock acquisition rights under Restricted Stock Compensation System	16,982	98,196,724
14 January 2022	Exercise stock acquisition rights and conversion of convertible bonds	61,229	98,257,953
26 January 2022	Exercise of stock acquisition rights and conversion of convertible bonds	6,122	98,264,075
22 March 2022	Exercise of stock acquisition rights and conversion of convertible bonds	918,442	99,182,517

Note:

(1) Including treasury stock held by the Company and OSG Employee Stock Ownership Trust as at the relevant dates.

There has been no change in the Company's issued share capital since 31 August 2023.

Japanese Stock Market and Price Range of the Shares

The Company's Shares were listed on the First Sections of the Tokyo Stock Exchange and the Nagoya Stock Exchange in 1981, and have been listed on the Prime Market of the Tokyo Stock Exchange and the Premier Market of the Nagoya Stock Exchange since April 2022 under the securities code "6136". The following table sets forth, for the periods indicated, (i) the highs and lows of the reported trading sales prices of the Shares on the Tokyo Stock Exchange, (ii) the highs and lows of the daily closing Nikkei Stock Average, an index of 225 selected stocks listed on the First Section of the Tokyo Stock Exchange, (iii) the highs and lows of the daily closing TSE Prime Market Index, an index of the market value of all Japanese stocks listed on the Prime Market of the Tokyo Stock Exchange and

(iv) the highs and lows of the daily closing Tokyo Stock Price Index (TOPIX), an index of the market value of all Japanese stocks listed on the First Section of the Tokyo Stock Exchange:

Calendar period	Price per Share		Nikkei Stock Average		TSE Prime Market Index		TOPIX	
	High	Low	High	Low	High	Low	High	Low
	(Yen)				(Points)			
2018	2,949	1,883	24,270.62	19,155.74	—	—	1,911.07	1,415.55
2019	2,386	1,912	24,066.12	19,561.96	—	—	1,747.20	1,471.16
2020	2,144	1,150	27,568.15	16,552.83	—	—	1,819.18	1,236.34
2021	2,171	1,632	30,670.10	27,013.25	—	—	2,118.87	1,791.22
2022								
1st quarter	2,172	1,719	29,332.16	24,717.53	—	—	2,039.27	1,758.89
2nd quarter	1,865	1,534	28,246.53	25,748.72	1,013.53	935.78	1,969.98	1,818.94
3rd quarter	1,971	1,553	29,222.77	25,935.62	1,032.75	944.64	2,006.99	1,835.94
4th quarter	2,075	1,768	28,383.09	26,093.67	1,038.78	950.61	2,018.80	1,847.58
2023								
1st quarter	2,061	1,762	28,623.15	25,716.86	1,065.73	961.23	2,071.09	1,868.15
2nd quarter	2,065.5	1,772	33,706.08	27,472.63	1,183.76	1,009.17	2,300.36	1,961.28
3rd quarter	2,117.0	1,755.0	33,753.33	31,450.76	1,250.79	1,143.20	2,430.30	2,221.48
4th quarter (up to 5 December)	1,873.0	1,667.5	33,625.53	30,526.88	1,230.61	1,141.87	2,391.05	2,218.89

On 5 December, 2023, the last reported closing price of the Shares on the Tokyo Stock Exchange was ¥1,791.5 per Share and the Nikkei Stock Average, the TSE Prime Market Index and TOPIX closed at ¥32,775.82, 1,205.34 and 2,342.69, respectively.

Dividends

Year-end dividends may be recommended by the Company's Board of Directors and approved by shareholders at the ordinary general meeting of shareholders held in February of each year. If a year-end dividend is approved at the meeting, year-end dividend payments are made promptly thereafter to shareholders and pledgees of record as at 30 November of the relevant year. In addition to year-end dividends, the Company may, by resolution of its Board of Directors and subject to certain restrictions, make interim dividend payments in the form of cash distributions from its funds available for dividends to shareholders and pledgees of record as at 31 May of each year. The Company may also make dividends other than those described above with the approval of its shareholders at a general meeting of shareholders and subject to certain restrictions. The payment of dividends will also be subject to other factors, including legal restrictions with respect to the payment of dividends. See "Description of the Shares and Certain Regulations—Distribution of surplus".

The following table sets forth the dividends paid by the Company for each of the periods shown:

Record Date	Dividend per Share
	(Yen)
31 May 2018	22.00
30 November 2018	25.00
31 May 2019	23.00
30 November 2019	24.00
31 May 2020	11.00
30 November 2020	11.00
31 May 2021	14.00
30 November 2021	22.00
31 May 2022	23.00
30 November 2022	37.00

Dividend Policy

The Company recognises profit sharing to shareholders as an important management issue and the basic policy is to distribute earned surplus to shareholders as dividends, taking into account its cash flows and financial conditions.

Retained earnings are allocated to capital expenditure, research and development and investments towards the expansion of the Group's sales and marketing channels and to increase corporate value by strengthening the financial position and management base over the long-term.

Principal Shareholders and Other Information

The table below shows information about the ownership of Shares as at 31 May 2023 by the Company's ten largest shareholders, as appearing on the register of shareholders.

Shareholder	Number of Shares held	Percentage of total Shares in issue
	<i>(Thousand Shares)</i>	<i>(Per cent)</i>
The Master Trust Bank of Japan, Ltd. (Trust Account) ⁽¹⁾	13,990	14.58%
Custody bank of Japan, Ltd. (Trust Account)	6,966	7.26
SSBTC CLIENT OMNIBUS ACCOUNT	4,265	4.44
OSG Agent Association	3,429	3.57
NORTHERN TRUST CO.(AVFC) RE FIDELITY FUNDS	2,730	2.84
OSG Stock Holding Association	2,645	2.76
Osawa Scientific Studies Grants Foundation	2,350	2.45
Sumitomo Mitsui Banking Corporation	2,100	2.19
OSG Employee Stock Holding Association	1,852	1.93
Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,637	1.71
Total	41,969	43.73%

Notes:

- (1) Other than the above, the Company and OSG Employee Stock Ownership Trust held 3,252,899 treasury stock as at 31 August 2023.
- (2) The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of issued voting shares (excluding treasury stock) amounting to more than 5 per cent of the total shares of a company that is listed on any Japanese stock exchange to file a report concerning such shareholdings with the director of the relevant Local Finance Bureau of the Ministry of Finance, and also require such person to file an amendment concerning any subsequent changes of 1 per cent or more of the total issued shares in such substantial shareholdings or any change in material matters set out in reports previously filed (see "Description of the Shares and Certain Regulations—Reporting of Substantial Shareholders").

As at the date of this Offering Circular, the Company is aware of the following reports in relation to which it was unable to confirm beneficial ownership as at 31 May 2023:

- according to a report of substantial holding and a report of change in substantial holding filed on 20 April 2023 under the FIEA, as at 14 April 2023, the following shareholder held the Shares of the Company's common stock as shown below, which is not reflected in the table above;

Shareholder	Number of Shares held on record (thousand)	Percentage of outstanding Shares
Sumitomo Mitsui Trust Bank, Ltd.	1,000	1.01%
Sumitomo Mitsui Trust Asset Management Co., Ltd.	3,094	3.12%
Nikko Asset Management Co., Ltd.	1,396	1.41%

The ownership distribution of the Shares by category of shareholders of record as at 30 November 2022 (being the most recent date as at which the information is available) was as follows:

	Number of Shares held⁽¹⁾	Percentage of total Shares in issue
	<i>(Unit Shares)</i>	<i>(Per cent)</i>
Government and municipal bodies	—	—%
Japanese financial institutions ⁽²⁾	330,444	33.35
Japanese financial instruments business operators	21,877	2.21
Other Japanese corporations ⁽³⁾	105,139	10.61
Japanese individual investors and others ⁽⁴⁾	303,886	30.67
Foreign corporations and individual investors	229,470	23.16
Total	990,816	100.00%

Notes:

- (1) 100 Shares constitute one unit of Shares. See “Description of the Shares and Certain Regulations – Unit Share System”.
- (2) 2,393 units of Shares included in “Japanese financial institutions” are held by OSG Stock Holding Association.
- (3) 11 units of Shares included in “Other Japanese corporations” and 50 Shares not constituting one unit of Shares are held under the name of JASDEC.
- (4) As at 30 November 2022, the Company held 3,241,190 Shares in treasury stock, of which 32,411 units of Shares were included in “Japanese individual investors and others” and 90 Shares were included in Shares not amounting to one unit of Shares.

As at 30 November 2022, the Directors together directly held 634 thousand Shares, representing 0.6 per cent of total Shares in issue at that date.

As at the date of this Offering Circular, the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

Proposed Share Repurchase by the Company

Concurrently with the offering of the Bonds, the Company announced on 5 December 2023 that its Board of Directors authorised the repurchase of up to 15,000,000 Shares (approximately 15.63 per cent of the issued Shares (excluding treasury stock) as at 30 November 2023) at a maximum cost of ¥22,000,000,000 from the market in the period from and including 6 December 2023 to and including 29 November 2024. The Company has decided to repurchase such Shares to maximise corporate value by improving capital efficiency.

The Company has also announced that for executing the abovementioned share repurchase plan, it intends to repurchase Shares up to a value of approximately ¥10,000,000,000 through the ToSTNeT-3 system at 8:45 a.m. (Tokyo time) on 6 December 2023 at the closing price of the Shares on the Tokyo Stock Exchange on 5 December 2023. The result of such repurchase will be announced in Japan on 6 December 2023. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is entirely dependent on the volume of Shares offered by investors at a certain price and at a certain time, there can be no assurance that such repurchase will be executed in full or at all.

The Tokyo Stock Exchange Trading Network System, or “ToSTNeT”, is a trading system which has fully computerised the trading process from order input to execution. ToSTNeT-3 is an off-market hour trading system specifically for use for the buy-back by issuers of their own shares and provides investors with the means of executing their sell orders at the Tokyo Stock Exchange’s prior-day closing prices at 8:45 a.m. (Tokyo time). If the number of shares for the aggregated sell orders exceeds the buy-back order, the sell orders will in principle be executed proportionally based on the number of shares at each sell order.

To the extent any Shares remain to be repurchased (within the maximum cost of ¥22,000,000,000 and the maximum number of 15,000,000 Shares) after the abovementioned repurchase through the ToSTNeT-3 system, the Company may repurchase further Shares on the auction market, at the market prices prevailing at the relevant time until 29 November 2024. There can however be no assurance that any such repurchase will be proposed by the Company as currently intended or, if proposed by the Company, executed in full, or at all.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the consolidated capitalisation and indebtedness of the Company as at 31 August 2023, which has been extracted without material adjustment from the Company's unaudited interim consolidated balance sheet as at the same date, and as adjusted to give effect to the issue of the Bonds:

	As at 31 August 2023	
	Actual	As adjusted
	<i>(Millions of yen)</i>	
Short-term debt:		
Short-term bank loans	740	740
Current portion of long-term bank loans	1,329	1,329
Total short-term debt ⁽¹⁾	2,069	2,069
Long-term debt:		
Bonds payable	10,000	10,000
Long-term bank loans	16,795	16,795
The Bonds now being issued	—	22,000
Total long-term debt ⁽¹⁾	26,795	48,795
Equity		
Common stock:		
Authorised: 200,000,000 Shares		
Issued: 99,182,517 Shares (including treasury stock)	13,044	13,044
Capital surplus	13,347	13,347
Retained earnings	136,114	136,114
Treasury stock: 3,252,899 Shares ⁽²⁾	(5,876)	(5,876)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	1,463	1,463
Foreign currency translation adjustments	17,773	17,773
Total accumulated other comprehensive income	19,236	19,236
Noncontrolling interests	12,586	12,586
Total equity	188,453	188,453
Total capitalisation and indebtedness⁽³⁾	217,319	239,319

Notes:

- (1) Excluding obligation under financial leases.
- (2) Held by the Company and OSG Employee Stock Ownership Trust.
- (3) Total capitalisation and indebtedness is the sum of total short-term debt, total long-term debt and total equity.
- (4) Save as disclosed above, there has been no material change in the capitalisation and indebtedness since 31 August 2023.

OSG CORPORATION

Overview

The Group is a comprehensive cutting tool manufacturer that operates in Japan and 31 countries and regions overseas with a total of 7,543 employees (consolidated basis) as at 30 November 2022. Its business mainly consists of the manufacturing and sale of cutting tools, rolling tools, measuring tools and other products, such as machine tools. Major products include taps, drills, end mills, rolling dies, gauges and others. Such products are widely used in automobiles, aircrafts, turbines, micro-precision processing and general engineering machineries to support various manufacturers. Moreover, under its “Global Presence” corporate philosophy, the Group has a global network which encompasses production, sales and technical support. This allows the Group to deliver prompt and reliable products and services to customers across its four reporting segments, namely Japan, the Americas, Europe/Africa and Asia.

The Group’s mission is to provide the best cutting tools to manufacturers around the world. It also aims to grow its business, contribute to its stakeholders and realise the sustainable development of the society. The Group operates its business under a Medium-Term Management Plan “Beyond the Limit 2024”, which instils among all employees the spirit of “going beyond your limits, setting no limits, pushing forward and evolving, and breaking out of the norm” to spur the Group to continue to advance. The Group will exploit opportunities in the business environment that lead to further growth and endeavour to sustainably enhance corporate value through a strengthened corporate culture and overall optimisation.

The Group consisted of the Company, 92 subsidiaries and four affiliates as at 30 November 2022. Business activities in Japan are controlled by the Company, as the Group’s head office, while overseas activities are controlled by the group management companies in each region. Overseas subsidiaries in each region conduct business activities pursuant to business strategies and business plans formulated centrally at the Group headquarters.

For the year ended 30 November 2022 and the nine months ended 31 August 2023, the Group recorded net sales of ¥142,525 million and ¥107,731 million, respectively, operating income of ¥21,898 million and ¥14,085 million, respectively, and net income attributable to owners of the parent of ¥16,534 million and ¥10,044 million, respectively, compared to net sales of ¥126,156 million and ¥103,502 million respectively, operating income of ¥16,105 million and ¥15,034 million, respectively, and net income attributable to owners of the parent of ¥10,989 million and ¥11,349 million, respectively, for the same periods of the previous year.

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki gaisha*). The Company’s registered head office is located at 3-22, Honnogahara, Toyokawa City, Aichi 442-8543, Japan.

Selected Financial and Other Data

The following selected financial data has been derived from and should be read in conjunction with the Company's audited annual consolidated financial statements and related notes, as well as the unaudited interim consolidated financial statements and the notes thereto appearing elsewhere in this Offering Circular.

	Year ended/as at 30 November			Nine months ended/ as at 31 August	
	2020	2021	2022	2022	2023
<i>(Millions of yen, except otherwise indicated)</i>					
Statement of income:					
Net sales	¥ 104,388	¥ 126,156	¥ 142,525	¥ 103,502	¥ 107,731
Cost of sales	65,715	76,969	83,459	61,415	63,959
Selling, general and administrative expenses	30,276	33,081	37,166	27,051	29,686
Operating income	8,396	16,105	21,898	15,034	14,085
Net income	5,743	11,302	17,177	11,821	10,345
Capital expenditures ⁽¹⁾	10,078	5,427	9,732	6,422	7,588
Depreciation and amortization	10,518	10,591	10,498	7,751	8,094
Balance sheet:					
Total assets	¥ 200,112	¥ 209,757	¥ 228,852	¥ 220,605	¥ 239,371
Total equity	140,179	154,800	176,838	171,357	188,453
Inventories	42,025	42,839	52,026	50,745	56,921
Interest-bearing debt ⁽²⁾	41,654	30,751	25,529	26,264	28,865
Cash flows:					
Cash flows provided by operating activities	¥ 17,038	¥ 26,982	¥ 20,175	—	—
Cash flows used in investing activities	(17,133)	(6,961)	(12,170)	—	—
Cash flows provided by (used in) financing activities	9,658	(14,264)	(14,740)	—	—
Free cash flow ⁽³⁾	(94)	20,021	8,004	—	—
Key indicators:					
Overseas sales ratio (per cent) ⁽⁴⁾	59.4%	61.8%	64.9%	65.2%	66.9%
Operating income margin (per cent) ⁽⁵⁾	8.0	12.8	15.4	14.5	13.1
Return on equity (per cent) ⁽⁶⁾	4.4	8.0	10.7	10.0	7.9
Return on assets (operating income basis) (per cent) ⁽⁷⁾	4.3	7.9	10.0	9.3	8.0
Equity ratio (per cent) ⁽⁸⁾	64.6	68.6	72.0	72.3	73.5
EBITDA ⁽⁹⁾	¥ 18,915	¥ 26,696	¥ 32,396	¥ 22,786	¥ 22,179
EBITDA margin (per cent) ⁽⁹⁾	18.1%	21.2%	22.7%	22.0%	20.6%
Per share data:					
Net income (yen) ⁽¹⁰⁾	¥ 57.94	¥ 112.63	¥ 171.54	¥ 117.48	¥ 104.84
Equity (yen) ⁽¹¹⁾	1,327.22	1,472.45	1,721.14	1,667.57	1,833.29

Notes:

- (1) Capital expenditure = Historical cost of property, plant and equipment acquired during the period.
- (2) Interest-bearing debt = Short-term bank loans + current portion of convertible bonds payable + current portion of long-term bank loans + convertible bonds payable + bonds payable + long-term loans.
- (3) Free cash flow = Net cash provided by operating activities + net cash used in investing activities.
- (4) Overseas sales ratio = Overseas sales / net sales.
- (5) Operating income margin = Operating income / net sales.
- (6) Return on equity = Net income attributable to owners of the parent / average of net equity (total equity – noncontrolling interests – stock acquisition rights).
- (7) Return on assets (operating income basis) = Operating income / average of the period-start total assets and the period-end total assets.

(8) Equity ratio = (Total equity – stock acquisition rights – noncontrolling interests) / total assets.

(9) EBITDA = Operating income + depreciation and amortization.

EBITDA margin = EBITDA / net sales.

The table below shows EBITDA and EBITDA margin and a reconciliation of operating income to EBITDA and EBITDA margin for the periods indicated.

	For the fiscal year ended 30 November			Nine months ended 31 August	
	2020	2021	2022	2022	2023
<i>(Millions of yen, except otherwise indicated)</i>					
EBITDA and EBITDA margin:					
Operating income	¥ 8,396	¥ 16,105	¥ 21,898	¥ 15,034	¥ 14,085
Add: Depreciation and amortization	10,518	10,519	10,498	7,752	8,094
EBITDA	18,915	26,696	32,396	22,786	22,179
Net sales	104,388	126,156	142,525	103,502	107,731
EBITDA margin (per cent)	18.1%	21.2%	22.7%	22.0%	20.6%

(10) Net income per share = Net income attributable to owners of the parent / number of weighted-average shares.

(11) Equity per share = (Total equity – stock acquisition rights – noncontrolling interests) / number of common stock outstanding – number of treasury stock).

RECENT BUSINESS

The following discussion should be read together with, and is qualified in its entirety by reference to, the audited consolidated financial statements of the Company as at and for each of the fiscal years ended 30 November 2021 and 2022 and the unaudited interim consolidated financial statements of the Company as at 31 August 2023 and for the nine months ended 31 August 2023, in each case included elsewhere in this Offering Circular. The following discussion should also be read in conjunction with “Presentation of Financial and Other Information”.

Consolidated results for the nine months ended 31 August 2023 compared to the nine months ended 31 August 2022

Overview

During the nine months ended 31 August 2023, the economic environment continued to show a gradual slow down due to a stagnant Chinese economy with issues in the real estate industry, in addition to decline in demand across major economies caused by high inflation and resulting monetary tightening policies. In addition, there remains uncertainties regarding geopolitical risks, such as Russia’s invasion of Ukraine and the conflict between the United States and China, all of which negatively impacted the economy. On the other hand, in the foreign exchange market, while fluctuations of major currencies presented appreciation of yen at the beginning of the fiscal period, since February, the yen weakened significantly compared to the same period last year. In such environment, the Group’s results varied by region.

Results

Net sales

Net sales for the nine months ended 31 August 2023 increased by ¥4,229 million, or 4.1 per cent, to ¥107,731 million, compared to ¥103,502 million for the nine months ended 31 August 2022, primarily reflecting strong sales growth in the Americas and Europe/Africa compared with the same period of the previous year, partially due to the effect of foreign exchange, partially offset by weaker results in Asia, particularly in China and Taiwan as well as Japan.

Cost of sales

Cost of sales for the nine months ended 31 August 2023 increased by ¥2,543 million, or 4.1 per cent, to ¥63,959 million, compared to ¥61,415 million for the nine months ended 31 August 2022, primarily reflecting increases in the costs of raw materials, energy and transportation as well as the foreign exchange impact of yen’s depreciation.

Gross profit

As a result of the above, gross profit for the nine months ended 31 August 2023 increased by ¥1,685 million, or 4.0 per cent, to ¥43,772 million, compared to ¥42,086 million for the nine months ended 31 August 2022.

Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended 31 August 2023 increased by ¥2,634 million, or 9.7 per cent, to ¥29,686 million, compared to ¥27,051 million for the nine months ended 31 August 2022, primarily reflecting higher labour costs and increases in various expenses such as travel expenses and exhibition expenses as result of the recovery from the COVID-19 pandemic.

Operating income

As a result of the above, operating income for the nine months ended 31 August 2023 decreased by ¥949 million, or 6.3 per cent, to ¥14,085 million, compared to ¥15,034 million for the nine months ended 31 August 2022.

Other income—net

Other income—net for the nine months ended 31 August 2023 decreased by ¥658 million, or 53.5 per cent, to ¥570 million, compared to ¥1,229 million for the nine months ended 31 August 2022, primarily reflecting an allowance for doubtful account recorded in relation to the Group’s subsidiary, Phoenix Co., Ltd., and a loss on revaluation of investments securities of affiliates.

Income before income taxes

As a result of the above, income before income taxes for the nine months ended 31 August 2023 decreased by ¥1,608 million, or 9.9 per cent, to ¥14,656 million, compared to ¥16,264 million for the nine months ended 31 August 2022.

Total income taxes

Total income taxes for the nine months ended 31 August 2023 decreased by ¥131 million, or 2.9 per cent, to ¥4,311 million, compared to ¥4,442 million for the nine months ended 31 August 2022, primarily reflecting a decrease of ¥1,608 million in income before income taxes.

Net income

As a result of the above, net income for the nine months ended 31 August 2023 decreased by ¥1,476 million, or 12.5 per cent, to ¥10,345 million, compared to ¥11,821 million for the nine months ended 31 August 2022.

Net income attributable to owners of the parent

Net income attributable to owners of the parent for the nine months ended 31 August 2023 decreased by ¥1,304 million, or 11.5 per cent, to ¥10,044 million, compared to ¥11,349 million for the nine months ended 31 August 2022.

Operating Result by Geographical Segment

Japan

In Japan, the economy showed gradual recovery against the backdrop of normalisation of economic activity, but the manufacturing sector continued face challenges. While disruptions in global supply chains took a favourable turn and the shortages of semiconductors and other components were easing in the automotive-related industries, production activities in the manufacturing sector continued to suffer, with production cuts in a wide range of industries due to weak global demand for goods.

Amid such economic environment, total net sales for the Japan segment for the nine months ended 31 August 2023 remained relatively stable at ¥53,147 million, compared to ¥53,127 million for the nine months ended 31 August 2022. Within such amounts, net sales to external customers for the Japan segment amounted to ¥36,327 million and ¥36,640 million for the nine months ended 31 August 2023 and 2022, respectively. Segment profit for the nine months ended 31 August 2023 decreased by ¥940 million, or 14.6 per cent, to ¥5,516 million, compared to ¥6,457 million for the nine months ended 31 August 2022.

Americas

In North America, which is one of the Group's main market, consumer spending and capital investment remained strong, despite the continuing concerns of a recession due to high inflation and the resulting monetary tightening policies. Both automotive- and aircraft-related industries showed signs of recovery, and demand remained strong in other manufacturing sectors, such as construction machinery. In South America, particularly Brazil, despite the introduction of subsidy for vehicle purchases, automotive output remained flat compared with the same period of the previous year, partially due to a shortage of semiconductors and other components. Meanwhile, the aircraft-related industry showed signs of recovery.

Amid such economic environment, total net sales for the Americas segment for the nine months ended 31 August 2023 increased by ¥3,350 million, or 16.3 per cent, to ¥23,939 million, compared to ¥20,589 million for the nine months ended 31 August 2022. Within such amounts, net sales to external customers for the Americas segment amounted to ¥23,200 million and ¥19,832 million for the nine months ended 31 August 2023 and 2022, respectively. Segment profit for the nine months ended 31 August 2023 increased by ¥540 million, or 18.2 per cent, to ¥3,513 million, compared to ¥2,973 million for the nine months ended 31 August 2022.

Europe/Africa

The European economy remained relatively stable compared with the previous year, with some slowdown due to high inflation and energy crisis as result of the situation in Ukraine. The automotive-related industry continued its recovery, while the aircraft-related industry showed a strong growth, with increasing number of new projects.

Amid such economic environment, total net sales for the Europe/Africa segment for the nine months ended 31 August 2023 increased by ¥3,546 million, or 16.8 per cent, to ¥24,669 million, compared to ¥21,122 million for the nine months ended 31 August 2022. Within such amounts, net sales to external customers for the Europe/Africa segment amounted to ¥24,497 million and ¥20,944 million for the nine months ended 31 August 2023 and 2022, respectively. Segment profit for the nine months ended 31 August 2023 increased by ¥587 million, or 29.1 per cent, to ¥2,606 million, compared to ¥2,018 million for the nine months ended 31 August 2022.

Asia

The Chinese economy recovered temporarily following the lifting of the zero-COVID policy, but gradually slowed down from the beginning of the fiscal year. In particular, the manufacturing sector continued to face challenges, including production adjustments and furloughs under the zero-COVID policy and the recent fall in property prices, all

of which led to increased uncertainty in the market. In Taiwan, a decline in external demand created difficulties for its export-led economy. In South Korea, the overall economy remained relatively stable as the same period in the previous year, but continues to face uncertainties due to inflation and rising interest rates. In other Asian countries, results varied from country to country.

Amid such economic environment, total net sales for the Asia segment for the nine months ended 31 August 2023 decreased by ¥2,085 million, or 7.3 per cent, to ¥26,522 million, compared to ¥28,607 million for the nine months ended 31 August 2022. Within such amounts, net sales to external customers for the Asia segment amounted to ¥23,705 million and ¥26,084 million for the nine months ended 31 August 2023 and 2022, respectively. Segment profit for the nine months ended 31 August 2023 decreased by ¥1,658 million, or 34.9 per cent, to ¥3,088 million, compared to ¥4,746 million for the nine months ended 31 August 2022.

Consolidated results in the fiscal year ended 30 November 2022 compared to fiscal year ended 30 November 2021

Overview

In the year ended 30 November 2022, the economic condition remained generally strong but was weighed down by negative factors such as the impact of the lingering COVID-19 pandemic, disruptions in the global supply chains, Russia's invasion of Ukraine and inflation risk in many countries. Towards the end of the fiscal period, however, the pace of economic recovery slowed due to high inflation in many countries and the resulting monetary tightening policies. Meanwhile, in the foreign exchange market, the yen depreciated rapidly due to differences in monetary policy between major countries and Japan.

Results

Net sales

Net sales in the fiscal year ended 30 November 2022 increased by ¥16,368 million, or 13.0 per cent, to ¥142,525 million, compared to ¥126,156 million in the fiscal year ended 30 November 2021, primarily reflecting varying business results in Asia from country to country and significant recovery in the Americas and Europe/Africa. In particular, the Group experienced strong sales of taps, one of its key products, to the general parts industry, while product sales to the automotive-related industry stagnated. Sales to the aircraft-related industry also showed signs of recovery with a gradual increase in new projects.

Cost of sales

Cost of sales in the fiscal year ended 30 November 2022 increased by ¥6,490 million, or 8.4 per cent, to ¥83,459 million, compared to ¥76,969 million in the fiscal year ended 30 November 2021, primarily reflecting an increase in product sales and lower cost rate as result of higher manufacturing utilisation rate.

Gross profit

As a result of the above, gross profit in the fiscal year ended 30 November 2022 increased by ¥9,878 million, or 20.1 per cent, to ¥59,065 million, compared to ¥49,186 million in the fiscal year ended 30 November 2021.

Selling, general and administrative expenses

Selling, general and administrative expenses in the fiscal year ended 30 November 2022 increased by ¥4,085 million, or 12.3 per cent, to ¥37,166 million, compared to ¥33,081 million in the fiscal year ended 30 November 2021, primarily reflecting higher labour costs and the foreign exchange impact of yen's depreciation.

Operating income

As a result of the above, operating income in the fiscal year ended 30 November 2022 increased by ¥5,792 million, or 36.0 per cent, to ¥21,898 million, compared to ¥16,105 million in the fiscal year ended 30 November 2021.

Other income—net

Other income—net in the fiscal year ended 30 November 2022 increased significantly by ¥1,231 million to ¥1,480 million, compared to ¥249 million in the fiscal year ended 30 November 2021, primarily reflecting a change in revenue recognition method from the fiscal year ended 30 November 2022 and the foreign exchange impact of yen's depreciation.

Income before income taxes

As a result of the above, income before income taxes in the fiscal year ended 30 November 2022 increased by ¥7,023 million, or 42.9 per cent, to ¥23,378 million, compared to ¥16,354 million in the fiscal year ended 30 November 2021.

Total income taxes

Total income taxes in the fiscal year ended 30 November 2022 increased by ¥1,148 million, or 22.7 per cent, to ¥6,200 million, compared to ¥5,052 million in the fiscal year ended 30 November 2021, primarily reflecting an increase of ¥7,023 million in income before income taxes.

Net income

As a result of the above, net income in the fiscal year ended 30 November 2022 increased by ¥5,875 million, or 52.0 per cent, to ¥17,177 million, compared to ¥11,302 million in the fiscal year ended 30 November 2021.

Net income attributable to owners of the parent

As a result of the above, net income attributable to owners of the parent in the fiscal year ended 30 November 2022 increased by ¥5,545 million, or 50.5 per cent, to ¥16,534 million, compared to ¥10,989 million in the fiscal year ended 30 November 2021.

Operating Result by Geographical Segment

Japan

In Japan, the COVID-19 pandemic continued through the fiscal year ended 30 November 2022, but its impact on economic activities were limited due to the lifting of restrictions. Meanwhile, disruptions in the global supply chain persisted, and the automotive industry continued to be affected by shortages of semiconductors and other components. In addition, while the aircraft-related industries have shown signs of recovery, the market condition remained challenging.

Amid such economic environment, net sales for the Japan segment for the fiscal year ended 30 November 2022 increased by ¥4,981 million, or 7.3 per cent, to ¥73,474 million, compared to ¥68,492 million for the fiscal year ended 30 November 2021. Within such amounts, net sales to external customers for the Japan segment amounted to ¥50,858 million and ¥48,935 million for the fiscal years ended 30 November 2022 and 2021, respectively. Segment profit for the fiscal year ended 30 November 2022 increased by ¥2,498 million, or 35.1 per cent, to ¥9,617 million, compared to ¥7,119 million for the fiscal year ended 30 November 2021.

Americas

In North America, the economy experienced strong growth despite negative factors such as weak consumer spending due to inflation and the accompanying increase in policy interest rates, as well as the downward pressure on production due to disruptions in the global supply chain. Growth in the automotive-related industries stagnated due to shortages of semiconductors and other components, but demand for machinery and equipment remained strong, while aircraft-related industries also showed signs of recovery. In South America, particularly Brazil, vehicle production increased, the aircraft-related industry showed signs of recovery and exports to North America remained strong.

Amid such economic environment, net sales for the Americas segment for the fiscal year ended 30 November 2022 increased by ¥6,275 million, or 27.9 per cent, to ¥28,763 million, compared to ¥22,487 million for the fiscal year ended 30 November 2021. Within such amounts, net sales to external customers for the Americas segment amounted to ¥27,845 million and ¥21,915 million for the fiscal years ended 30 November 2022 and 2021, respectively. Segment profit for the fiscal year ended 30 November 2022 increased by ¥1,154 million, or 36.4 per cent, to ¥4,327 million, compared to ¥3,173 million for the fiscal year ended 30 November 2021.

Europe/Africa

In Europe/Africa, Russia's invasion of Ukraine, energy crisis, significant consumer price rises and interest rate increases affected the economy. The automotive industry continued its recovery but was affected by the component shortages due to Russia's invasion of Ukraine, as well as the rising costs of raw materials and transport. Meanwhile, the general parts industry experienced strong growth and the aircraft-related industry showed signs of recovery, with increasing number of new projects.

Amid such economic environment, net sales for the Europe/Africa segment for the fiscal year ended 30 November 2022 increased by ¥4,513 million, or 18.3 per cent, to ¥29,227 million, compared to ¥24,714 million for the fiscal year ended 30 November 2021. Within such amounts, net sales to external customers for the Europe/Africa segment amounted to ¥28,964 million and ¥24,573 million for the fiscal years ended 30 November 2022 and 2021, respectively. Segment profit for the fiscal year ended 30 November 2022 increased by ¥876 million, or 45.1 per cent, to ¥2,820 million, compared to ¥1,943 million for the fiscal year ended 30 November 2021.

Asia

In China, the economy recovered steadily from the effects of COVID-19 at the beginning of the fiscal period, but the lockdown of several cities under the zero-COVID policy significantly impacted the economic activities. In

Taiwan, business conditions also deteriorated during the second half of the fiscal period, affected by the lockdowns in China. In South Korea, the automotive-related industry recovered from last fiscal year, but inflation and rising interest rates have made the outlook uncertain. In other Asian countries, shortages of semiconductors and other components and rising labour costs affected the general economic recovery, while a gradual recovery was seen in aircraft-related industries.

Amid such economic environment, net sales for the Asia segment for the fiscal year ended 30 November 2022 increased by ¥5,062 million, or 15.2 per cent, to ¥38,403 million, compared to ¥33,340 million for the fiscal year ended 30 November 2021. Within such amounts, net sales to external customers for the Asia segment amounted to ¥34,856 million and ¥30,732 million for the fiscal years ended 30 November 2022 and 2021, respectively. Segment profit for the fiscal year ended 30 November 2022 increased by ¥1,800 million, or 39.2 per cent, to ¥6,392 million, compared to ¥4,592 million for the fiscal year ended 30 November 2021.

Financial Condition

Consolidated Balance Sheet as at 31 August 2023 compared to the Consolidated Balance Sheet as at 30 November 2022

Total assets as at 31 August 2023 increased by ¥10,518 million, or 4.6 per cent, to ¥239,371 million, compared to ¥228,852 million as at 30 November 2022, reflecting an increase in current assets of ¥8,573 million, or 6.6 per cent, to ¥137,540 million as at 31 August 2023, compared to ¥128,967 million as at 30 November 2022, and an increase in non-current assets of ¥1,945 million, or 1.9 per cent, to ¥101,830 million as at 31 August 2023, compared to ¥99,885 million as at 30 November 2022. Total current assets increased primarily due to increases of ¥4,894 million in inventories and ¥6,273 million in cash and cash equivalents, partially offset by a decrease of ¥2,919 million in time deposit. Total non-current assets increased primarily due to an increase of ¥2,585 million in net property, plant and equipment, partially offset by a decrease of ¥640 million in total investments and other assets.

Total liabilities as at 31 August 2023 decreased by ¥1,096 million, or 2.1 per cent, to ¥50,918 million, compared to ¥52,014 million as at 30 November 2022, reflecting a decrease in total current liabilities as at 31 August 2023 of ¥4,036 million, or 17.0 per cent, to ¥19,728 million as at 31 August 2023, compared to ¥23,765 million as at 30 November 2022, partially offset by an increase in total long-term liabilities of ¥2,940 million, or 10.4 per cent, to ¥31,189 million as at 31 August 2023, compared to ¥28,248 million as at 30 November 2022. Total current liabilities decreased primarily due to decreases of ¥2,015 million in income tax payable and ¥1,852 million in accrued expenses. Total long-term liabilities increased primarily due to an increase of ¥5,000 million in bonds payable, partially offset by a decrease of ¥1,767 million in long-term bank loans.

Total equity as at 31 August 2023 increased by ¥11,615 million, or 6.6 per cent, to ¥188,453 million, compared to ¥176,838 million as at 30 November 2022, primarily due to increases of ¥6,734 million in foreign currency translation adjustment and ¥3,793 million in retained earnings.

Consolidated Balance Sheet as at 30 November 2022 compared to Consolidated Balance Sheet as at 30 November 2021

Total assets as at 30 November 2022 increased by ¥19,095 million, or 9.1 per cent, to ¥228,852 million, compared to ¥209,757 million as at 30 November 2021, reflecting an increase in current assets of ¥13,210 million, or 11.4 per cent, to ¥128,967 million as at 30 November 2022, compared to ¥115,757 million as at 30 November 2021, and an increase in non-current assets of ¥5,884 million, or 6.3 per cent, to ¥99,885 million as at 30 November 2022, compared to ¥94,000 million as at 30 November 2021. Total current assets increased primarily due to increases of ¥9,187 million in inventories and ¥3,354 million in trade notes and accounts receivable. Total non-current assets increased primarily due to increases of ¥3,077 million in total investments and other assets and ¥2,807 million in net property, plant and equipment.

Total liabilities as at 30 November 2022 decreased by ¥2,942 million, or 5.4 per cent, to ¥52,014 million, compared to ¥54,957 million as at 30 November 2021, reflecting a decrease in total current liabilities as at 30 November 2022 of ¥2,064 million, or 8.0 per cent, to ¥23,765 million, compared to ¥25,830 million as at 30 November 2021, and a decrease in total long-term liabilities of ¥878 million, or 3.0 per cent, to ¥28,248 million as at 30 November 2022, compared to ¥29,126 million as at 30 November 2021. Total current liabilities decreased primarily due to decreases of ¥2,266 million in current portion of long-term debt and ¥1,693 million in short-term bank loans, partially offset by increases of ¥1,530 million in accrued expenses and ¥643 million in trade notes and accounts payable. Total long-term liabilities decreased primarily due to a decrease of ¥1,359 million in long-term debt.

Total equity as at 30 November 2022 increased by ¥22,038 million, or 14.2 per cent, to ¥176,838 million, compared to ¥154,800 million as at 30 November 2021, primarily due to increases of ¥12,367 million in foreign currency translation adjustments and ¥12,127 million in retained earnings, partially offset by an increase of ¥5,346 million in treasury stock.

Liquidity and Capital Resources

Cash Flows in the fiscal year ended 30 November 2022 compared to the Cash Flows in the fiscal year ended 30 November 2021

Net cash provided by operating activities in the fiscal year ended 30 November 2022 amounted to ¥20,175 million, representing a decrease of ¥6,806 million, or 25.2 per cent, compared to net cash provided by operating activities of ¥26,982 million in the same period in the fiscal year ended 30 November 2021. The primary factor contributing to the net cash inflow for the fiscal year ended 30 November 2022 was ¥23,378 million in income before income taxes and ¥10,498 million in depreciation and amortisation, partially offset by cash outflow factors which mainly include ¥7,645 million in income taxes-paid and ¥5,269 million of increase in inventories.

Net cash used in investing activities in the fiscal year ended 30 November 2022 amounted to ¥12,170 million, representing an increase of ¥5,209 million, or 74.8 per cent, compared to net cash used in investing activities of ¥6,961 million in the fiscal year ended 30 November 2021. The primary factor contributing to the net cash outflow for the fiscal year ended 30 November 2022 was ¥8,600 million in purchases of property, plant and equipment and ¥7,783 million in payments into time deposits, partially offset by cash inflow factors which mainly include ¥5,188 million in proceeds from withdrawal of time deposits.

Net cash used in financing activities in the fiscal year ended 30 November 2022 amounted to ¥14,740 million, representing an increase of ¥476 million or 3.3 per cent, compared to net cash used in financing activities of ¥14,264 million in the fiscal year ended 30 November 2021. The primary factor contributing to the net cash outflow for the fiscal year ended 30 November 2022 was ¥5,953 million in purchases of treasury stock, ¥4,357 million in dividends paid, ¥2,205 million in net decrease in short-term bank loans and ¥2,137 million repayments of long-term bank loans.

As a result, cash and cash equivalents as at 30 November 2022 amounted to ¥36,717 million, representing a decrease of ¥3,637 million, or 9.0 per cent, compared to cash and cash equivalents as at 30 November 2021.

Funding

The Group raises necessary funds in accordance with its management plans mainly through bank borrowings and the issuance of corporate bonds.

In August 2023, the Group became the first cutting tool manufacturer in the world to procure financing with a green bond issue. The issue amount was ¥5 billion with a coupon of 0.514% per annum and a maturity of five years. See also “Business—ESG Management”.

As at 30 November 2022 and 31 August 2023, the Group’s short-term bank loans amounted to ¥636 million and ¥740 million, respectively, and the Group’s long-term debt (including current portion of long-term debt) amounted to ¥25,558 million and ¥28,733 million, respectively.

Capital Expenditure

The following table gives information with respect to the Group’s capital expenditure on a consolidated basis for the periods indicated.

	Year ended 30 November		
	2020	2021	2022
	<i>(Millions of yen)</i>		
Capital expenditure ⁽¹⁾	10,078	5,427	9,732

Note:

(1) Capital expenditure = Historical cost of property, plant and equipment acquired during the period.

The Group’s capital expenditure is generally funded by internally generated funds, short-term and long-term bank loans and issuance of corporate bonds. The Group’s capital expenditures for the three fiscal years ended 30 November 2022 were primarily used for improving existing facilities, focusing the expansion, rationalisation and renewal of production facilities.

BUSINESS

Overview

The Group is a comprehensive cutting tool manufacturer that operates in Japan and 31 countries and regions overseas with a total of 7,543 employees (consolidated basis) as at 30 November 2022. Its business mainly consists of the manufacturing and sale of cutting tools, rolling tools, measuring tools and other products, such as machine tools. Major products include taps, drills, end mills, rolling dies, gauges and others. Such products are widely used in automobiles, aircrafts, turbines, micro-precision processing and general engineering machineries to support various manufacturers. Moreover, under its “Global Presence” corporate philosophy, the Group has a global network which encompasses production, sales and technical support. This allows the Group to deliver prompt and reliable products and services to customers across its four reporting segments, namely Japan, the Americas, Europe/Africa and Asia.

The Group’s mission is to provide the best cutting tools to manufacturers around the world. It also aims to grow its business, contribute to its stakeholders and realise the sustainable development of the society. The Group operates its business under a Medium-Term Management Plan “Beyond the Limit 2024”, which instils among all employees the spirit of “going beyond your limits, setting no limits, pushing forward and evolving, and breaking out of the norm” to spur the Group to continue to advance. The Group will exploit opportunities in the business environment that lead to further growth and endeavour to sustainably enhance corporate value through a strengthened corporate culture and overall optimisation.

The Group consisted of the Company, 92 subsidiaries and four affiliates as at 30 November 2022. Business activities in Japan are controlled by the Company, as the Group’s head office, while overseas activities are controlled by the group management companies in each region. Overseas subsidiaries in each region conduct business activities pursuant to business strategies and business plans formulated centrally at the Group headquarters.

For the year ended 30 November 2022 and the nine months ended 31 August 2023, the Group recorded net sales of ¥142,525 million and ¥107,731 million, respectively, operating income of ¥21,898 million and ¥14,085 million, respectively, and net income attributable to owners of the parent of ¥16,534 million and ¥10,044 million, respectively, compared to net sales of ¥126,156 million and ¥103,502 million respectively, operating income of ¥16,105 million and ¥15,034 million, respectively, and net income attributable to owners of the parent of ¥10,989 million and ¥11,349 million, respectively, for the same periods of the previous year.

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki gaisha*). The Company’s registered head office is located at 3-22, Honnogahara, Toyokawa City, Aichi 442-8543, Japan.

Business Environment

The Group offers innovative cutting tool solutions engineered for an array of industries to drive better results and productivity.

Automotive

The Group provides cutting tool solutions that can fulfil the changing needs of the automotive industry. The automotive industry has been evolving rapidly in recent years through the new discovery of materials and technologies, prompting the need for sophisticated cutting tools capable of accommodating these new requirements. The Group is constantly evolving and responding to changing needs through innovations. It not only supplies powerful cutting tools for the automotive industry, but also provides tailored application solutions that enable better processing with higher efficiency and longer durability. The products offered by the Group includes tools to manufacture various automotive components, such as crank shaft, connecting rod, hub, turbo, common rail and reduction gear. While the increasing adoption of EV and electrification may lead to reduction of market size for automobile parts and tool suppliers, as EVs generally carry fewer components compared to ICEVs, the Group believes that such reduction in demand is mitigated by increased sales for plug-in hybrid electric vehicles (PHEVs) and the aerospace industry.

Aircraft and Energy

The Group promotes tooling innovations designed to excel in difficult-to-machine aerospace materials. The aerospace industry’s mission is to manufacture more environmentally-friendly, longer-range and faster aircrafts that require lower operating costs. The Group’s aerospace tooling shares the same mission. With over 85 years of experience and knowhow, the Group believes that its cutting tools have become the industry standard for tough materials like carbon fibre reinforced plastics (CFRP). The Group also offers tools used to manufacture other airplane components such as wing rib and fitting.

The Group also offers precision tooling solutions for the manufacturing of large components that are common in the energy industry. The energy industry provides fuel necessary for people’s daily lives and requires precision

machining of large parts and difficult-to-machine materials that can withstand various hostile conditions. The Group offers optimised cutting tool solutions for the most demanding requirements of power generation metal cutting. The products offered by the Group includes tools to manufacture various energy generation components such as turbine rotor, turbine blade and turning circuit.

Micro-precision Processing

The Group has a comprehensive line-up of high precision and high quality end mills designed to fulfil every die/mold manufacturing needs. In die/mold manufacturing, a part's quality highly correlates to the performance of the overall product. The Group's end mills offer size variations and leading quality even for the most complicated mold production.

General Engineering

The Group offers large diameter tooling for the machining of large components that are common in the heavy industry such as shipbuilding and construction machinery. Heavy industry's tough materials and large-scale production require strong tools designed to offer high performance. The Group has developed a spectrum of products which vary by materials and sizes to help manufacturers achieve the best possible result. The products offered by the Group includes tools to manufacture components such as hydraulic control valve, slewing bearing and engine.

For discussion of business environment in each of the geographical segments where the Group operates, see “—Global Operations”.

Recent Changes to the Business

In July 2023, the Group experienced a leakage of funds at one of its overseas subsidiaries based on false instructions from a malicious third party. Shortly after the outflow of the funds, the Company and the overseas subsidiary realised that the instructions were false, determined that there was a strong possibility that they have been involved in a criminal case, and immediately filed a damage claim with the local investigating authorities. The Group has fully cooperated with the investigation and made every effort to take procedures for the preservation and recovery of the leaked funds. The Company had recorded an estimated loss of ¥148 million in the nine months ended 31 August 2023. See also “Investment Considerations—Considerations Relating to the Group's Business and Industry—Cybersecurity”.

History

The Group traces its origins back to the establishment of OSG Grinding Co., Ltd. in Tokyo in 1938. Subsequently, the Group has led the global cutting tool market with innovative products derived from the development of a range of proprietary technologies, such as tap grinding with grindstones and the establishment of new sales channels.

The Group established its first overseas sales hub in the United States in 1968 and the first overseas production plant in Taiwan 1970. Subsequently, the Group expanded its operation to Brazil in 1974, Singapore in 1990, Belgium in 1997 and China in 2001. The Group operated in 31 overseas countries and regions as at 30 November 2022, covering the Americas, Europe/Africa and Asia regions.

The Group commenced its operation with the manufacturing of taps and dies, but later expanded its product portfolio to include screw gauges and rolling dies before the 1960s. The Group began manufacturing HSS end mills in the 1970s and carbide endmills, drills and cutter bodies in the 1980s. The Group subsequently launched the sales of A-TAP in 2013 and introduced “A Brand” product line in 2014. In 2023, the Group celebrated its 85th anniversary.

From time to time, the Group conducts acquisitions with the purpose of obtaining new customer base or technologies. In particular, after 2015, the Group had acquired several companies to enhance its market share on products for the aerospace industry and obtain new coating technologies. In 2019, the Group acquired a well-established leading tap manufacturer of BASS GmbH to realise synergies for the Group's tap products.

The Shares have been listed on the First Sections of the Tokyo Stock Exchange and the Nagoya Stock Exchange since 1981. In April 2022, the Company transitioned its listing to the Prime Market of the Tokyo Stock Exchange and the Premier Market of the Nagoya Stock Exchange.

Strengths

The Group continuously provides value to all stakeholders by leveraging its global network to deliver to the world the Group's proprietary high-value added products and services. The Group believes that the following competitive strengths maximise its value creation, contribute to its success and distinguish it from its competitors:

Tool Communication

The Group is dedicated to the precision manufacturing and sales of cutting tools such as taps, end mills, drills and rolling dies, which are used in machining centres for the processing of industrial products. Utilising knowhow the

Group has accumulated over years of vigorous product research, development and customer communication, the Group not only provides products with high quality, but also manufacturing and technical support systems that can tailor tooling products and solutions for each client's specific needs.

As the global manufacturing industry becoming increasingly diversified, the Group is committed to allowing customers to utilise its cutting tools across many different industries and countries. The Group trains its personnel to think globally when presenting ideas and make a continuous effort to contribute to the development of manufacturing industry worldwide. The Group regards as the highest priority of each employee to use cutting tools as a vehicle to engage in thoughtful communication with the Group's customers worldwide.

The Group's advantage lies in the combination of its innovative technological knowhow for producing high-quality and high-performance products, sincere and devoted service for finding solutions to its customers' needs as well as the ability to offer out-of-the-box thinking and comprehensive solutions that enable the Group to anticipate its customers' future requirements. The Group is devoted to assisting its customers in turning their dreams into reality and thereby continuously contributing to the advancement of the global manufacturing industries.

Global Network

Since the Company established its first foreign subsidiary, OSG Tap and Die, Inc. (currently as OSG USA, Inc.) in Chicago, the United States in 1968, the Group has set up manufacturing and sales hubs in 31 overseas countries and regions as at 30 November 2022. The Group believes that its products have earned strong reputation in the global market for their excellent quality, quick delivery and high-cost performance. In the year ended 30 November 2022, the Group's overseas net sales collectively contributed 64.9 per cent of its total net sales, with Americas, Europe/Africa and Asia (ex-Japan) contributing 19.8 per cent, 19.6 per cent and 25.5 per cent, respectively.

The Group's overseas hubs employ design and sales staff who possess a wealth of knowledge and the capability to fully support the Group's customers. The Group intends to continue actively expanding its global network in partnership with its customers.

Product Diversity

The Group's reliable technological innovation supports manufacturing industries worldwide with products that achieve high machining precision and efficiency. The Group manufactures tools employed for various uses, including taps, which have been one of the Group's core products since its inception, as well as drills, end mills and rolling dies. In the year ended 30 November 2022, net sales of taps, drills, end mills, rolling dies, gauges and other products contributed 35.3 per cent, 28.8 per cent, 18.5 per cent, 7.4 per cent, 1.4 per cent and 8.5 per cent of the Group's total net sales, respectively. For details of each product category, see "—Product Offerings".

To supply its high-value added products, the Group's vertical value chain encompasses all stages from the procurement of cemented carbide, which is a key raw material for its tools, to the development and production of proprietary coatings to enhance the durability of production equipment and tools. The Group has a flexible production system that achieved high productivity due to its proprietary production facilities. For details, see also "—Manufacturing and Properties".

Strategies

In the year ended 30 November 2022, the Group launched the Medium-Term Management Plan "Beyond the Limit 2024". Under the Medium-Term Management Plan, the Group strives to enhance operating efficiency and profitability, build a robust corporate culture and contribute to the global manufacturing industry as it advances toward the era of carbon neutrality. The Group will carry out the Medium-Term Management Plan in three stages: during Stage 1 (FY2022-FY2024), the Group will focus on strengthening its corporate culture; during Stage 2 (FY2025-FY2027) and Stage 3 (FY2028-FY2030), the Group will optimise the composition of its customer-specific product portfolio in order to better address social and environmental changes.

"A Brand" Strategy

"A Brand" is the Group's premium tool brand which harnesses its cutting-edge technology and was developed as versatile cutting tools to accommodate various workpieces and machining methods. "A Brand" is an important facet of the Medium-Term Management Plan and the Group has promoted the development of "A Brand" series to be available with its standard cutting tools (catalogue items). Since A Tap was released in 2013, the Group has further expanded its product portfolio by developing A Drill and A End Mill. "A Brand" products are used in a wide range of industries and have also contributed to the increased sales of the Group's micro-precision processing products, one of the Group focus areas. The Group will continue to market "A Brand" products to fulfil the customers' demand for high-quality and high-performance tools.

In Stage 1 of the Medium-Term Management Plan, the Group has endeavoured to increase the sales contribution of "A Brand" products. In recent years, net sales of "A Brand" products rose steadily in Japan, North

America, Europe, China and other regions. The Group had strived to continue such trend in the fiscal year ended 30 November 2023.

Micro-Precision Processing

As a key strategy under the Medium-Term Management Plan, the Group has been striving to increase the market share of taps, drills and carbide end mills for micro-precision processing. In the 5G network, semiconductor, robotics, automation, mechanical components, mobility, medical and other industries which are forecasted to grow, there is considerable component machining that requires precision processing and rising demand for small-diameter tools. The Group launched a new sales organisation to promote new business development in these areas and its sales force has been actively and successfully securing new customers for the relevant products. The Group has rolled out these marketing campaigns in Japan and overseas. The Group anticipates the market for micro-precision processing to further grow in the future. Through its global network, the Group will leverage its ability to convert sales into orders, offer outstanding service for manufacturing that meets the customers' expectation for timely delivery and provide on-site technical support. The Group seeks to achieve a greater market share through these measures.

Through efforts to secure new business opportunities and customers, the Group had strived to expand the sales of such products in Japan and overseas during the year ended 30 November 2023.

Coating and Reconditioning

The Group has been expanding its business to contribute to a sustainable circular economy for materials by promoting recycling through reconditioning and recoating cutting tools. Reconditioning and coating technologies contribute to reducing expenditures and improving the productivity of the Group's customers as well as extending tool life, thereby reducing their impact on the environment. In the year ended 30 November 2023, the Group had focused on expanding its water-resistant coating services for areas other than processing equipment, including medical and electronic components.

Product Offerings

The Group manufactures various cutting tools, rolling tools, measuring tools and other products, such as machine tools. Major products include taps, drills, end mills, rolling dies, gauges and others. The following summarises by product categories the net sales of the Group for the periods indicated:

	For the year ended 30 November			For the nine months ended 31 August	
	2020	2021	2022	2022	2023
	<i>(Millions of Yen)</i>				
Taps	33,671	43,239	50,374	36,558	35,807
Drills	29,484	35,721	40,982	29,687	31,264
End mills	21,219	24,006	26,383	19,164	20,477
Rolling dies	7,947	10,052	10,616	7,756	8,022
Gauges	1,712	1,747	1,991	1,462	1,450
Others	10,354	11,387	12,176	8,873	10,709
Total	104,388	126,156	142,525	103,502	107,731

Taps

The Group developed threading solutions based on technical knowhow cultivated over the years. It has the top global market share by sales in 2022, according to the Group's estimate. The Group offers many high-performance products, including its (i) multi-purpose tap, "A-TAP", (ii) high-efficiency multi-purpose forming tap, "A-XPF", (iii) highly durable general purpose spiral tap, "EXZ-SFT", (iv) one-pass thread mill, "AT-1", (v) tap holder, "SyncroMaster", and (vi) other products.



Taps are used to cut "female" screw threads on the inside surfaces of holes and fulfil a vital role in the machining of precision threaded holes in a wide range of industries. Cutting taps first appeared in Japan sometime between the 1910s and 1920s. However, they were not suitable for the precision machining required for aircraft and other applications, which were in higher demand at the time, resulting in widespread use of imported taps.

The Group developed its tap products based on its founder Mr. Hideo Osawa's idea of manufacturing taps domestically. The Group offers a diverse product line-up which ranges from small- to large-diameter taps as well as standardised and tailored taps. Taps have been one of the Group's core products since its inception and the Group has strived to maintain competitive and world-class quality. The Group's taps have been included in the Global Niche Top (GNT) Companies Selection 100 list for 2020 published by the Ministry of Economy, Trade and Industry. Moreover, the Group's tap products present higher profitability compared to other product categories since the Group manufactures its taps primarily through proprietary production equipment and processes and has limited reliance on external parties for manufacturing.

Drills

The Group offers drilling solutions with ultra precision and performance for maximum productivity. Major products include (i) carbide flat drill, "ADF", (ii) carbide long drills with oil holes, "ADO-40D/50D", (iii) 3-flute carbide drill with oil hole, "ADO-TRS", (iv) drills for stainless, "ADO-SUS", (v) small carbide drill with oil holes, "ADO-MICRO", and (vi) other products.



Drills are hole-cutting tools. The Group believes that it has earned an excellent reputation among its customer base through the development and sale of high-precision and high-value added products designed for automobile and aircraft components, for which even the slightest error is intolerable and require advanced machining technology. When using a tap to cut "female" screw threads on the inside insurances of holes, a pilot hole needs to be readied in the work material. To meet the needs of current tap users, the Group has developed and commercialised high-value added drills capable of stable high-speed machining for long periods of time.

End mills

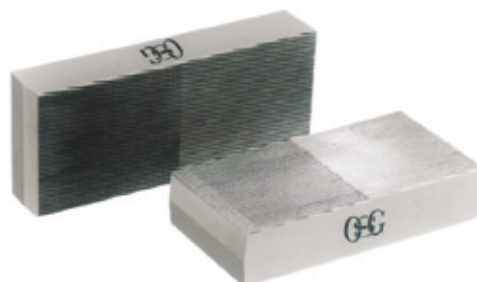
The Group offers some of the industry's leading end mills and a comprehensive line-up to provide solutions for every milling application. Major products include (i) anti-vibration long carbide end mill, "AE-VML", (ii) radius type carbide end mills for high-hardness steels, "AE-CRE-H" and "AE-HFE-H", (iii) DLC coated end mills for non-ferrous materials, "AE-TS-N", "AE-TL-N" and "AE-VTS-N", (iv) end mills compatible with sliding head lathes, "AE-VTSS", (v) DLC coated carbide end mills for copper electrodes, "AE-CPR-N", and (vi) other products.



End mills cut away metal to create shapes. They are used, for example, to cut and contour molds for plastic parts as well as press dies. There is a high demand for carbide end mills with outstanding machining precision and durability to meet the requirements for reducing the cost and weight of smaller diameter machined products. In the 1950s, there was an explosive increase in demand in the United States for mass production of end mills, particularly to be used in the automotive, home appliance and plastic industries. The Group was able to capture some of that demand soon after it branched out into the United States. The Group subsequently started developing and selling end mills in Japan with the expectation that a similar trend will present itself in Japan as well.

Rolling dies

The Group offers tailored rolling die solutions with the same quality standard as its world-renowned taps. The Group's product line-up includes (i) rolling flat dies, which produce external threads by cold forming, (ii) thread rolling cylindrical dies, which are made for through-feed rolling and in-feed rolling, (iii) thread rolling planetary dies, which imprint threads when the work piece travels between a fixed die and a moving rotary die, (iv) rack type rolling dies, which are designed to eliminate the machine adjustment often required in die setup, (v) trimming dies, which are designed to remove the flashing left over from the cold heading process on the head of bolts and fasteners, and (vi) round dies, which are used to cut screws for lathes.



Rolling dies are used to form a “male” thread on a bolt. A mirror image of the thread is formed on a round bar by pressing the rolling die against the bar from the left and right. Customers are encouraged to consult the Group’s technical support team for the Group to better understand their needs, pursuant to which the Group can manufacture dies based on any desired specifications and provide tailored evaluation and solutions. Utilising the same advanced technology the Group uses for its reputable taps, the Group manufactures a variety of dies in accordance with their intended use with superb precision and tool life.

Gauges

The Group offers comprehensive solution comprised of high-precision measurement tools to make the optimal thread and ensure that proper tolerances are met. The Group’s product line-ups include thread limit gauge, wear inspection thread gauge, taper pipe thread gauge, standard thread gauge, plain limit gauge, standard gauges and special gauges.



Gauges are used to measure the precision of threads, holes and other work. Inspecting work precision is an extremely important process amid the trend towards greater product precision and compliance with international standards. Precision on the order of several microns is sought for taps and dies, but gauges require higher precision that is able to contain error to less than one micron. The development of gauges has also led to an improvement in grinding technology and is reflected in the quality of the Group’s taps and dies. The Group believes that it is renowned not only for its cutting tools, but also world-class quality in the field of measuring instruments.

Other products

The Group also offers other special products and accessories developed to assist the customers’ manufacturing needs, including indexable tools, thread mills and tooling systems.



In particular, indexable tools, which are cutting tools with interchangeable blades, are used to cut metal to produce dies and mechanical components. While end mills are used for finishing, indexable tools are mainly intended for roughing. Solid tools are reconditioned when the cutting edge is worn down, but indexable tools may continue to be used just by replacing and inserting the blade. The Group offers tools with interchangeable blades for threading, milling and drilling.

Global Operations

Outside Japan, the Group has manufacturing, sales and technical support bases located in 31 overseas countries and regions across its three major markets, namely Americas, Europe/Africa and Asia. The following table sets forth a breakdown of the Group’s net sales to external customers by geographic area for the periods indicated:

	For the year ended 30 November			For the nine months ended 31 August	
	2020	2021	2022	2022	2023
	<i>(Millions of Yen)</i>				
Japan	42,816	48,935	50,858	36,640	36,327
Americas	18,818	21,915	27,845	19,832	23,200
Europe/Africa	19,396	24,573	28,964	20,944	24,497
Asia	23,356	30,732	34,856	26,084	23,705
Total	104,388	126,156	142,525	103,502	107,731

In terms of recent business environment in each geographical segment:

- in Japan, component suppliers and distributors have been undertaking inventory adjustments, and the Group faces reduced demand for its products for the general component industry;
- in Americas, despite uncertainties in market outlook, the aerospace industry and the energy industry continue to experience strong growth, while the automotive industry faced limited impact of the UAW strike from September 2023;
- in Europe/Africa, strong demand remains for distributors, the general component industry and the aerospace industry while the automotive industry continues its recovery from the COVID-19 pandemic, despite general uncertainties in market outlook; and
- in Asia, in addition to economic downturn in the Greater China region as result of slowdown of the real estate sector, uncertainties remain as to whether the Purchasing Managers' Index (PMI) and automotive production volume can continue their recent upward trends; other regions such as South Korea, India and Thailand experienced mixed results, among which India exhibited particularly strong growth.

Despite the considerable uncertainties within the global economy, the Group aims to achieve higher levels of performance as it continues to leverage its global network which encompasses production, sales and technical support that is built upon its “Global Presence” corporate philosophy. This allows the Group to deliver prompt and reliable products and services to its customers around the world. 64.9 per cent of the Group’s net sales in the year ended 30 November 2022 and 57.7 per cent of its employees (consolidated basis) as at 30 November 2022 were accounted in overseas.

Procurement

The Group purchases a diverse range of raw materials and components, which mainly include cemented carbide, high-speed steel and die steel. The base materials for carbide tools are produced and procured by Group companies in Japan. The Group also extends its procurement globally for optimal purchasing. The Group maintains a good relationship with its suppliers.

The Group aims to achieve carbon neutrality in its procurement activities. It endeavours to increase the use of recycled materials as well as promote substitution with eco-friendly materials. Additionally, to mitigate procurement risk, the Group has bolstered its BCP in coordination with its suppliers to stabilise procurement. Moreover, the Group is diversifying its suppliers and increasing procurement from multiple suppliers as part of its efforts to increase supply flexibility. Furthermore, the Group seeks to maintain and manage appropriate inventory levels for materials and other items along with distribution inventory to build a structure capable of flexibly handling any changes in the business environment.

Amid calls for construction of sustainable supply chains, the Group focuses on supporting corporate social responsibility activities across the value chain and strives for responsible mineral sourcing to meet the needs of the society.

Research and Development

The Group’s R&D activities are guided by global technological trends and requirements as well as the need to resolve customer issues in a timely manner. Under the Medium-Term Management Plan, the Group has been accelerating its R&D activities globally, with a focus on strengthening core technologies and products that support its management foundation and explores new business opportunities. The Group’s R&D expenses for the year ended 30 November 2022 and the nine months ended 31 August 2023 totalled ¥1,346 million and ¥1,018 million, respectively. In the year ended 30 November 2022, the Group released 377 new products.

The Group conducts its R&D activities mainly through the Design Centre. The Group also carries out long-term basic research jointly with universities and national and public research institutes. The Design Centre engages in the development and enhancement of taps, drills, end mills, rolling dies, gauges and other products as well as the R&D of high-speed steel and die steel material as well as heat treatment technologies. It is equipped with the latest machine tools and evaluation instruments of all types, particularly for cutting prototypes to develop machining technologies that maximise tool performance as well as provide expedient feedback for development of products using cutting tests conducted under diverse use conditions. At its D-Lab facility, the Design Centre also engages in the development of the latest tool products and a pilot line for smart factories.

In recent years, the Group has been focusing on the R&D of the “A Brand”, which began with the development of A-TAP. The combination of new technologies to refine product specifications specific to current uses culminated in A-TAP, which achieves stable threading across wide range of workpieces and cutting conditions. The new technologies

incorporated into A-TAP were developed by assembling at the Design Centre the developers and designers of all tools that the Group carries. The Group has been expanding these product lines to items beyond taps so that its customers will recognise “A Brand” as their first choice.

In addition to advancing product development to increase the sales of “A Brand” and micro-precision tools which are fundamental aspects of the Medium-Term Management Plan, the Group also emphasises “eco-friendly product development”, the purpose of which is to contribute to social solutions that help achieve SDGs and thereby promote ESG management. The Group has set a standard for evaluating eco-friendly products and the factors it must account for when developing new products.

Manufacturing and Properties

The Group’s domestic manufacturing is mainly handled through the Company’s mother factories. Overseas manufacturing is handled by the Company’s overseas subsidiaries, with certain equipment and semi-finished goods supplied by the Company.

Driven by the Group’s basic policy as set by its founder “to provide products that will delight the customers”, the Group has developed an efficient production system for high-quality and high-valued added manufacturing which fulfils the customer needs of the time. In 2014, the Group adopted the tag line of “shaping your dreams”, which embodies its strong determination and resolve to realise its customers’ dreams by providing them with fully-satisfying products and services through manufacturing. On this basis, the Group aims to enhance its customer service.

At its four mother factories in Japan, the Group has actively promoted digitalisation to support its on-site capabilities and made it possible to visualise in real-time equipment operation, process load and progress, product flow and other manufacturing data. These visualised data allowed the Group to accelerate its analysis and response to problems as well as make improvements, thereby significantly enhancing its productivity. The Group’s flagship NEO Shinshiro Factory, which began operation in 2020 and produces many products in small quantities, also promotes digitalisation to support its on-site capabilities. Such efforts strengthen the Group’s capability for timely product delivery and have allowed the Group to differentiate itself from other peers. Moreover, the Group has integrated digital tools with its production expertise in the optimal manner and made it possible to continuously operate multiple lots on weekends and increase output from bottleneck processes. In the future, the Group will apply the knowhow it gained from digitalisation at these plants to other plants. The Group aims to develop a one-factory organisation which connects plants overseas.

In addressing labour shortages, the Group needs to accelerate the pace of its production transformation to introduce robots, unmanned operations and make other changes to promote automation. For multi-task processing, the Group aims to connect processes and merge them to allow multiple processes to be machined with one piece of equipment, thereby shortening process and setup time. The Group has also established production departments at its machine shops and established a system to search for the latest technology around the world and apply it within the Group.

Carbide end mills are key for developing the micro-precision machining sector. Under the Medium-Term Management Plan, the Group set to enhance production capacity for such products and launched a project to construct a new plant at SD Manufacturing Company, a subsidiary of the Company, and the Oike Factory. The Group will further boost its supply capacity by leveraging the digital production knowhow gained at the NEO Shinshiro Factory as well as separate the production process to transform the Oike Factory into a fully-automated production line. This will save labour and allow SD Manufacturing Company to serve as a digitally-powered plant that handles low-volume and diversified production.

Furthermore, to become more environmentally-friendly and reduce greenhouse gas emissions, the Group will endeavour to promote resource and energy savings, waste reduction and recycling of carbide materials across all processes. The Group aims to own state-of-the-art factories that maximise productivity and protect the environment.

In the year ended 30 November 2022, the Group made a total capital investment of ¥9,732 million on basis of construction costs, with a focus on the enhancement, rationalisation, and renewal of production facilities. Such amount consists of ¥5,078 million in Japan, ¥1,443 million in the Americas, ¥790 million in Europe/Africa and ¥2,419 million in Asia. In addition, there was no retirement, sale or disposal of important equipment in the same fiscal year. The Group has not experienced any material difficulty in manufacturing its products and does not anticipate any such material difficulty in the foreseeable future.

The following table sets forth certain information with respect to the principal facilities of the Group as at 30 November 2022:

The Company

Facility name (location)	Equipment description	Book value					Number of employees
		Buildings and components	Mechanical and logistic equipment	Land (Area sq.m.) ⁽¹⁾	Other ⁽²⁾	Total	
<i>(Millions of Yen)</i>							
Headquarters (Toyokawa, Aichi)	Facilities for the Group management	300	101	372 (6,217)	324	1,099	133
Oike Factory (Toyokawa, Aichi)	Manufacturing equipment for cutting tools and computer equipment	547	2,267	260 (64,386)	23	3,100	210
Yana Factory (Shinshiro, Aichi)	Manufacturing equipment for cutting tools	1,038	3,743	1,564 (77,226)	57	6,404	372
Shinshiro Factory (Shinshiro, Aichi)	Manufacturing equipment for cutting tools	5,795	4,598	1,466 (110,381)	58	11,920	481
Toyohashi Factory (Toyohashi, Aichi and one other location)	Manufacturing equipment for rolling tools and measuring tools	598	1,033	209 (46,090)	11	1,852	200
Toyokawa Factory (Toyokawa, Aichi)	Manufacturing equipment for machine tools	167	287	41 (20,284)	7	504	88
Honnogahara Centre (Toyokawa, Aichi)	Management facility	126	11	384 (4,693)	6	528	19
OSG Academy (Toyokawa, Aichi)	R&D facility	1,348	654	194 (23,195)	50	2,248	194
Tokyo Sales Office (Shinagawa, Tokyo) and 31 other locations	Sales facility	326	6	642 (4,221)	24	999	202
Other benefit facilities ⁽³⁾		380	2	285 (13,146)	94	762	—

Domestic Subsidiaries

Company name (Location)	Equipment description	Book value					Number of employees
		Buildings and components	Mechanical and logistic equipment	Land (Area sq.m.)	Other ⁽²⁾	Total	
<i>(Millions of Yen)</i>							
Nihon Hard Metal Co., Ltd. (Aiko-gun, Kanagawa and other locations)	Manufacturing equipment for carbide materials and cutting tools, and other equipment	1,832	1,073	793 (56,843)	96	3,796	292
OSG Coating Service Co., Ltd. (Shinshiro, Aichi and other locations)	Manufacturing equipment for coating and other equipment	614	1,111	—	33	1,760	177
Otaka Precision Co., Ltd. (Shinshiro, Aichi and other locations)	Manufacturing equipment for cutting tools and rolling tools, and other equipment	181	632	161 (16,262)	15	991	130

Company name (Location)	Equipment description	Book value					Number of employees
		Buildings and components	Mechanical and logistic equipment	Land (Area sq.m.)	Other ⁽²⁾	Total	
<i>(Millions of Yen)</i>							
ORS Corporation (Chita, Aichi and other locations)	Reconditioning equipment for cutting tools and other equipment	194	129	191 (4,759)	13	528	144
SANWA SEIKI CO., LTD. (Nagoya, Aichi and other locations)	Sales equipment, inventory storage equipment, manufacturing equipment for machinery tools and other equipment	267	89	659 (19,821)	16	1,033	136

Overseas Subsidiaries

Company name (Location)	Segment name	Equipment description	Book value					Number of employees
			Buildings and components	Mechanical and logistic equipment	Land (Area sq.m.) ⁽¹⁾	Other ⁽²⁾	Total	
<i>(Millions of Yen)</i>								
OSG USA, Inc (Illinois, U.S.A. and other locations)	Americas	Manufacturing equipment for cutting tools and rolling tools, and other equipment	1,090	1,471	410 (66,207)	123	3,096	310
Amamco Tool & Supply Co., Inc. (South Carolina, U.S.A.)	Americas	Manufacturing equipment for carbide cutting tools and other equipment	720	304	22 (32,456)	7	1,054	77
OSG Royco, S.A.de C.V. (Mexico, Mexico and other locations)	Americas	Manufacturing equipment for cutting tools and other equipment	1,275	2,271	118 (31,000)	14	3,680	527
OSG Sulamericana de Ferramentas Ltda. (São Paulo, Brazil and other locations)	Americas	Manufacturing equipment for cutting tools and other equipment	107	750	36 (96,800)	33	928	405
OSG GmbH (Göppingen, Germany)	Europe/ Africa	Manufacturing equipment for cutting tools and other equipment	754	658	201 (16,990)	171	1,785	107
BASS GmbH (Niederstetten, Germany)	Europe/ Africa	Manufacturing equipment for cutting tools and other equipment	784	1,380	58 (38,280)	16	2,240	165
OSG UK Limited (Essex, United Kingdom)	Europe/ Africa	Manufacturing equipment for cutting tools and other equipment	304	62	153 (6,888)	6	526	47
Somta Tools (Pty) Ltd (Pietermaritzburg, Republic of South Africa)	Europe/ Africa	Manufacturing equipment for cutting tools and other equipment	115	314	65 (27,987)	26	522	287

Sales and Marketing

Products manufactured by the Group for domestic sales are mainly sold by the Company, but are also partly sold through its domestic subsidiaries. Domestic sales are made primarily to distributors. For domestic sales, most of the Group's products are transported by truck using third party haulage companies.

Overseas sales are conducted through the Company's overseas sales subsidiaries which procure goods from the Company or its overseas manufacturing subsidiaries. Overseas sales are made primarily to distributors. For overseas sales, most of the Group's products are transported by ship.

The Group's global online ordering system enables it to efficiently handle orders, provide delivery estimates and ship products. Additionally, the Group leverages data to centrally manage its inventory of approximately 100,000 standard items worldwide. Data-based inventory management empowers the Group to control production and swiftly ship customers' orders.

Moreover, the Group's sales departments are advancing digital-powered sales and marketing activities to achieve both green and digital transformations. The Group is actively researching and addressing new areas of growth to handle various changes prompted by the surge in resource prices and prevalence of electric vehicles. The Group's distribution departments have decentralised risk management by streamlining inventories at the Group's sites in Japan and overseas to implement its BCP.

The Group also demonstrates its concern for the environment by eliminating as much plastic as possible in its packaging and auxiliary materials. The Group promotes the recycling of packaging and secondary materials, refuses to use plastic items that can only be discarded and strives to recycle whatever it can. Furthermore, the Group has reassessed materials used for cardboard boxes, delivery slips and shipping invoices to reduce the thickness of paper and cardboard. This effort has also reduced CO2 emissions during shipping and made it more efficient to load cargo onto trucks. The Group has also introduced automatic cartoning and packaging machines to automate such operations.

Customers and After-sales Services

In the year ended 30 November 2022, none of the Group's customers contributed 10 per cent or more of its total net sales. In the same year, the Group's five largest customers included leading Japanese and overseas distributors and trading companies.

The Group's global logistics and sales network offers reconditioning and coating services to its customers throughout the world. Additionally, the Group follows up with its customers through the sales team by face-to-face visits, which enable the Group to propose optimal machining conditions and specifications to its customers. The Group seeks to provide consistent global support that only a comprehensive cutting tool manufacturer can offer.

To provide even better after-sales service, the Group must ascertain the specific needs of its customers at their processing sites and share their essential requirements among the relevant internal departments. To add further value to its high-quality service, the Group proposes ideas for optimising its customers' processing sites, which will help them improve productivity. Leveraging the Group's deep knowledge about cutting and its ability to verify the conditions in which customers use its equipment and the state of abrasion, the Group can propose optimal tool specifications and machining conditions.

The Group continuously offers its customers the latest grinding and surface treatment technologies. Although regrinding faces challenges in terms of small-diameter tools, deep-hole drilling tools, sintered tools and other components that are difficult to grind, the Group is steadily expanding the scope of regrinding tools to cover small-diameter tools, ultra-long tools as well as cubic boron nitride (CBN) and diamond tools. Similarly, the Group is expanding the market for coating to include dies and components to establish coating technology applicable for products other than cutting tools. Additionally, the Group has a robust framework that aligns technologies with its regrinding and coating factories.

Competition

The Group competes with various manufacturers in each of its product categories and has particularly large market share for its taps, drills and end mills in the six months ended 30 November 2022.

- The Group had a top domestic market share for taps of 57.8 per cent, according to Japan Cutting & Wear-resistant Tool Association, and a top global market share for taps of approximately 33 per cent, according to the Group's estimate.
- The Group had a domestic market share for drills of 25.5 per cent, according to Japan Cutting & Wear-resistant Tool Association, and a global market share for drills of approximately 10 per cent, according to the Group's estimate.

- The Group had a domestic market share for end mills of 23.9 per cent, according to Japan Cutting & Wear-resistant Tool Association, and a global market share for end mills of approximately 10 per cent, according to the Group's estimate.

The Group believes that it possesses various competitive advantages over its peers. For its core product of taps, the Group attributes its top global market share to the internalisation of manufacturing equipment as well as proprietary technologies and knowhows. The Group also owns a global network which included manufacturing, sales and technical support bases in 32 countries and regions as at 30 November 2022. Additionally, the Group can offer comprehensive processing solutions based on a wide range of product line-ups which include taps, drills, end mills and other cutting tools. See also “—Strengths”.

While the Group has benefited from the processing needs for ICEVs, the increasing adoption of EVs and electrification may reduce the number of vehicle components and further lead to reduced demand for the Group's products. See also “Investment Considerations—Considerations Relating to the Group's Business and Industry—Changes in market conditions relating to product demands”. In response to such trend, under the Medium-Term Management Plan, the Group is shifting its focus on areas such as micro-precision processing for semiconductors and electronic components, the aerospace industry, the energy industry as well as coating and reconditioning services.

Intellectual Property

The Group protects its intellectual property and brand through a combination of patent, copyright and trade secret laws in Japan and other jurisdictions, as well as licensing agreements and other contractual protections. Meanwhile, the Group also strives protect its intellectual property by educating the research and development staff about intellectual property protection and implementing measures such as time stamps for its projects. As at 30 November 2022, the Group held 449 patents in Japan and overseas. As at the same date, the Group's pending applications for patents in Japan and overseas were approximately 13 and 118, respectively. The Group also relies on a number of registered trademarks to protect its brand.

Although the Group considers its various patents and licences to be important, it does not consider its business, as a whole to be materially dependent on any particular patent or licence.

Insurance

The Group maintains a range of insurance policies which cover certain liability risks including personal property, buildings and equipment, product liabilities and directors and officers liability. The Group believes that its insurance coverage is comparable to other companies with similar operations in Japan and various overseas markets where it operates.

ESG Management

The Group has been promoting ESG management with the aim of maximising sustainable corporate value for long-term in the face of uncertainties. The Group aims to become an essential player contributing to sustainable manufacturing industries worldwide by delivering proprietary high-value added products and services.

Management Structure

The Sustainability Committee deliberates ESG-related issues, policy and vision consistency, priority measures and other matters, and regularly reports on its activities to the Board of Directors. Measures for promoting sustainability are implemented by department heads, or ESG officers, and facilitators in each organisation based on decisions made by the President, who chairs the Sustainability Committee. Department facilitators provide regular progress reports on their activities, exchange views with colleagues and promote initiatives for offering solutions to key issues. This allows them to maintain consistent understanding of what sustainability entails.

Material Issues

The Group has identified various key issues that it must prioritise and communicated them to its stakeholders.

Climate Change Initiatives

The Group has expressed its support for Taskforce on Climate-related Financial Disclosure (TCFD) and strives to adapt its operations to mitigate the impact of climate change. The Group has been promoting activities that contribute to a carbon-free society and reducing greenhouse gas emissions.

As humanity advances toward the age of carbon neutrality, the Group endeavours to develop eco-friendly products and bolster the usage of carbon-free electricity, which is derived from solar power generated through an off-site power purchase agreement (PPA). The Group will promote initiatives with an aim to obtain a score of “A” from the Carbon Disclosure Project (CDP) and calculating Scope 3 CO₂ emissions.

Development of a Rewarding Workplace Environment

The Group strives to develop and maintain an environment in which every employee can find pride and fulfilment, leverage diversity and demonstrate their abilities to their full potential.

The Group has implemented systems for improving employees' work-life balance and developed leaders with the capability to manage diverse working styles and ways of thinking in a manner that enables its employees, who are valuable stakeholders, to maximise their performance in a comfortable working environment.

Initiatives for Employing People with Disabilities

In December 2022, the Group established OSG Active Co., Ltd. as a special subsidiary to promote employment opportunities for people with disabilities. The Group has created an inclusive environment that pays attention to people with disabilities and supports them in enthusiastically performing their jobs.

In addition to promoting a more conducive work environment for people facing disabilities, the Group partners with support organisations and agencies, actively participates in meetings and promotes community efforts to hire people with disabilities. The Group endeavours to not only achieve and maintain its statutory employment rate, but also contribute to the community and society through employment of people with disabilities.

Health and Safety Management

As a health-conscious company, the Group understands that the safety and health of its employees is an important management concern. The Group promotes employee health and facilitates a workplace environment that is both comfortable and safe. It seeks to enhance the employees' consciousness of safety through risk assessment activities, health and safety trainings and zero-accident meetings. The Group has not experienced any major health and safety incident in the years ended 30 November 2020, 2021 and 2022.

The Group's slogan is to "promote employee well-being and contribute to creating a prosperous future for our employees, their families, our customers, the community, our society and the earth". With this slogan, the Group is working to create an environment where every employee may work with enthusiasm and good health.

Community Contribution – Sports Promotion Initiatives

The Group has supported local professional sports and been the top sponsor of San-En NeoPhoenix professional basketball team, which is based in eastern Mikawa and the Enshu region. The Group also holds events that invite fans to watch games for free, which has helped to energise the community.

As part of the programme "Everyone Smile! Onward to the Future!", the Group has invited people from the disability community to enjoy San-En NeoPhoenix games as guests. At game venues, merchandisers for welfare institutions have sold handicrafts and other products, which allows these sporting events to become a vehicle for contributing to the community.

Community Contribution – Support for Medical Institutions and Facilities

As part of its efforts to combat the COVID-19 pandemic, the Group has donated protective gear and masks to healthcare workers and other necessary items to social welfare organisations. The Group has also cooperated with the administration of workplace vaccination programmes in nearby communities. The Group strives to create a heart-warming community through activities such as regular donation of furniture and other furnishings to facilities that assist people with disabilities.

Improvement of Corporate Governance

Highly independent Outside Directors comprise the majority of the seats of the Board of Directors. The Board of Directors is invested with the capability to sufficiently exercise its management oversight functions. Corporate ethics compliance guidelines are shared throughout the Group to raise awareness and enhance corporate governance.

To achieve greater gender diversity, ensure effectiveness and improve the Board of Directors' functions, one female Outside Director has been elected and an assessment was conducted for the Board's effectiveness. The Group has released an English version of the Corporate Governance Report to provide stakeholders globally with a better understanding of the Group and its corporate governance.

Sustainable Finance

The Group signed an agreement for ESG Assessment-Type Financing Procurement to monitor the status of its KPI achievement and discloses this information. The Group is considering adopting sustainability-linked loans, green bonds and other forms of sustainable financing when procuring investment funds, and has been striving to practice more sophisticated ESG/SDGs management.

In August 2023, the Group became the first cutting tool manufacturer in the world to procure financing with a green bond issue. The issue amount was ¥5 billion with a coupon of 0.514% per annum and a maturity of five years.

The Group aligned the issue with the Green Bond Principles 2021 set by the International Capital Market Association (ICMA) and the Green Bonds Guidelines 2022 established by the Ministry of the Environment. The Group has created a green bond framework that addresses four requirements, including (i) use of proceeds, (ii) project evaluation selection process, (iii) management of proceeds and (iv) reporting. The funds procured were set to be allocated for capital investment as well as R&D relating to projects categorised as “energy-saving” and “environmentally-friendly products”. The Group believes that the green bond issue will further accelerate its ESG initiatives and enhance the appeal of its efforts more broadly to capital markets and stakeholders.

Regulations

The Group is subject to various laws and regulations in the countries and regions in which it operates its business, including tax regulations, environmental regulations, labour, health and safety regulations as well as economic regulations such as the anti-monopoly laws, anti-dumping laws and anti-bribery laws, trade and foreign exchange laws as well as the listing rules of the Tokyo Stock Exchange and the Nagoya Stock Exchange.

While the Group endeavours to comply with these regulations and conduct its business activities in a fair manner, any non-compliance with such laws and regulations may result in litigations, administrative penalties or other sanctions that adversely impact the Group’s results of operations and financial condition. Moreover, certain of such laws and regulations are constantly evolving and may be interpreted, applied, created, or amended in a manner that could harm the Group’s business.

Litigations

The Group may from time to time be involved in legal proceedings as part of the ordinary course of its business. No member of the Group is currently involved in any governmental, legal or arbitral proceedings (including any proceedings that are pending or threatened) which could have a material and adverse effect on the Group’s business, operating results or financial condition.

MANAGEMENT

Management

Under the Companies Act, joint stock corporations in Japan may adopt a corporate governance structure comprised of a Board of Directors and an Audit and Supervisory Committee, commonly referred to as the Audit and Supervisory Committee system, in lieu of the traditional structure comprised of a Board of Directors and a board of corporate auditors or the alternative structure comprised of a Board of Directors and three statutory committees. The members of the Audit and Supervisory Committee consist of five Directors. The Company adopted the Audit and Supervisory Committee system in 20 February 2016 in order to improve the Company's corporate governance.

Pursuant to the Audit and Supervisory Committee system, the Company's Board of Directors is comprised of Directors who are Audit and Supervisory Committee members and Directors who are not. The Company's Articles of Incorporation provide for a Board of Directors consisting of (i) no more than five Directors who are not Audit and Supervisory Committee members and (ii) no more than six Directors who are Audit and Supervisory Committee members. All Directors are elected by the Company's shareholders at a general meeting of shareholders, with Directors who are Audit and Supervisory Committee members elected separately from other Directors. The term of office of Directors who are not Audit and Supervisory Committee members expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within one year after their appointment, and the term of office for Directors who are Audit and Supervisory Committee members expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within two years after their appointment, but all Directors may serve any number of consecutive terms.

The Company's Board of Directors has the ultimate responsibility for the administration of the Company's affairs. The Company's Board of Directors elects one or more Representative Directors from among its members who are not Audit and Supervisory Committee members. The Representative Director has the authority to represent the Company in the conduct of the Company's affairs. The Company's Board of Directors may also elect by its resolution a Chairman, a Chief Executive Officer (CEO), a President and a Chief Operating Officer (COO), and one or more Vice Presidents, Senior Managing Directors, Managing Directors and Executive Advisors. The Company's Board of Directors, by its resolution, may delegate to individual Directors its authority to make a decision on important business and affairs except for certain matters prescribed in the Companies Act.

The Company's Directors who are Audit and Supervisory Committee members are not required to be certified public accountants. They may not serve concurrently as executive Directors, managers or any other type of employee for the Company for any of the Company's subsidiaries, or as accounting advisors or corporate executive officers for any of the Company's subsidiaries. In addition, the majority of the Company's Directors who are Audit and Supervisory Committee members at any one time must be Outside Directors as defined under the Companies Act, who have not served as executive Directors, corporate executive officers, managers or any other type of employee for the Company or any of the Company's subsidiaries for ten years prior to their appointment as an Audit and Supervisory Committee member and fulfil certain other requirements specified in the Companies Act.

The Audit and Supervisory Committee has a statutory duty to (i) audit the administration of the Company's affairs by the Company's Directors, to examine the financial statements and business reports to be submitted to the shareholders by a Representative Director, to prepare its audit report thereon each year, (ii) to determine details of proposals concerning the appointment and dismissal of independent auditors and the refusal to reappoint independent auditors for submission to general meetings of shareholders, and (iii) to decide opinions on appointment or dismissal or resignation of Directors who are not Audit and Supervisory Committee members, in which case the Audit and Supervisory Committee may express its opinion at the general meeting of shareholders, and to decide opinions on compensation of Directors who are not Audit and Supervisory Committee members, in which case the Audit and Supervisory Committee may express its opinion at the general meeting of shareholders. An Audit and Supervisory Committee member may note his or her opinion in the audit report issued by the Audit and Supervisory Committee if such opinion differs from that expressed in the audit report.

The Company has also established a non-statutory nomination and compensation committee as an advisory committee of the Board of Directors. The committee is mainly responsible for providing the Board of Directors with suggestions on the nomination of candidates for Directors who are not Audit and Supervisory Committee members and corporate officers, and the determination of compensation of Directors who are not Audit and Supervisory Committee members and corporate officers. As at the date of this Offering Circular, the nomination and compensation committee consists of five Directors who are Audit and Supervisory Committee members (including four Outside Directors).

The Company is required to appoint and has appointed an independent auditor, who has the statutory duties of examining the financial statements to be submitted to the shareholders by a Representative Director and preparing its audit report thereon. Deloitte Touche Tohmatsu LLC currently acts as the Company's independent auditor.

In addition, the Company has introduced a corporate officer system in order to appropriately respond to changes in the business environment, and to clarify the functions and duties of those responsible for the swift and efficient execution of the business. The Company has established a corporate management committee, consisting of Directors who are not Audit and Supervisory Committee members, corporate officers, heads of each department, a Chairperson of the Audit and Supervisory Committee, and employees who assist with the duties of the Audit and Supervisory Committee, as at the date of this Offering Circular. The role of these persons is mainly to share with its members the management policies and business plans decided by the Board of Directors, and to exchange information on the status of the execution of the business as reported by the corporate officers and heads of each department.

The names and titles of the Directors and the Audit and Supervisory Committee Members as at the date of this Offering Circular are as follows:

Name	Title
Norio Ishikawa	Chairman and Chief Executive Officer
Nobuaki Osawa	President and Chief Operating Officer
Takehiro Tomiyoshi	Director, the Chairperson of Audit and Supervisory Committee and Nomination and Compensation Committee member
Yoshiyuki Sakaki ⁽¹⁾⁽²⁾	Outside Director, the Chairperson of Nomination and Compensation Committee and Audit and Supervisory Committee member
Akito Takahashi ⁽¹⁾	Outside Director, the Deputy Chairperson of Nomination and Compensation Committee and Audit and Supervisory Committee member
Kunihiko Hara ⁽¹⁾	Outside Director, Audit and Supervisory Committee member and Nomination and Compensation Committee member
Kayoko Yamashita ⁽¹⁾	Outside Director, Audit and Supervisory Committee member and Nomination and Compensation Committee member
Yoshitsugu Hayashi ⁽³⁾	Outside Director

Notes:

- (1) Yoshiyuki Sasaki, Akito Takahashi, Kunihiko Hara and Kayoko Yamashita satisfy the requirement for Outside Director under the Companies Act.
- (2) Yoshiyuki Sasaki is expected to retire after obtaining approval from the 111th Ordinary General Meeting of Shareholders and the Board of Directors scheduled to be held on 16 February 2024.
- (3) Yoshitsugu Hayashi is a Substitute Outside Director and is expected to be appointed as an Outside Director and Audit and Supervisory Committee member after obtaining approval from the 111th Ordinary General Meeting of Shareholders and the Board of Directors scheduled to be held on 16 February 2024.

Executive Compensation

The aggregate remuneration paid to the Company's Directors (excluding Audit and Supervisory Committee members and Outside Directors), Directors who are Audit and Supervisory Committee members (excluding Outside Directors) and Outside Directors for the year ended 30 November 2022 was ¥302 million, ¥13 million and ¥30 million, respectively.

Employee Shareholding – Employee Stock Ownership Plan

In May 2019, the Company introduced a trust-type employee incentive plan, the Employee Shareholding Ownership Plan (the "Incentive Plan"), with the aim of increasing corporate value over the medium to long term.

The Incentive Plan covers all employees who are member of the OSG Employee Shareholding Association (the "Shareholding Association"). Under the plan, the Company has established a trust which acquires the number of Shares expected to be acquired by the Shareholding Association over a certain period of time during a pre-determined acquisition period. The trust then sells such Shares to the Shareholding Association on a certain date each month. At the termination of the trust, if there is a gain from the trust due to an increase in the Share price, fund is distributed in proportion to the contribution ratio of the beneficiary employees. If there is a loss on sale due to a fall in the share price and a debt remains in relation to the trust assets, the Company repays the bank in a lump sum in accordance with the guarantee clause in the loan agreement, so there is no additional burden on the employees.

As at 30 November 2022, the total number of Shares held by the trust, which were to be transferred to the Shareholding Association over the duration of the trust pursuant to the terms of the Incentive Plan was 950,000 Shares.

Restricted Stock Compensation

The Company has established a Restricted Stock Compensation System (the “System”) for its Directors, except for those who are members of the Audit and Supervisory Committee and Outside Directors (“Eligible Directors”). Directors who are Audit and Supervisory Committee members and Outside Directors are paid only based on their basic compensation. The System is intended to provide incentives for the Eligible Directors to continuously improve the Company’s corporate values and to promote further value sharing with its shareholders.

The amount of compensation is capped by the total compensation determined by resolution of the 106th ordinary general meeting of shareholders held on 16 February 2019. The total value of Shares allocated to Eligible Directors is capped at ¥200 million per year, and the total number of the Company’s Shares that can be issued or disposed of per year is capped at 100,000 Shares.

Each Eligible Director who is to be granted Shares under the System will be required to enter into a restricted stock allotment agreement that includes (i) the prohibition against transferring the restricted stocks to a third party, and (ii) a provision that allows for the free acquisition of the restricted stocks by the Company in the case of certain events.

As at 30 November 2022, the Company had granted 53,137 restricted stocks to its Directors under the System.

Employees

The total number of full-time employees of the Group on a consolidated basis as at 30 November 2022 was 7,543. The Company believes that it has a positive labour relationship with its employees.

SUBSIDIARIES AND AFFILIATES

As at 30 November 2022, we had 92 subsidiaries and four affiliates. The following table shows certain information with regard to the Company's principal consolidated subsidiaries and affiliates as at 30 November 2022:

Name	Location	Principal Business	Issued Capital	Percentage of voting rights owned, directly or indirectly, by the Company ⁽¹⁾
			<i>(Millions of yen, unless otherwise stated)</i>	<i>(Per cent)</i>
Consolidated Subsidiaries				
Taiho Sangyo Corporation	Toyokawa, Aichi	Sales of precision machine tools and real estate lease business	40	100.0
Nihon Hard Metal Co., Ltd. ⁽²⁾	Aiko, Kanagawa	Manufacturing and sale of carbide materials and precision cutting tools	100	100.0
OSG Coating Service Co., Ltd. ⁽²⁾	Shinshiro, Aichi	Coating of precision cutting tools	100	100.0
Ohtaka Precision Co., Ltd.	Shinshiro, Aichi	Manufacturing and sales of precision cutting tools and rolling tools	89	100.0
ORS Corporation	Chita, Aichi	Repolishing of precision cutting tools	10	100.0
SANWA SEIKI CO., LTD.	Nagoya, Aichi	Manufacturing and sales of machine tools	62	87.7
OSG USA, INC. ⁽²⁾⁽⁵⁾	Illinois, U.S.A.	Manufacturing and sales of precision cutting tools and rolling tools	US \$62,000,000	100
Amamco Tool & Supply Co., Inc.	South Carolina, U.S.A.	Manufacturing and sales of carbide precision cutting tools	US \$2,000	100 (100)
OSG Canada Ltd.	Ontario, Canada	Manufacturing and sales of precision cutting tools	CAD 3,575,000	100 (100)
OSG Royco, S.A.de C.V.	Mexico, Mexico	Manufacturing and sales of precision cutting tools	MXN 50,000	99.9 (99.9)
OSG Sulamericana de Ferramentas Ltda. ⁽²⁾	São Paulo, Brazil	Manufacturing and sales of precision cutting tools	BRL 35,631,000	100 (0.0)
OSG Europe S.A. ⁽²⁾	Wavre-Nord, Belgium	Holding company	EUR 83,940,000	100
OSG Europe Logistics S.A.	Wavre-Nord, Belgium	Sales of precision cutting tools	EUR 62,000	100 (100)
OSG GmbH	Göppingen, Germany	Manufacturing and sales of precision cutting tools	EUR 25,000	100 (100)
BASS GmbH	Niederstetten, Germany	Manufacturing and sales of precision cutting tools	EUR 50,000	100 (100)
OSG UK Limited	Essex, United Kingdom	Manufacturing and sales of precision cutting tools	GBP 1,405,000	100 (100)
Somta Tools (Pty) Ltd	KwaZulu-Natal, Republic of South Africa	Manufacturing and sales of precision cutting tools	ZAR 58,164,000	58.2 (58.2)
Taiho Tool Mfg. Co., Ltd. ⁽²⁾	Kaohsiung, Taiwan	Manufacturing and sales of precision cutting tools and rolling tools	TWD 321,066,000	100

Name	Location	Principal Business	Issued Capital	Percentage of voting rights owned, directly or indirectly, by the Company ⁽¹⁾
			<i>(Millions of yen, unless otherwise stated)</i>	<i>(Per cent)</i>
OSG (Shanghai) Co., Ltd.	Shanghai, China	Sales of precision cutting tools	RMB 10,759,000	100
OSG (Shanghai) Precision Tools Co., Ltd. ⁽²⁾	Shanghai, China	Manufacturing and sales of carbide precision cutting tools	RMB 213,071,000	100
Dabao (Dongguan) Molding & Cutting Tool Co., Ltd. ⁽²⁾	Dongguan, China	Manufacturing and sales of precision cutting tools and rolling tools	RMB 107,164,000	100
Ningbo Taiho Hardware Tools Trading Co., Ltd.	Ningbo, China	Manufacturing and sales of precision cutting tools and rolling tools	RMB 7,237,000	100 (100)
KUNSHAN TAIHO TOOL CO., LTD.	Kunshan, China	Sales of precision cutting tools	RMB 3,417,000	100 (100)
OSG Asia Pte Ltd. ⁽²⁾	Singapore	Sales of precision cutting tools and others	US \$15,678,000	100
OSG THAI CO., LTD.	Chachoengsao, Thailand	Manufacturing and sales of precision cutting tools and rolling tools	THB 200,000,000	100 (100)
OSG Korea Corporation ⁽³⁾	Daegu, South Korea	Manufacturing and sales of precision cutting tools and rolling tools	KRW 3,000,000,000	49.0
<i>Equity-method affiliates:</i>				
Clarkson Co., Ltd.	Sanjo, Niigata	Sales of precision cutting tools	14	31.5

Notes:

- (1) Figures in “()” refer to percentages of voting rights held indirectly by the Company.
- (2) Specified Subsidiaries.
- (3) The equity interest is less than 50 of 100, but it is a subsidiary because it is effectively controlled.
- (4) None of the companies has submitted a securities registration statement or annual securities report.
- (5) Of the above subsidiaries, OSG USA, INC. has net sales (excluding internal sales between consolidated companies) accounting for more than 10 per cent of consolidated net sales.

JAPANESE FOREIGN EXCHANGE REGULATIONS

General

The Foreign Exchange Regulations govern certain aspects, in particular, relating to the acquisition and holding of the Shares by “exchange non-residents” and by “foreign investors” (as these terms are defined below). However, in general, the Foreign Exchange Regulations currently in effect do not affect transactions between exchange non-residents for the purchase or sale of Shares outside Japan using currencies other than yen.

“Exchange residents” are defined in the Foreign Exchange Regulations as:

- (i) individuals who reside within Japan; or
- (ii) corporations whose principal offices are located within Japan.

“Exchange non-residents” are defined in the Foreign Exchange Regulations as:

- (i) individuals who do not reside in Japan; or
- (ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as exchange residents. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

“Foreign investors” are defined in the Foreign Exchange Regulations as:

- (i) individuals who are exchange non-residents;
- (ii) corporations or other entities that are organised under the laws of foreign countries or whose principal offices are located outside Japan (for this purpose, branches of such corporations or other entities located within Japan are included in this (ii)) (excluding partnerships falling within (iv));
- (iii) corporations of which 50 per cent or more of the total voting rights are held, directly or indirectly, by individuals and/or entities falling within (i) and/or (ii) above;
- (iv) partnerships engaging in investment activities formed under the Civil Code of Japan (Act No. 89 of 1896, as amended), investment limited partnerships formed under the Limited Partnership Act for Investment of Japan (Act No. 90 of 1998, as amended), or any similar partnerships under the laws of foreign countries, where either (a) 50 per cent or more of the total contributions to such entities are made by exchange non-residents or certain other foreign investors prescribed under the Foreign Exchange Regulations or (b) a majority of the managing partner or general partners of such partnerships are exchange non-residents or certain other foreign investors prescribed under the Foreign Exchange Regulations; or
- (v) corporations or other entities of which a majority of either (i) directors or other officers (including those who have the same degree or more control over such corporations or such other entities as directors or other officers) or (ii) directors or other officers (including those who have the same degree or more control over such corporations or such other entities as directors or other officers) having the power of representation are individuals who are exchange non-residents.

Acquisition of Shares

In general, the acquisition by an exchange non-resident of shares of a Japanese corporation from an exchange resident requires post facto reporting by the exchange resident to the Minister of Finance through the Bank of Japan. No such reporting requirement is imposed, however, if:

- (i) the aggregate purchase price of the relevant shares is ¥100 million or less;
- (ii) the acquisition is effected through any bank, financial instruments business operator or other entity prescribed by the Foreign Exchange Regulations acting as an agent or intermediary; or
- (iii) the acquisition constitutes an Inward Direct Investment described below.

Prior Notification Requirements on Inward Direct Investment in Shares of Listed Corporations

If a foreign investor acquires shares or voting rights of a Japanese corporation that is listed on a Japanese stock exchange, such as the Shares, or that is traded on an over-the-counter market in Japan and, as a result of the acquisition,

the foreign investor, in combination with any of its existing holdings of the shares or voting rights, and any shares or voting rights managed by such foreign investor under discretionary investment management agreements (including those held or managed by certain related entities of such foreign investor), directly or indirectly holds 1 per cent or more of (i) the total issued shares or (ii) the total voting rights of the relevant corporation, then such acquisition constitutes an “inward direct investment” (the “Inward Direct Investment”). In general, any foreign investor intending to make an Inward Direct Investment by acquisition of shares or voting rights of a corporation engaging in certain business sectors designated by the Foreign Exchange Regulations (*Shitei-Gyoshu*) (including those in which the Company is engaging) (the “Designated Business Sectors”), must, except where any of certain exemptions applies, file a prior notification of the acquisition with the Ministers. The proposed acquisition may not be consummated until 30 days have passed from the date of filing, although this period will be shortened unless such Ministers deem it necessary to review the proposed acquisition, and may be shortened to five business days, if the proposed acquisition is determined not to raise concerns from the perspective of national security or certain other factors. On the other hand, if the Ministers deem it necessary to continue to review the proposed acquisition, they may extend such period up to five months. The Ministers may also recommend any modification or abandonment of the proposed acquisition and, if such recommendation is not accepted, they may order the modification or abandonment of such acquisition.

Exemption for Prior Notification Requirements

Under the Foreign Exchange Regulations, in the case of an acquisition of shares or voting rights, any foreign investors which fall under the definition of foreign financial institutions (the “Foreign Financial Institutions”), will be exempted from the prior notification requirements mentioned above without any upper limit on the number of shares or voting rights to be acquired or held, on condition that they comply with the following exemption conditions (the “Common Exemption Conditions”).

In general, “Common Exemption Conditions” are set out in the relevant public notices as follows:

- (i) foreign investors or their related persons (as defined in the Foreign Exchange Regulations) are not to become directors or corporate auditors of the investee corporation or its certain related corporations;
- (ii) foreign investors will not propose by themselves or through other shareholders to the general meeting of shareholders the transfer or other disposition or discontinuation of the investee corporation’s business activities in the Designated Business Sectors; and
- (iii) foreign investors will not access non-public information about the investee corporation’s or its certain related corporations’ technology in relation to business activities in the Designated Business Sectors.

Under the Foreign Exchange Regulations, any foreign investors (other than the Foreign Financial Institutions), excluding disqualified investors such as those with a record of sanctions for violation of the FEFTA and state-owned enterprises (except those who are accredited by the authorities) (“Eligible Foreign Investors”), will also be exempted from the prior notification requirements mentioned above without any upper limit on the number of shares or voting rights to be acquired or held, on condition that they comply with the Common Exemption Conditions, unless the investment proposed to be conducted by them constitutes the Inward Direct Investment in a corporation engaging in certain types of Designated Business Sector designated as being a substantial threat to national security. On the other hand, Eligible Foreign Investors which intend to invest in a corporation engaging in certain types of Designated Business Sectors further set out in the relevant public notice as being a substantial threat to national security (in which the Company’s business sectors are currently included) (the “Core Sectors”), will be exempted from the prior notification requirements, on condition that they comply with the following additional exemption conditions (the “Exemption Conditions on Core Sectors”), as well as the Common Exemption Conditions, unless and until such investment results in holdings, in combination with any of its existing holdings of the shares or voting rights, and any shares or voting rights managed by such Eligible Foreign Investor under discretionary investment management agreements (including those held or managed by certain related entities of such Eligible Foreign Investor), directly or indirectly, of 10 per cent or more of (i) the total issued shares or (ii) the total voting rights of the relevant corporation.

In general, “Exemption Conditions on Core Sectors” are set out in the relevant public notices as follows:

- (i) regarding business activities in the Core Sectors, foreign investors will not, or will not cause its representative to, attend the investee corporation’s or its certain related corporations’ board of directors, executive board or other committees that make important decisions on these activities; and
- (ii) regarding business activities in the Core Sectors, foreign investors will not make proposals, by themselves or through persons designated by them, in writing or electronic form, to (a) the investee corporation’s or its certain related corporations’ board of directors, executive board or other committees that make important decisions on these activities or (b) the members of such board or committees, requiring responses and/or actions by certain deadlines.

Consent at the General Meeting of Shareholders

In addition to the acquisition of shares or voting rights mentioned above, if a foreign investor who directly or indirectly holds 1 per cent or more of the total voting rights of a Japanese corporation that is listed on a Japanese stock exchange and engages in the Designated Business Sectors, such as the Company, intends to consent, at the general meeting of shareholders, to certain proposals having material influence on the management of such corporation such as (i) election of such foreign investor or its related persons (as defined in the Foreign Exchange Regulations) as directors or corporate auditors of the relevant corporation or (ii) transfer or discontinuation of its business, such consent also constitutes an Inward Direct Investment, and in certain circumstances, such foreign investor must file a prior notification with the Ministers. In such cases, the exemptions from the prior notification requirements described above are not available.

Post Investment Reports

Further to the prior notifications, under the Foreign Exchange Regulations, foreign investors conducting Inward Direct Investments may be required to submit post investment reports to the Ministers within 45 days from the transaction settlement date, even if such Inward Direct Investments are not subject to the prior notification requirements or are exempted from such requirements. For instance, post investment reports with respect to the acquisition of shares or voting rights of corporations engaging in Designated Business Sectors which are not in the Core Sectors, where the prior notification requirement for such acquisition has been exempted, will generally be required when the ratio of the total number of shares or voting rights held directly or indirectly by foreign investors in combination with any of its existing holdings of the shares or voting rights and shares or voting rights managed by such foreign investor under discretionary investment management agreements (including those held or managed by certain related entities of such foreign investor) after the acquisition to the number of (i) the total issued shares or (ii) the total voting rights of the relevant corporation reaches:

- (i) 1 per cent or more to less than 3 per cent for the first time;
- (ii) 3 per cent or more to less than 10 per cent for the first time; or
- (iii) 10 per cent or more for each transaction.

The Foreign Financial Institutions are only required to file post investment reports for (iii) above.

Dividends and Proceeds from Sales of Shares

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of Shares held by exchange non-residents may generally be converted into any foreign currency and repatriated abroad. However, under the Foreign Exchange Regulations, certain procedures may be required for the transfer of funds out of Japan or may be prohibited, depending on the location of the recipient, the purpose of such fund transfer and other factors.

DESCRIPTION OF THE SHARES AND CERTAIN REGULATIONS

Set out below is certain information concerning the Shares, including brief summaries of certain provisions of the Company's Articles of Incorporation and Share Handling Regulations and of the Companies Act relating to joint stock corporations (*kabushiki kaisha*), and certain related legislation, all as currently in effect.

General

All issued Shares are fully-paid and non-assessable, and are in registered form.

The Shares are subject to the Japanese book-entry transfer system for listed shares of Japanese companies under the Book-Entry Act. Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialised, and shareholders of listed shares must have accounts at account management institutions to hold their shares unless such shareholders have an account at JASDEC, the only institution that is designated by the relevant authorities as a clearing house which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Act. "Account management institutions" are financial instruments business operators (i.e., securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements under the rules of JASDEC (the "JASDEC rules") can open accounts directly at JASDEC. For the purpose of the description under "Description of the Shares and Certain Regulations", the Company assumes that the relevant person has no account at JASDEC.

Under the Book-Entry Act, any transfer of shares is effected through book entry, and the title to the shares passes to the transferee at the time when the transferred number of the shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act and the Book-Entry Act, in order to assert against the Company shareholders' rights to which shareholders as at a given record date are entitled (such as the rights to vote at a general meeting of shareholders or receive dividends), a shareholder must have its name and address registered in the Company's register of shareholders, except in limited circumstances. Under the Japanese book-entry transfer system, such registration is generally made upon the Company's receipt of necessary information from JASDEC through an "all shareholders notice" (*sou-kabunushi tsuchi*). Shareholders are required to file their names and addresses with the Company, generally through the account management institution and JASDEC. On the other hand, in order to assert shareholders' rights to which shareholders are entitled regardless of record dates, such as minority shareholders' rights, including the right to propose a matter to be considered at a general meeting of shareholders but excluding shareholders' rights to request the Company to purchase Shares constituting less than one unit upon a shareholder's request, JASDEC shall issue to the Company a notice of certain information (*kobetsukabunushi tsuchi*), which information includes the name and address of such shareholder. Under the Book-Entry Act, a shareholder must exercise its shareholder's right within four weeks after issue of the notice above.

Non-resident shareholders are also required to appoint a standing proxy in Japan or provide a mailing address in Japan and to file their standing proxy or a mailing address with the Company, generally through the account management institution and JASDEC. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from the Company to non-resident shareholders are delivered to such standing proxies or mailing addresses.

The Company's transfer agent is Sumitomo Mitsui Trust Bank, Limited, located at 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan.

Distributions of Surplus

General

Under the Companies Act, distributions of cash or other assets by a joint stock corporation to its shareholders, including dividends take the form of distributions of Surplus (as defined in "—Restriction on Distributions of Surplus"). The Company may make distributions of Surplus to its shareholders any number of times per fiscal year, subject to certain limitations described in "—Restriction on Distributions of Surplus".

Distributions of Surplus are required in principle to be authorised by a resolution of a general meeting of shareholders, but may also be made pursuant to a resolution of the Board of Directors but only if all the requirements described in (a) through (d) below are met:

- (a) the Company's Articles of Incorporation provide that the Board of Directors has the authority to decide to make distributions of Surplus;

- (b) the Company has (i) an independent auditor and (ii) a board of corporate auditors, or an Audit and Supervisory Committee, or nominating committee, etc., under the Companies Act, as the case may be;
- (c) the normal term of office of each Director of the Company who is not an Audit and Supervisory Committee Members terminates on or prior to the date of conclusion of the ordinary general meeting of shareholders relating to the last fiscal year ending within the period of one year from the election of such Director; and
- (d) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

At present, the requirement described in (a) above is not met. Nevertheless the Company may make distributions of Surplus in cash as an interim dividend (the "interim dividend") to its shareholders by resolutions of the Board of Directors once per fiscal year under the Company's Articles of Incorporation and the Companies Act.

Under the Company's Articles of Incorporation, a year-end dividend may be distributed to shareholders of record as at 30 November of each year pursuant to a resolution of a general meeting of shareholders, and an interim dividend may be distributed to shareholders of record as at 31 May of each year pursuant to a resolution of the Board of Directors. The Company is not obliged to pay any dividends unclaimed for a period of three years after the date on which they first became payable.

Distributions of Surplus may be made in cash or (except for interim dividends) in kind in proportion to the number of Shares held by each shareholder. A resolution of a general meeting of shareholders or the Board of Directors authorising a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders, grant a right to its shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders. See "—Voting Rights" with respect to a "special resolution".

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the Shares generally goes ex-dividend on the business day immediately prior to the record date.

Restriction on Distributions of Surplus

When the Company makes a distribution of Surplus, it must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed in accordance with an ordinance of the Ministry of Justice.

The amount of Surplus at any given time must be calculated in accordance with the following formula: $A + B + C + D - (E + F + G)$

In the above formula:

- "A" = the total amount of other capital surplus and other retained earnings, as each such amount appears on the Company's non-consolidated balance sheet as at the end of the last fiscal year,
- "B" = (if the Company has disposed of its treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof,
- "C" = (if the Company has reduced its stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any),
- "D" = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any),
- "E" = (if the Company has cancelled its treasury stock after the end of the last fiscal year) the book value of such treasury stock,
- "F" = (if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the total book value of the Surplus so distributed, and

“G” = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the amount set aside in its additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by the Company may not exceed a prescribed distributable amount (the “Distributable Amount”), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of the Company’s treasury stock;
- (b) the amount of consideration for the Company’s treasury stock disposed of by it after the end of the last fiscal year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the Company’s non-consolidated balance sheet as at the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with ordinances of the Ministry of Justice.

If the Company has become at its option a company with respect to which consolidated balance sheets should also be taken into consideration in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), it will be required to further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of shareholders’ equity appearing on its non-consolidated balance sheet as at the end of the last fiscal year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of shareholders’ equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on its consolidated balance sheet as at the end of the last fiscal year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for the Company’s treasury stock disposed of by it, during the period in respect of which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements prepared by the Company must be audited by the Audit and Supervisory Committee and the independent auditor, as required by the Companies Act and ordinances of the Ministry of Justice.

Capital and Reserves

When the Company issues new Shares, the entire amount of money or other assets paid or contributed by subscribers for such Shares is required to be accounted for as stated capital, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as additional paid-in capital by a resolution of the Board of Directors.

The Company may reduce its additional paid-in capital or legal reserve generally by resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, the Company may reduce its stated capital generally by special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, the Company may reduce its Surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case, by resolution of a general meeting of shareholders.

Stock Splits

The Company may at any time split the issued Shares into a greater number of Shares by resolution of the Board of Directors. When a stock split is to be made, so long as the only class of the Company’s outstanding stock is its common stock, it may increase the number of authorised shares to the extent that the ratio of such increase in authorised shares does not exceed the ratio of such stock split by amending its Articles of Incorporation, which amendment may be made without approval by shareholders.

Before a stock split, the Company must give public notice of the stock split, specifying the record date therefor, not less than two weeks prior to such record date. Under the JASDEC rules relating to the Japanese book-entry transfer

system, the Company must also inform JASDEC of certain matters regarding a stock split promptly after a resolution of the Board of Directors determining such stock split. On the effective date of the stock split, the numbers of Shares recorded in all accounts held by holders of Shares at account management institutions or JASDEC will be increased in accordance with the applicable ratio.

Consolidation of Shares

The Company may at any time consolidate the issued Shares into a smaller number of Shares by a special resolution of the general meeting of shareholders. When a consolidation is to be made, the Company must give public notice at least two weeks (or, in certain circumstances where any fractions of Shares are left as a result of consolidation, 20 days) prior to the effective date of the consolidation. The Company must disclose the reason for the consolidation at the general meeting of shareholders.

Under the Japanese book-entry transfer system, on the effective date of the consolidation, the numbers of Shares recorded in all accounts held by holders of Shares at account management institutions or JASDEC will be decreased in accordance with the applicable ratio.

Unit Share System

The Company's Articles of Incorporation provide that 100 Shares constitute one "unit". The Board of Directors is permitted to reduce the number of Shares that will constitute a unit or abolish the unit share system entirely by amending the Articles of Incorporation without approval by shareholders, while a special resolution of a general meeting of shareholders is required to increase the number of Shares that will constitute a unit. The number of Shares constituting a unit may not exceed the lesser of 1,000 and one-two hundredth of the total number of issued Shares.

Under the unit share system, a shareholder has one vote for each unit of Shares held by it, except as stated in "—Voting Rights". Shares constituting less than one unit will carry no voting rights and be excluded for the purposes of calculating the quorum for voting purposes. Moreover, holders of Shares constituting less than one unit will have no other shareholder rights except for certain rights specified in the Companies Act, an ordinance of the Ministry of Justice or the Company's Articles of Incorporation, including the right to receive distribution of Surplus.

Under the Japanese book-entry transfer system, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit and, accordingly, may not be sold on the Japanese stock exchanges, unless a different trading unit is designated by the relevant Japanese stock exchange.

Holders of Shares constituting less than one unit may at any time request the Company to purchase Shares held by them. Under the Japanese book-entry transfer system, such request must be made to the Company through the relevant account management institutions and JASDEC. Such purchase of Shares will be effected, in general, at the last trading price of the Shares on the relevant stock exchange on the day such request is made (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter). The request of such purchase may not be withdrawn without the Company's consent.

General Meetings of Shareholders

The ordinary general meeting of shareholders of the Company is held in February each year pursuant to the Company's Articles of Incorporation. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary. The place, time, purpose and certain other matters relating to the general meeting of shareholders, including the information contained in the reference materials, must be uploaded onto a website at least three weeks prior to the date set for the meeting, and notice of the URL of the website to be used and certain other matters relating to such meeting must be given to each shareholder having voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. The record date for an ordinary general meeting of shareholders is 30 November of each year.

Any shareholder holding at least 300 voting rights or one per cent of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a Representative Director at least eight weeks prior to the date of such meeting (provided that the Company is able to limit the number of proposals with respect to the matters proposed by each shareholder to 10). If the Company's Articles of Incorporation so provide, any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened. The Company's Articles of Incorporation currently do not include any such provisions.

Voting Rights

A holder of Shares constituting one or more units is, in principle, entitled to one voting right for each unit of Shares. However, in general, neither the Company nor any corporate or certain other entity, one-quarter or more of the total voting rights of which are directly or indirectly held by the Company, has voting rights in respect of Shares held by the Company or such entity.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by the holder of a majority of the total number of voting rights represented at the meeting. The Company's Articles of Incorporation provide that the quorum for election of its Directors is one-third of the total number of voting rights. The Company's shareholders are not entitled to cumulative voting in the election of its Directors. The shareholders may exercise their voting rights in writing or through proxies, provided that the proxies are, in principle, also shareholders who have voting rights.

The Companies Act provides that certain important matters shall be approved by a "special resolution" of a general meeting of shareholders. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Such important matters include:

- (i) repurchase of Shares by the Company from a specific shareholder other than any of the Company's subsidiaries;
- (ii) consolidation of Shares;
- (iii) issuance or transfer of new Shares or existing Shares held by the Company as treasury stock to persons other than the shareholders at a "specially favourable" price;
- (iv) issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under "specially favourable" conditions;
- (v) removal of any of the Directors who are the Audit and Supervisory Committee Members of the Company;
- (vi) exemption from a portion of liability of the Company's Directors or independent auditors
- (vii) distribution of Surplus in kind with respect to which shareholders are not granted the right to require the Company to make distribution in cash instead of in kind;
- (viii) reduction of stated capital;
- (ix) any amendment to the Company's Articles of Incorporation (except for such amendments that may be made without the approval of shareholders under the Companies Act, such as (i) an increase of the number of authorised shares by the same ratio as that of a stock split, (ii) a reduction of the number of Shares per unit of Shares and (iii) termination of the unit share system);
- (x) transfer of the whole or a substantial part of the Company's business;
- (xi) transfer of the whole or a part of the Company's equity interests in any of the Company's subsidiaries which meets certain requirements;
- (xii) taking over of the whole of the business of another company;
- (xiii) dissolution or merger or consolidation;
- (xiv) corporate split;
- (xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or a share exchange (*kabushiki-kokan*); and
- (xvi) a partial share exchange (*kabushiki-kofu*) for the purpose of making another corporation a subsidiary.

However, under the Companies Act, no shareholder approval, whether by an ordinary resolution or a special resolution at a general meeting of shareholders, is required for any matter described in (viii) through (xvi) above, and such matter may be decided by the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act as are necessary to determine that its impact is immaterial.

Liquidation Rights

In the event of the Company's liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Shares in proportion to the respective numbers of Shares held by them.

Issue of Additional Shares and Pre-emptive Rights

Holders of Shares have no pre-emptive rights. Authorised but unissued Shares may be issued, or existing Shares held by the Company as treasury stock may be sold, at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the issuance of new Shares or sale of existing Shares held by the Company as treasury stock at a “specially favourable” price mentioned in “—Voting Rights”. The Board of Directors may, however, determine that shareholders be given subscription rights regarding a particular issuance of new Shares or sale of existing Shares held by the Company as treasury stock, in which case such rights must be given on uniform terms to all holders of Shares as at a record date of which not less than two weeks’ prior public notice must be given. Each of the shareholders to whom such rights are given must also be given at least two weeks’ prior notice of the date on which such rights expire.

In the case of an issuance of Shares or a sale of existing Shares held by the Company as treasury stock or an issuance of stock acquisition rights (*shinkabu yoyakuken*) whereby any subscriber (including its subsidiaries and other companies set forth in ordinances of the Ministry of Justice) will hold more than 50 per cent of the voting rights of all shareholders, and if shareholders who hold one-tenth or more of the voting rights of all shareholders object to such issuance or sale, an approval by a resolution of a general meeting of shareholders is generally required before the payment date pursuant to the Companies Act. In addition, in the case of an issuance of shares, a sale of existing shares held as treasury stock or an issuance of stock acquisition rights by a listed company such as the Company by way of an allotment to a third party which would dilute the outstanding voting shares by 25 per cent or more or cause change of the controlling shareholder, in addition to resolution of the Board of Directors, an approval by a resolution of a general meeting of shareholders or otherwise, or an affirmative opinion by a person independent of such company’s management is generally required pursuant to the rules of the Japanese stock exchanges.

Stock Acquisition Rights

The Company may issue stock acquisition rights. Holders of stock acquisition rights are entitled to acquire Shares from the Company, upon payment of the applicable exercise price, and subject to other terms and conditions thereof. The Company may also issue bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorised by the Board of Directors unless it is made under “specially favourable” conditions, as described in “—Voting Rights” or, in certain circumstances, may be required to obtain an approval of the shareholders or an affirmative opinion by an independent person as described above.

Record Date

As mentioned above, 30 November is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders, and 31 May is the record date for the payment of interim dividends.

In addition, by a resolution of the Board of Directors and after giving at least two weeks’ prior public notice, the Company may at any time set a record date in order to determine the shareholders who are entitled to certain rights pertaining to Shares.

Under the JASDEC rules relating to the Japanese book-entry transfer system, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the Board of Directors determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of holders of Shares, the numbers of Shares held by them and other relevant information as at such record date.

Acquisition by the Company of Shares

The Company may acquire Shares (i) from a specific shareholder other than any of the Company’s subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (ii) from any of the Company’s subsidiaries (pursuant to a resolution of the Board of Directors), or (iii) by way of purchase on any Japanese stock exchange on which the Shares are listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of the Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter) and (y) if the Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted, the price of the Shares under the agreement with respect to such tender offer on such day.

The total amount of the purchase price of Shares may not exceed the Distributable Amount, as described in “—Distributions of Surplus—Restriction on Distributions of Surplus”.

The Company may hold the Shares acquired in compliance with the provisions of the Companies Act, and may generally dispose of or cancel such Shares by a resolution of the Board of Directors.

Request by Controlling Shareholder to Sell All Shares

A shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as may be provided in the Company’s Articles of Incorporation) or more of the Company’s voting rights has the right to request, subject to approval by the Company’s Board of Directors, that the other shareholders and (if the controlling shareholder so determines) all holders of stock acquisition rights of the Company (in each case, other than the Company and, if the controlling shareholder so determines, the controlling shareholder’s wholly owned subsidiaries) sell to the controlling shareholder all Shares and all stock acquisition rights, as the case may be, held by them (*kabushiki tou uriwatashi seikyu*). If the approval is granted by resolution of the Company’s Board of Directors, the Company will be required to give public notice thereof to all holders and registered pledgees of Shares (and stock acquisition rights, as the case may be) not later than 20 days prior to the effective date of such sales, as proposed by the controlling shareholder.

Disposal of Shares by the Company

The Company is not required to send notices to a shareholder if delivery of notices to such shareholder fails to arrive for five consecutive years or more at its address registered in the Company’s register of shareholders or otherwise notified to the Company.

In the above case, if the relevant shareholder to whom delivery of notices has failed also fails to receive distributions of Surplus on Shares continuously for five years or more at its address registered in the Company’s register of shareholders or otherwise notified to the Company, then the Company may in general dispose of such Shares at their then market price and hold or deposit the proceeds of such disposition on behalf of the relevant shareholder.

Reporting of Substantial Shareholdings

The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of issued voting shares (excluding treasury stock) amounting to more than five per cent of the total issued shares of capital stock of a company that is listed on any Japanese stock exchange to file a report with the director of the relevant Local Finance Bureau of the Ministry of Finance within five business days. With certain exceptions, a similar report must also be filed in respect of any subsequent change of one per cent or more in the holding or of any change in material matters set forth in any previously filed reports. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by the holder and such company’s total issued shares of capital stock. Any report so filed will be made available for public inspection. Reports are required to be filed through the EDINET system, which is an electronic disclosure system operated by the Financial Services Agency.

JAPANESE TAXATION

The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares, acquired upon exercise of the Stock Acquisition Rights incorporated in the Bonds who are non-resident individuals or non-Japanese corporations having no permanent establishment in Japan (“non-resident Holders”). The statements regarding Japanese tax laws set out below are based on the laws in force and interpreted by the Japanese taxation authorities as at the date hereof and are subject to changes in the applicable Japanese laws or tax treaties or arrangements or in the interpretation thereof after that date.

This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and Shares acquired upon exercise of the Stock Acquisition Rights, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

Bonds

Receipts of premium (if any) upon redemption of the Bonds are subject to Japanese income tax (including corporate income tax) but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds, whether within or outside Japan, by a non-resident Holder thereof are, in general, not subject to Japanese income tax. Exercise of the Stock Acquisition Rights is not a taxable event in general.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Bonds as legatee, heir or donee even if the individual is not a Japanese resident.

Shares

Generally, a non-resident Holder of Shares is subject to Japanese withholding tax on dividends paid by the Company. Stock splits are not subject to Japanese income tax.

The rate of Japanese withholding tax applicable to dividends paid by the Company to a non-resident Holder of Shares is 20 per cent, subject to any applicable income tax treaty. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the Shares) to any corporate or individual shareholders (including those shareholders who are non-resident individuals or non-Japanese corporations), except for any individual shareholder who holds 3 per cent or more of the total issued shares of the relevant Japanese corporation, the said 20 per cent withholding tax rate is reduced to 15 per cent. A special reconstruction surtax (2.1 per cent of the original applicable tax rate) will be added to the withholding tax rates until 31 December 2037. The withholding tax under Japanese tax law mentioned above may be exempted or reduced under an applicable tax treaty between Japan and the country of tax residence of a non-resident Holder.

Gains derived from the sale of Shares, whether within or outside Japan, by a non-resident Holder thereof are, in general, not subject to Japanese income tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Shares as legatee, heir or donee even if the individual is not a Japanese resident.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 5 December 2023 in respect of the Bonds (the “Subscription Agreement”) between the Company, Nomura International plc and SMBC Nikko Capital Markets Limited (the “Joint Lead Managers”), and Mizuho International plc (together with the Joint Lead Managers, the “Managers”), the Managers have agreed with the Company, subject to the satisfaction of certain conditions, to purchase the aggregate principal amount of the Bonds as indicated in the table below at the issue price of 101.0 per cent of the principal amount of the Bonds (the “Issue Price”), and to offer the Bonds at the offer price as stated on the cover page of this Offering Circular (the “Offer Price”).

	Principal Amount of the Bonds
Joint Lead Managers	
Nomura International plc	¥10,560,000,000
SMBC Nikko Capital Markets Limited	10,560,000,000
Co-Manager	
Mizuho International plc	880,000,000
Total	¥22,000,000,000

No selling concession or combined management and underwriting commission will be payable by the Company in respect of the offering of the Bonds. The difference between the Issue Price and the Offer Price will be distributed among the Managers. The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. The Company has agreed to indemnify the Managers against certain liabilities in connection with the issue and offering of the Bonds.

Lock-up

In connection with the issue and offering of the Bonds, the Company has agreed not to, and not to direct any entities or any persons acting at the direction of the Company to, (i) issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, Shares or any other capital stock of the Company, (ii) enter into any derivative transaction or any other transaction that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale, (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depositary receipt facility or (iv) publicly announce any intention to do any of the above, in each case, for a period beginning on the date of the Subscription Agreement and ending on the date 180 calendar days after the Closing Date without the prior written consent of the Joint Lead Managers, other than (a) the issue and sale by the Company of the Bonds (or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights by the Company), (b) the issue or transfer of Shares by the Company upon exercise of stock acquisition rights issued and outstanding as at the date of the Subscription Agreement and referred to in this Offering Circular, (c) the issue of Shares by the Company as a result of any stock split, (d) the issue, sale or disposition of Shares to its and the Group’s directors, officers, corporate auditors or employees pursuant to the Company’s stock compensation plans, (e) the sale by the Company of Shares held by unidentified shareholders and (f) any other issue or sale of Shares required by applicable Japanese laws and regulations.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Company, the Bonds or the Shares where action for such purpose is required. Accordingly, neither the Bonds nor any Shares may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Neither the Company nor the Managers represents that the Bonds or the Shares may at any time lawfully be re-sold in compliance with any other applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assume any responsibility for facilitating such sales.

United States

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition by the Company of Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds are being offered and sold outside of the United States in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Prohibition of Sales to EEA Retail Investors

Each of the Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

Prohibition of Sales to UK Retail Investors

Each of the Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

In addition, each of the Managers has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- (ii) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Japan

The Bonds have not been and will not be registered under the FIEA. Accordingly, each of the Managers has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Hong Kong

Each of the Managers has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “Securities and Futures Ordinance”) and any rules made under the Securities and Futures Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (“C(WUMP)O”) or which do not constitute an offer to the public within the meaning of C(WUMP)O; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under the Securities and Futures Ordinance.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, the Bonds have not been offered or sold, or caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or caused to be made the subject of an invitation for subscription or purchase, and neither this Offering Circular nor any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds has not been circulated or distributed, nor will it be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;

- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Any reference to the “SFA” is a reference to the Securities and Futures Act 2001 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Other relationships

In connection with the offering, the Managers may for their own account enter into asset swaps, credit derivatives or other derivatives relating to the Bonds and/or components of the Bonds and/or the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions including facilitating short sales of the Shares by investors who are allocated Bonds. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Bonds). As a result of such transactions, the Managers may hold long or short positions in the Bonds and/or the Shares and/or derivatives relating thereto. No disclosure will be made of any such positions.

Certain of the Managers or their affiliates have in the past provided, are currently providing and may in the future provide investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation.

GENERAL INFORMATION

- (1) The Company has obtained all necessary consents, approvals and authorisations in Japan in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company dated 5 December 2023.
- (2) The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The International Securities Identification Number (ISIN) and the Common Code for the Bonds are XS2730213290 and 273021329, respectively. The LEI of the Company is 353800IWJAOVAFO6X450.
- (3) The Securities Identification Code for the Shares is 6136.
- (4) Approval in-principle has been received from the SGX-ST for the listing of, and quotation for the Bonds on the Official List of the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Certificate is exchanged for definitive certificates, the Company will appoint and maintain a paying agent in Singapore, where the definitive certificates in respect of such Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive certificates, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore. The Bonds will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies) with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.
- (5) There has been no significant change in the financial or trading position of the Group and no material adverse change in the financial position or prospects of the Group since 31 August 2023.
- (6) There are no, nor have there been any, governmental, legal, arbitral, administrative or other proceedings involving the Company or any other member of the Group that had or may have had, during the 12 months immediately preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Company or Group and, so far as the Company is aware, there are no such proceedings pending or threatened.
- (7) Copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Trustee and the Agents during normal business hours, or electronically upon request to the Trustee, so long as any of the Bonds is outstanding.
- (8) The consolidated financial statements of the Company and its consolidated subsidiaries for each of the fiscal years ended 30 November 2022, 2021 and 2020 included in this Offering Circular have been audited by Deloitte Touche Tohmatsu LLC, an independent auditor, as stated in their report appearing herein.
- (9) Except to the extent provided in Condition 6, the Conditions do not provide for participating rights in the event of a takeover of the Company.
- (10) The Trustee is entitled under the Trust Deed to rely without liability to Bondholders on any certificate or report prepared by the independent auditor or any independent financial advisor, whether or not addressed to it and whether or not the same are subject to any limitation on the liability, whether by reference to a monetary cap or otherwise.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of OSG Corporation:

Opinion

We have audited the consolidated financial statements of OSG Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheets as of November 30, 2022, 2021 and 2020, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of November 30, 2022, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Valuation of goodwill	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As stated in Note 4 to the consolidated financial statements, goodwill of ¥4,402 million was recorded in the Group's consolidated balance sheet as of November 30, 2022. The balance included goodwill of ¥639 million related to the acquisition of shares of Amamco Tool & Supply Co., Inc. ("Amamco"), a company selling products for the U.S. aircraft industry, owned by OSG USA, INC., a subsidiary of OSG Corporation.</p> <p>Goodwill is amortized on a straight line basis. However, if there is any indication that goodwill may be impaired, an assessment is required to determine whether an impairment loss should be recognized by comparing the sum of the undiscounted future cash flows from the asset group, a larger unit which includes goodwill, with the carrying amount of the asset group. As a result of the assessment, if an impairment loss is considered to be recognized, the carrying amount of goodwill is reduced to its recoverable amount, resulting in recognition of an impairment loss.</p> <p>In accordance with "Accounting Standard for Impairment of Non-current Assets" issued by the</p>	<p>Our audit procedures related to the valuation of goodwill of Amamco included the following, among others:</p> <ul style="list-style-type: none"> • We evaluated the design and operating effectiveness of controls over the preparation and approval process of Amamco's business plans. • We evaluated the design and operating effectiveness of controls over the assessment of goodwill impairment in the accounting department. • We analyzed the difference between the financial results within the business plans developed in past years and actual results and the reasons behind the difference. We also tested the reasonableness of the assumptions used in the estimates and the feasibilities of the business plans. • We tested the reasonableness of the preconditions and the management's assumptions on the business plans that were a basis for the estimates of the future cash flows.

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>Business Accounting Council on August 9, 2002 and other guidelines, the Group determined that there was an indication of impairment in goodwill related to Amamco as the company recorded an operating loss for the year ended November 30, 2022, which resulted in lower profitability than expected at the time of the acquisition. Further, Amamco recorded operating losses for the two consecutive fiscal years.</p> <p>In determining whether the non-current assets may not be recoverable for impairment, the Group calculated the undiscounted future cash flows from the investment in Amamco. The sum of the undiscounted future cash flows was based on the business plans that Amamco's management approved. The future sales in the business plans reflected assumptions such as future aircraft market trends and forecasts of expected sales orders from major customers.</p> <p>The sales forecast is based on assumptions and involves significant management's judgment as it is a long-term forecast and is affected by external factors such as market conditions. The sales forecast is also affected by management's assumptions regarding time to recovery from the impact of COVID-19 in aircraft-related industry.</p> <p>As a result, the estimated future cash flows calculated based on the sales forecasts for the valuation of goodwill were subject to a high degree of uncertainties and management's judgment.</p> <p>Based on the above, we identified the valuation of goodwill of Amamco as a key audit matter as it involved uncertainties of future market trend and was subject to significant assumptions that involved management's judgment.</p>	<ul style="list-style-type: none"> • We inquired of Amamco's management mainly about sales assumptions and tested them for consistency with external data, such as aircraft manufacturing forecast data published by major customers, aircraft passenger forecast data published by the International Air Transport Association (IATA) and military fighter jet production forecasts published by the U.S. Department of Defense. • We also tested whether certain assumptions made by the Group considering the impact of COVID-19 were reasonable by comparing them with the external data mentioned above.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/s/ Deloitte Touche Tohmatsu LLC

Nagoya, Japan
November 27, 2023

OSG Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets

November 30, 2022, 2021 and 2020

	Millions of Yen		
	2022	2021	2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 9 and 18)	¥ 36,717	¥ 40,354	¥ 33,299
Time deposits (Note 18)	9,980	6,440	4,507
Marketable securities (Notes 8 and 18)	0	101	0
Receivables:			
Trade notes and accounts (Notes 6 and 18)	26,885	23,531	19,733
Unconsolidated subsidiaries and associated companies	171	93	75
Other	226	196	295
Allowance for doubtful receivables	(374)	(179)	(155)
Inventories (Note 7)	52,026	42,839	42,025
Other current assets	3,333	2,379	2,908
Total current assets	128,967	115,757	102,691
PROPERTY, PLANT AND EQUIPMENT (Note 9):			
Land	16,006	15,950	14,995
Buildings and structures	60,635	58,095	56,348
Machinery and vehicles	150,853	138,413	131,545
Tools, furniture and fixtures	10,497	9,653	8,823
Construction in progress	2,840	2,687	2,649
Other	1,666	1,627	1,314
Total	242,499	226,428	215,676
Accumulated depreciation	(161,436)	(148,172)	(136,077)
Net property, plant and equipment	81,062	78,255	79,599
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 8 and 18)	4,402	3,899	4,119
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 18)	2,882	1,823	3,805
Goodwill	4,402	4,638	4,273
Asset for retirement benefits (Note 10)	189	108	92
Deferred tax assets (Note 13)	3,833	2,551	2,298
Other assets (Notes 9 and 18)	3,555	3,169	3,598
Allowance for doubtful receivables	(443)	(445)	(366)
Total investments and other assets	18,822	15,744	17,821
TOTAL	¥ 228,852	¥ 209,757	¥ 200,112

(Continued)

OSG Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets

November 30, 2022, 2021 and 2020

	Millions of Yen		
	2022	2021	2020
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 9 and 18)	¥ 636	¥ 2,329	¥ 4,358
Current portion of long-term debt (Notes 9 and 18)	1,291	3,558	8,735
Payables (Note 9):			
Trade notes and accounts	5,887	5,244	4,308
Unconsolidated subsidiaries and associated companies	40	—	115
Other	1,182	873	1,191
Income taxes payable	3,105	3,156	630
Accrued expenses	9,878	8,347	6,590
Other current liabilities	1,743	2,320	1,392
Total current liabilities	<u>23,765</u>	<u>25,830</u>	<u>27,323</u>
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5, 9 and 18)	24,267	25,627	29,190
Liability for retirement benefits (Note 10)	879	788	682
Deferred tax liabilities (Note 13)	1,799	1,630	1,703
Other long-term liabilities (Notes 5 and 20)	1,302	1,080	1,033
Total long-term liabilities	<u>28,248</u>	<u>29,126</u>	<u>32,609</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5, 19 and 20)			
EQUITY (Notes 11, 12 and 26):			
Common stock – authorized, 200,000,000 shares; issued, 99,182,517 shares in 2022, 98,196,724 shares in 2021, and 98,179,742 shares in 2020	13,044	12,239	12,223
Capital surplus	13,792	12,968	12,934
Stock acquisition rights	—	—	13
Retained earnings	132,320	120,192	111,594
Treasury stock – at cost, 3,513,523 shares in 2022, 528,458 shares in 2021, and 729,381 shares in 2020	(6,388)	(1,041)	(1,442)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	852	778	1,105
Deferred gain on derivatives under hedge accounting	0	3	0
Foreign currency translation adjustments	11,038	(1,329)	(7,076)
Total	<u>164,659</u>	<u>143,811</u>	<u>129,351</u>
Noncontrolling interests	12,178	10,988	10,828
Total equity	<u>176,838</u>	<u>154,800</u>	<u>140,179</u>
TOTAL	<u><u>¥228,852</u></u>	<u><u>¥209,757</u></u>	<u><u>¥200,112</u></u>

See notes to consolidated financial statements.

(Concluded)

OSG Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
Years Ended November 30, 2022, 2021 and 2020

	Millions of Yen		
	2022	2021	2020
NET SALES (Note 14)	¥142,525	¥126,156	¥104,388
COST OF SALES (Note 15)	83,459	76,969	65,715
Gross profit	59,065	49,186	38,673
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 15 and 16)	37,166	33,081	30,276
Operating income	21,898	16,105	8,396
OTHER INCOME (EXPENSES):			
Interest and dividend income	508	242	342
Interest expense	(285)	(255)	(243)
Foreign exchange gain (loss)	718	32	(416)
Subsidy income	232	394	1,127
Other – net	307	(163)	(310)
Other income – net	1,480	249	499
INCOME BEFORE INCOME TAXES	23,378	16,354	8,896
INCOME TAXES (Note 13):			
Current	7,292	5,567	2,281
Deferred	(1,091)	(514)	871
Total income taxes	6,200	5,052	3,153
NET INCOME	17,177	11,302	5,743
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	642	312	103
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 16,534	¥ 10,989	¥ 5,639
	Yen		
PER SHARE OF COMMON STOCK (Notes 2.w and 25):			
Basic net income	¥ 171.54	¥ 112.63	¥ 57.94
Diluted net income	—	111.46	57.34
Cash dividends applicable to the year	60.00	36.00	22.00

See notes to consolidated financial statements.

OSG Corporation and Consolidated Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended November 30, 2022, 2021 and 2020

	Millions of Yen		
	2022	2021	2020
NET INCOME	¥17,177	¥11,302	¥ 5,743
OTHER COMPREHENSIVE INCOME (LOSS) (Note 21):			
Unrealized gain (loss) on available-for-sale securities	6	(317)	(185)
Deferred (loss) gain on derivatives under hedge accounting	(3)	3	0
Foreign currency translation adjustments	13,364	5,850	(1,360)
Share of other comprehensive (loss) income in associated companies	(21)	(7)	2
Total other comprehensive income (loss)	13,345	5,528	(1,543)
COMPREHENSIVE INCOME	¥30,523	¥16,830	¥ 4,199
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥28,972	¥16,357	¥ 4,037
Noncontrolling interests	1,550	473	162

See notes to consolidated financial statements.

OSG Corporation and Consolidated Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended November 30, 2022, 2021 and 2020

	Millions of Yen										
	Accumulated Other Comprehensive Income										
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Noncontrolling Interests	Total Equity
BALANCE DECEMBER 1, 2019	¥12,194	¥13,731	¥ 13	¥109,416	¥(1,894)	¥ 1,281	—	¥ (5,663)	¥129,079	¥ 11,567	¥140,646
Net income attributable to owners of the parent	—	—	—	5,639	—	—	—	—	5,639	—	5,639
Cash dividends, ¥35 per share (Note 11)	—	—	—	(3,435)	—	—	—	—	(3,435)	—	(3,435)
Issuance of new shares – restricted stock compensation (Note 11)	28	28	—	—	—	—	—	—	57	—	57
Purchase of treasury stock (Note 11)	—	—	—	—	(4)	—	—	—	(4)	—	(4)
Disposal of treasury stock (Note 11)	—	—	—	—	455	—	—	—	455	—	455
Changes in the scope of consolidation	—	—	—	(7)	—	—	—	—	(7)	—	(7)
Purchase of shares of consolidated subsidiaries	—	(844)	—	—	—	—	—	—	(844)	—	(844)
Transfer from retained earnings to capital surplus	—	18	—	(18)	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	(176)	¥ 0	(1,413)	(1,589)	(738)	(2,327)
BALANCE, NOVEMBER 30, 2020	12,223	12,934	13	111,594	(1,442)	1,105	0	(7,076)	129,351	10,828	140,179
Net income attributable to owners of the parent	—	—	—	10,989	—	—	—	—	10,989	—	10,989
Cash dividends, ¥25 per share (Note 11)	—	—	—	(2,454)	—	—	—	—	(2,454)	—	(2,454)
Issuance of new shares – restricted stock compensation (Note 11)	16	16	—	—	—	—	—	—	33	—	33
Purchase of treasury stock (Note 11)	—	—	—	—	(5)	—	—	—	(5)	—	(5)
Disposal of treasury stock (Note 11)	—	—	—	—	406	—	—	—	406	—	406
Changes in the scope of consolidation	—	—	—	80	—	—	—	—	80	—	80
Transfer from retained earnings to capital surplus	—	16	—	(16)	—	—	—	—	—	—	—
Net change in the year	—	—	(13)	—	—	(327)	3	5,747	5,410	159	5,570
BALANCE, NOVEMBER 30, 2021	12,239	12,968	—	120,192	(1,041)	778	3	(1,329)	143,811	10,988	154,800
Net income attributable to owners of the parent	—	—	—	16,534	—	—	—	—	16,534	—	16,534
Cash dividends, ¥45 per share (Note 11)	—	—	—	(4,382)	—	—	—	—	(4,382)	—	(4,382)
Conversion of convertible bonds (Note 11)	805	805	—	—	(5,959)	—	—	—	1,610	—	1,610
Purchase of treasury stock (Note 11)	—	—	—	—	613	—	—	—	(5,959)	—	(5,959)
Disposal of treasury stock (Note 11)	—	(6)	—	—	—	—	—	—	606	—	606
Transfer of loss on disposal of treasury stock	—	2	—	(2)	—	—	—	—	—	—	—
Transfer from retained earnings to capital surplus	—	23	—	(23)	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	73	(3)	12,367	12,437	1,190	13,628
BALANCE, NOVEMBER 30, 2022	¥13,044	¥13,792	—	¥132,320	¥(6,388)	¥ 852	¥ 0	¥ 11,038	¥164,659	¥ 12,178	¥176,838

See notes to consolidated financial statements.

OSG Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
Years Ended November 30, 2022, 2021 and 2020

	Millions of Yen		
	2022	2021	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 23,378	¥ 16,354	¥ 8,896
Adjustments for:			
Income taxes – paid	(7,645)	(2,703)	(4,743)
Depreciation and amortization	10,498	10,591	10,518
Amortization of goodwill	881	795	655
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	(1,466)	(2,448)	2,832
(Increase) decrease in inventories	(5,269)	1,864	1,822
Increase (decrease) in trade payables	247	243	(1,555)
Increase (decrease) in accrued expenses	853	1,227	(1,704)
Other – net	(1,301)	1,057	317
Total adjustments	(3,202)	10,627	8,142
Net cash provided by operating activities	20,175	26,982	17,038
INVESTING ACTIVITIES:			
Payments into time deposits	(7,783)	(5,014)	(5,640)
Proceeds from withdrawal of time deposits	5,188	3,559	5,056
Purchases of investment securities	(560)	(190)	(826)
Purchases of property, plant and equipment	(8,600)	(5,555)	(9,895)
Proceeds from sale of property, plant and equipment	1,161	1,000	359
Payments for additional investments in subsidiaries	(981)	(346)	(2,054)
Payments for purchase of newly consolidated subsidiaries' stock (Note 23)	—	—	(3,266)
Other – net	(594)	(414)	(865)
Net cash used in investing activities	(12,170)	(6,961)	(17,133)
FINANCING ACTIVITIES:			
Net (decrease) increase in short-term bank loans	(2,205)	(2,515)	1,244
Proceeds from long-term bank loans	146	8	14,396
Repayments of long-term bank loans	(2,137)	(9,079)	(948)
Purchases of investments in subsidiaries without changes in consolidation scope	—	—	(1,437)
Purchases of treasury stock	(5,953)	(2)	(1)
Proceeds from sale of treasury stock	516	397	395
Dividends paid	(4,357)	(2,440)	(3,439)
Other – net	(749)	(631)	(551)
Net cash (used in) provided by financing activities	(14,740)	(14,264)	9,658
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	3,098	1,224	(88)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS – (Forward)	¥ (3,637)	¥ 6,981	¥ 9,475

(Continued)

OSG Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
Years Ended November 30, 2022, 2021 and 2020

	Millions of Yen		
	2022	2021	2020
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS – (Forward)	¥ (3,637)	¥ 6,981	¥ 9,475
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	40,354	33,299	23,704
CASH AND CASH EQUIVALENTS INCREASED DUE TO NEWLY CONSOLIDATED SUBSIDIARIES	—	73	120
CASH AND CASH EQUIVALENTS, END OF YEAR	¥36,717	¥40,354	¥33,299
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Increase in common stock due to conversion of convertible bonds	¥ 805	—	—
Increase in capital surplus due to conversion of convertible bonds	805	—	—
Loss on disposal of treasury stock due to conversion of convertible bonds	(6)	—	—
Decrease in treasury stock due to conversion of convertible bonds	36	—	—
Decrease in convertible bonds due to conversion	¥ 1,640	—	—

See notes to consolidated financial statements.

(Concluded)

OSG Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Years Ended November 30, 2022, 2021 and 2020

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of OSG Corporation (the “Company”) and its consolidated subsidiaries (together, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2021 and 2020 consolidated financial statements to conform to the classifications used in 2022.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The Japanese yen amounts in millions are rounded down to the nearest million. An amount less than one million but not null is stated as “0,” whereas “—” represents null.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and consolidated subsidiaries. The number of the consolidated subsidiaries as of November 30, 2022, 2021 and 2020, was 73, 74 and 74, respectively. Major consolidated subsidiaries as of November 30, 2022, were Taiho Sangyo Corporation, Nihon Hard Metal Co., Ltd., OSG Coating Service Co., Ltd., Ohtaka Precision Co., Ltd., ORS Corporation, SANWA SEIKI CO., LTD., OSG USA, INC., Amamco Tool & Supply Co., Inc. (“Amamco”), OSG Canada Ltd., OSG Royco, S.A.de C.V., OSG Sulamericanade Ferramentas Ltda., OSG Europe S.A., OSG Europe Logistics S.A., OSG GmbH, BASS GmbH, OSG UK Limited, Somta Tools (Pty) Ltd., Taiho Tool Mfg. Co., Ltd., OSG (Shanghai) Co., Ltd., OSG (Shanghai) Precision Tools Co., Ltd., Dabao (Dongguan) Molding & Cutting Tool Co., Ltd., Ningbo Taiho Hardware Tools Trading Co., Ltd., KUNSHAN TAIHO TOOL CO., LTD., OSG Asia Pte Ltd., OSG THAI CO., LTD., and OSG Korea Corporation. The number of the unconsolidated subsidiaries as of November 30, 2022, 2021 and 2020, was 19, 19 and 20, respectively. Major unconsolidated subsidiaries as of November 30, 2022, were PRIMUS COATING TENNESSEE, LLC, OSG TOOLS SDN. BHD., PRIMCOAT PVD TECHNOLOGY INDIA PVT, LTD., and OSG SYSTEM PRODUCTS (SHENZHEN) CO., LTD.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

For the years ended November 30, 2022, 2021 and 2020, investments in one unconsolidated subsidiary (PRIMUS COATING TENNESSEE, LLC) and two associated companies (Clarkson Co., Ltd. and Premium Grinding, S de R.L. de C.V.) are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill, which is the excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition, is amortized by using the straight-line method over a period of five years. Insignificant goodwill is fully amortized in the year it arises.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

For a subsidiary whose closing date is different from that of the Company, certain adjustments necessary for consolidation have been made. The closing dates of such subsidiaries include March 31, September 30, October 31, and December 31. Such subsidiaries primarily prepare their financial statements as of November 30 (or September 30) to be used in the consolidated financial statements. The financial statements of which closing date is other than November 30 are consolidated after adjusting significant transactions occurred during the period up to November 30.

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- b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—Under Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments,” requires adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- d. Business Combinations**—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent’s ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent’s ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

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- e. Cash Equivalents*—Cash equivalents are short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible into cash and exposed to insignificant risk of changes in value.
- f. Inventories*—Inventories held by the Company and domestic consolidated subsidiaries are principally stated at the lower of cost, determined by the gross-average method, or net selling value. Inventories held by the overseas consolidated subsidiaries are principally stated at the lower of cost, determined by the first-in, first-out method or the gross-average method, or net selling value.
- g. Marketable and Investment Securities*—Under Japanese GAAP, marketable and investment securities are classified and accounted for, depending on management’s intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost as determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income. If the fair value declines to 50% or less of the carrying amount, the carrying amount of the investment security is written down to the fair value. If the fair value declines to the range from 50% to 70% of the carrying amount, the carrying amount of the investment security is written down to the amount considered to be appropriate after considering its recoverability. Carrying amounts of investment securities whose fair values are not readily determinable are written down if the substantial value declines to 50% or less of the carrying amount, unless it is considered recoverable due to sufficient evidence.

- h. Property, Plant and Equipment*—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment held by the Company and domestic consolidated subsidiaries is computed by the declining-balance method based on the estimated useful lives of the assets, except for buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016, which are depreciated by the straight-line method. Depreciation of property, plant and equipment held by overseas consolidated subsidiaries is computed by the straight-line method.

The range of estimated useful lives is principally from 3 to 50 years for buildings and structures and from 4 to 12 years for machinery and vehicles.

- i. Long-Lived Assets*—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

No impairment losses were recorded for the years ended November 30, 2022, 2021 and 2020.

- j. Intangible Assets*—Intangible assets are amortized by the straight-line method.
- k. Leases*—Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet. Depreciation and amortization of lease assets are computed by the straight-line method over the leasing period without any residual value.

All other leases are accounted for as operating leases.

- l. Allowance for Doubtful Receivables*—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- m. Retirement and Pension Plans*—The Company and certain consolidated subsidiaries have defined contribution pension plans. Certain consolidated subsidiaries have funded and unfunded defined benefit pension plans and severance lump-sum payment plans.

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Certain consolidated subsidiaries use the simplified method to account for the liability for employees' retirement benefits and retirement benefit costs. Under the simplified method, the liability for employees' retirement benefits is determined based on the projected benefit obligation and fair value of plan assets at the balance sheet date.

The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are charged to income when incurred.

- n. Bonuses to Directors*—Bonuses to directors are accrued at the year-end to which such bonuses are attributable.
- o. Stock Options*—The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheets, stock options are presented as stock acquisition rights as a separate component of equity until exercised.
- p. Asset Retirement Obligations*—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- q. Revenue Recognition*—The Group's main business is manufacturing and sales of precision machine tools such as cutting tools, rolling dies, gauges, machining tools, and machine parts.

In domestic sales, the Group in principle recognizes revenue at the time of delivery of the products because the performance obligation is satisfied as the customer obtains control over goods at the time of delivery. The Group recognizes revenue at the time of completion of the customer's inspection or at the time of shipment if the length of period between the shipment and the point when the customer obtains control over goods is normal. In export sales, the Group recognizes revenue at the time of lading the products for export which is the point of transferring risks to the customer based on Incoterms and other trade terms.
- r. Research and Development Costs*—Research and development costs are charged to income as incurred.
- s. Income Taxes*—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- t. Foreign Currency Transactions*—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.
- u. Foreign Currency Financial Statements*—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

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- v. **Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest-rate and currency swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of a high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in settlement of payables arising from import purchases. Forward contracts applied for forecasted (or committed) transactions are measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed. If the forward contracts qualify for hedge accounting, payables denominated in foreign currencies are translated at the contracted rates. In assessment of the hedge effectiveness, the cumulative changes in fair value of the hedged item are compared with the corresponding changes in fair value of the hedging instrument for the period from the inception of the hedge to the time of assessment. The assessment of hedge effectiveness is omitted if the hedging instruments and hedged items are identical.

Interest-rate and currency swaps are utilized to hedge exposures to fluctuations in foreign exchange and interest rate associated with loans payable denominated in foreign currencies. Interest-rate and currency swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expenses. The assessment of hedge effectiveness for such interest-rate and currency swaps is omitted.

- w. **Per Share Information**—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

- x. **New Accounting Pronouncements Issued but Not Yet Adopted**

Leases (Financial Accounting Standards Board Topic 842)—This accounting standard in principle requires lessees to record all leases as assets and liabilities on their balance sheets. There are no significant changes in lessor accounting. This standard will be applicable to certain overseas consolidated subsidiaries.

The applicable overseas subsidiaries will apply the accounting standard for the year ending November 30, 2023, and are in the process of evaluating the effects of application.

Additional Information—Effect of the COVID-19 Pandemic on Accounting Estimates

The Group considers that the length of the COVID-19 pandemic and future outlook thereafter may significantly affect the assumptions used in determining accounting estimates regarding impairment of non-current assets and recoverability of deferred tax assets. However, as the COVID-19 pandemic did not significantly affect the Group's operating results for the year ended November 30, 2022, except for certain associated companies, the Group has made accounting estimates based on an assumption that the negative impact of the COVID-19 pandemic would be insignificant for the year ending November 30, 2023.

Since the future impact of the COVID-19 pandemic is highly uncertain, future operating results and financial conditions may differ from these estimates.

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3. CHANGE IN ACCOUNTING POLICIES

Adoption of New Accounting Standard for Revenue Recognition

Effective December 1, 2021, the Company adopted ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition,” and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition,” issued on March 31, 2020 (collectively, the “New Revenue Recognition Standard”) and recognizes revenue at the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to customers.

In relation to adoption of the New Revenue Recognition Standard, the Company has applied the alternative treatment stipulated in Section 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition. In accordance with the alternative treatment, in domestic sales of merchandise and finished goods, the Group recognizes revenue at the time of shipment if the length of period between the shipment and the point when the customer obtains control over goods is normal. Under the New Revenue Recognition Standard, certain selling commissions, which had been recognized in the general, selling and administrative expenses section, and sales discounts, which had been recognized as other expenses, have been treated as a deduction from sales.

In adopting the New Revenue Recognition Standard, the Company also applied the transitional treatment stipulated in the proviso in Section 84 of the New Revenue Recognition Standard. Accordingly, the Company has applied a new accounting policy for revenue recognition effective December 1, 2021, the beginning of the fiscal year, and the cumulative effect of retroactively applying the new accounting policy was added to the beginning balance of retained earnings. However, in accordance with the treatment stipulated in Section 86 of the New Revenue Recognition Standard, the Company did not retrospectively apply the new accounting policy to the contracts from which almost all revenue was recognized prior to December 1, 2021.

The effects of this accounting change on the consolidated financial statements for the year ended November 30, 2022, were to decrease net sales, selling and administrative expenses, and operating income by ¥1,122 million, ¥348 million, and ¥773 million, respectively. The accounting change did not affect retained earnings as of the beginning of the fiscal year.

In accordance with the transitional treatment stipulated in Section 89-3 of the New Revenue Recognition Standard, the revenue recognition related notes pertaining to the prior fiscal years are not included.

Adoption of New Accounting Standard for Fair Value Measurement and Related Standards

Effective December 1, 2021, the Company adopted ASBJ Statement No. 30, “Accounting Standard for Fair Value Measurement” and related standards (collectively, the “New Fair Value Measurement Standards”) issued on July 4, 2019. In accordance with the transitional treatment provided in Section 44-2 of the New Fair Value Measurement Standards, the Group prospectively applied the new accounting policies as stipulated by the New Fair Value Measurement Standards. The adoption of New Fair Value Measurement Standards did not have any impact on the consolidated financial statements.

The Group has disclosed information of financial instruments categorized by fair value hierarchy as of November 30, 2022, in Note 18; however, such information as of the end of prior fiscal years is not presented in accordance with the transitional treatment provided in Section 7-4 of the New Fair Value Measurement Standards.

4. SIGNIFICANT ACCOUNTING ESTIMATE

Measurement of Goodwill

(1) Carrying amounts

	Millions of Yen		
	2022	2021	2020
Goodwill	¥4,402	¥4,638	¥4,273

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(2) Information on the significant accounting estimate

The amount of goodwill as of November 30, 2022, includes ¥639 million of goodwill arising from acquisition of shares of Amamco, which is held by OSG USA, INC., a subsidiary of the Company. Amamco manufactures products designed for the aircraft-related industry in the United States of America.

Goodwill is amortized. However, if there is any indication that goodwill may be impaired, the Group assesses whether an impairment loss should be recognized by comparing the sum of the undiscounted future cash flows from the asset group with the carrying amount. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount.

For the year ended November 30, 2022, the Group determined that there was an indication of impairment as operating loss was recorded for the two consecutive fiscal years and that the profitability was less than expected at the time of acquisition. However, as a result of assessing whether an impairment loss should be recognized, the Group reached a conclusion that the undiscounted future cash flows, which are based on the business plan as of November 30, 2022, are expected to exceed the carrying amount of the non-current assets including goodwill, and therefore no impairment loss was recognized.

The undiscounted future cash flows are determined based on the business plan that Amamco's management approved. The expected sales included in the business plan are based on assumptions regarding the future trend in the aircraft-related industry and expected demand from major customers.

Due to the COVID-19 pandemic, the aircraft-related industry, which is the primary source of revenue of Amamco, has been weak. The decline in the aircraft-related industry may affect the future operating results of Amamco; however, the business plan is based on an assumption that the industry will recover in the year ending November 30, 2024.

Since the future impact of the COVID-19 pandemic is highly uncertain, operating results and financial position may differ from these estimates if there are any changes in assumptions above.

5. EMPLOYEE STOCK OWNERSHIP PLAN

The Company conducts transactions to deliver the Company's own stock to the employee stockholding association through a trust for the purpose of providing incentives to the Company's employees to improve the Company's corporate value over the medium to long term.

The Company has established the "Exclusive Trust for OSG Employee Stockholding Association" (the "Trust"), the beneficiary of which is all employees who are members of the "OSG Employee Stockholding Association" (the "Association"). The Trust acquires the number of Company stocks expected to be acquired by the Association over a five-year period and sells the stocks to the Association. At the time of termination of the Trust, any gains on transfer or other gains resulting from an increase in the stock price will be distributed to eligible beneficiaries. In the event that any transfer losses or other losses are incurred due to a decline in stock prices, and liabilities related to trust assets remain, the Company will be liable to repay the bank in a lump sum in accordance with the guarantees in the loan agreement. The Group provides for such loss on guarantees at an estimated amount that are included in other long-term liabilities in the consolidated balance sheets.

The Company's stocks held by the Trust are included in treasury stock in the consolidated balance sheets at their carrying amount after excluding ancillary expenses. The treasury stock and long-term debt held by the Trust as of November 30, 2022, 2021 and 2020, are summarized as follows:

	Millions of Yen		
	2022	2021	2020
Carrying amount of treasury stock	¥ 477	¥ 984	¥ 1,391
Number of treasury stock (shares)	239,300	493,700	697,400
Carrying amount of long-term debt	¥ 548	¥ 1,011	¥ 1,421

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6. TRADE NOTES AND ACCOUNTS RECEIVABLE

Trade notes and accounts receivable as of November 30, 2022, 2021 and 2020, consisted of the following:

	Millions of Yen		
	2022	2021	2020
Notes receivable	¥ 3,435	¥ 3,836	¥ 2,875
Accounts receivable	23,450	19,695	16,857
Total	<u>¥26,885</u>	<u>¥23,531</u>	<u>¥19,733</u>

Notes receivable transferred by endorsement as of November 30, 2022, 2021 and 2020, were ¥20 million, ¥12 million and ¥17 million, respectively.

7. INVENTORIES

Inventories as of November 30, 2022, 2021 and 2020, consisted of the following:

	Millions of Yen		
	2022	2021	2020
Finished goods and merchandises	¥33,238	¥28,553	¥29,239
Work in process	8,641	6,566	5,464
Raw materials and supplies	10,146	7,718	7,321
Total	<u>¥52,026</u>	<u>¥42,839</u>	<u>¥42,025</u>

8. MARKETABLE AND INVESTMENT SECURITIES

All marketable and investment securities as of November 30, 2022, 2021 and 2020, were available-for-sale securities. All current marketable securities as of November 30, 2022, 2021 and 2020, were government and corporate bonds.

The costs and aggregate fair value of marketable and investment securities as of November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>November 30, 2022</u>				
Securities classified as available-for-sale:				
Equity securities	¥2,564	¥ 1,274	¥ (243)	¥3,596
Debt securities	108	—	(1)	106
<u>November 30, 2021</u>				
Securities classified as available-for-sale:				
Equity securities	¥2,108	¥ 1,175	¥ (99)	¥3,184
Debt securities	108	0	—	108
<u>November 30, 2020</u>				
Securities classified as available-for-sale:				
Equity securities	¥2,072	¥ 1,519	¥ (107)	¥3,483
Debt securities	109	0	—	110

The carrying amounts of investment securities which do not have quoted market prices and whose fair values are not reliably determinable as of November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Equity securities	¥699	¥706	¥525

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Proceeds from sales of available-for-sale securities and related gains and losses for the years ended November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Equity securities:			
Proceeds from sales	¥126	—	—
Realized gains	97	—	—
Realized losses	(0)	—	—

The Group recorded impairment losses on available-for-sale investment securities of ¥90 million for the year ended November 30, 2020. No such losses were recorded for the years ended November 30, 2022 and 2021.

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans comprise notes to banks and bank overdrafts. The average interest rates applicable to the short-term bank loans were 3.57%, 0.73% and 0.92% as of November 30, 2022, 2021 and 2020, respectively.

Long-term debt as of November 30, 2022, 2021 and 2020, consisted of the following:

	Millions of Yen		
	2022	2021	2020
Long-term bank loans, due serially to 2033	¥19,893	¥21,752	¥30,626
Unsecured 0.37% straight bonds with inter-bond pari passu clause due 2029, issued on May 21, 2019	5,000	5,000	5,000
Unsecured Zero-coupon Euro Yen convertible bonds due 2022, issued on April 2, 2012 (Note)	—	1,670	1,670
Obligations under finance leases	665	763	629
Total	25,558	29,185	37,925
Less current portion	(1,291)	(3,558)	(8,735)
Long-term debt, less current portion	¥24,267	¥25,627	¥29,190

Note: Outline of the convertible bonds is as follows:

- (1) The convertible bonds were convertible into common stock of the Company at a conversion ratio of 100%. The exercise period of the convertible bonds was from April 16, 2012 to March 21, 2022.
- (2) The conversion price was ¥1,633.2. The aggregated amount of conversion price was ¥15,000 million.
- (3) The total amount of common stock issued through conversion was ¥13,330 million.
- (4) The conversion price of the convertible bonds is subject to adjustments in certain circumstances.

The weighted-average interest rates of long-term bank loans and their current portion as of November 30, 2022, 2021 and 2020, are summarized as follows:

	2022	2021	2020
Long-term bank loans:			
Current portion	3.13%	0.69%	0.14%
Long-term bank loans, less current portion	0.57	0.46	0.48

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Annual maturities of long-term bank loans as of November 30, 2022, were as follows:

Year Ending November 30	Millions of Yen
2023	¥ 1,019
2024	2,657
2025	4,030
2026	1,030
2027	4,082
2028 and thereafter	7,071
Total	¥ 19,893

Long-term bank loans include those borrowed by the Trust of which amounts as of November 30, 2022, 2021 and 2020, were ¥548 million, ¥1,011 million and ¥1,421 million, respectively. The Trust repays at amount equivalent to the proceeds from the sale of shares held by the Trust and there is no stipulation on the amount of repayment in individual installments. Therefore, these amounts are based on an assumption that the balance of the relevant loan at the end of the fiscal year is repaid in a lump sum on the final repayment date.

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥470 million (including current portion of ¥26 million) as of November 30, 2022, were as follows:

	Millions of Yen
Property, plant and equipment:	
Buildings and structures	¥ 498
Machinery and vehicles	0
Land	229
Total	¥ 729

As of November 30, 2022, other than the assets above, cash and cash equivalents of ¥0 million and other assets of ¥31 million were pledged as collateral for certain trade notes and accounts payable.

10. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have defined contribution pension plans. Certain consolidated subsidiaries have funded and unfunded defined benefit pension plans and severance lump-sum payment plans.

Defined Benefit Pension Plan

(1) The changes in defined benefit obligation (except for those to which the simplified method is applied) for the years ended November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Balance at beginning of year	¥ 343	¥ 336	¥ 355
Current service cost	5	5	5
Interest cost	10	8	8
Actuarial (gains) losses	(42)	(3)	8
Benefits paid	(45)	(37)	(26)
Other (Note)	35	33	(15)
Balance at end of year	¥ 306	¥ 343	¥ 336

Note: Other mainly represents foreign currency translation differences attributable to liability for retirement benefits of overseas consolidated subsidiaries.

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- (2) A reconciliation between the liabilities recorded in the consolidated balance sheets and the balances of defined benefit obligation and plan assets (except for those to which the simplified method is applied) for the years ended November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Balance at beginning of year	¥ 375	¥ 349	¥ 342
Expected return on plan assets	2	1	2
Actuarial losses	31	5	12
Contributions from the employer	3	3	4
Benefits paid	(36)	(27)	(18)
Other (Note)	35	42	5
Balance at end of year	¥ 412	¥ 375	¥ 349

Note: Other mainly represents foreign currency translation differences attributable to asset for retirement benefits of overseas consolidated subsidiaries.

- (3) The changes in liability for retirement benefits to which the simplified method is applied for the years ended November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Balance at beginning of year	¥ 712	¥ 603	¥ 404
Retirement benefit cost	285	282	199
Benefits paid	(38)	(45)	(8)
Contributions paid to plans	(203)	(225)	(120)
Increase due to newly consolidated subsidiaries	—	105	155
Other (Note)	39	(6)	(26)
Balance at end of year	¥ 795	¥ 712	¥ 603

Note: Other mainly represents foreign currency translation differences attributable to liability for retirement benefits of overseas consolidated subsidiaries.

- (4) Reconciliation between the liability recorded in the consolidated balance sheets and the balances of defined benefit obligations and plan assets (including those to which the simplified method is applied) was as follows:

	Millions of Yen		
	2022	2021	2020
Funded defined benefit obligation	¥ 1,676	¥ 1,514	¥ 1,803
Plan assets	(1,860)	(1,601)	(1,633)
Total	(184)	(86)	170
Unfunded defined benefit obligation	873	766	419
Net liability arising from defined benefit obligation	¥ 689	¥ 679	¥ 589

	Millions of Yen		
	2022	2021	2020
Liability for retirement benefits	¥ 879	¥ 788	¥ 682
Asset for retirement benefits	(189)	(108)	(92)
Net liability arising from defined benefit obligation	¥ 689	¥ 679	¥ 589

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- (5) The components of net periodic benefit costs for the years ended November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Service cost	¥ 5	¥ 5	¥ 5
Interest cost	10	8	8
Expected return on plan assets	(2)	(1)	(2)
Recognized actuarial gains	(74)	(9)	(4)
Retirement benefit cost of the plans to which the simplified method is applied	285	282	199
Net periodic benefit costs	¥225	¥286	¥206

- (6) Plan assets

a. Components of plan assets

Plan assets as of November 30, 2022, 2021 and 2020, consisted of the following:

	2022	2021	2020
Debt investments and beneficially certificates	61.33%	62.78%	63.26%
Cash and deposits	16.39	18.04	12.48
Equity investments	12.43	9.06	10.31
Other	9.85	10.12	13.95
Total	100.00%	100.00%	100.00%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

- (7) Assumptions used for the years ended November 30, 2022, 2021 and 2020, were set forth as follows:

	2022	2021	2020
Discount rate	1.55%	0.55%	0.30%
Expected rate of return on plan assets	1.55	0.55	0.30
Expected rate of increase in salary	2.00	2.00	2.00

Note: The assumptions in the table above are of major companies.

Defined Contribution Pension Plan

The amounts contributed to the Group's defined contribution pension plans by the Company and certain consolidated subsidiaries for the years ended November 30, 2022, 2021 and 2020, were ¥903 million, ¥851 million and ¥727 million, respectively.

11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividends upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit &

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Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective February 20, 2016. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

Year-end and semiannual interim dividends paid during the years ended November 30, 2022, 2021 and 2020, include those paid to the Company stocks held by the Trust of which amounts are summarized as follows:

	Millions of Yen		
	2022	2021	2020
Year-end dividends	¥10	¥ 7	¥22
Semiannual interim dividends	8	8	8

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Changes in number of issued shares of common stock and treasury stock for the years ended November 30, 2022, 2021 and 2020, were as follows:

	Shares	
	Common Stock	Treasury Stock
Balance, December 1, 2019	98,147,239	955,408
Issuance of new shares – restricted stock compensation	32,503	—
Treasury stock acquired by associated companies attributable to the Company	—	1,423
Purchase of treasury stock that is less than one trading unit	—	1,050
Treasury stock sold to the Association by the Trust	—	(228,500)
Balance, November 30, 2020	98,179,742	729,381
Issuance of new shares – restricted stock compensation	16,982	—
Treasury stock acquired by associated companies attributable to the Company	—	1,257
Purchase of treasury stock that is less than one trading unit	—	1,520
Treasury stock sold to the Association by the Trust	—	(203,700)
Balance, November 30, 2021	98,196,724	528,458
Conversion of convertible bonds	985,793	(18,368)
Purchase of treasury stock in accordance with the resolution made at the Board of Directors' meeting	—	3,288,200
Treasury stock acquired by associated companies attributable to the Company	—	3,439
Purchase of treasury stock that is less than one trading unit	—	844
Treasury stock sold to the Association by the Trust	—	(254,400)
Disposal of treasury stock for restricted stock compensation	—	(34,650)
Balance, November 30, 2022	<u>99,182,517</u>	<u>3,513,523</u>

12. STOCK OPTIONS

On January 12, 2018, the ASBJ issued PITF No. 36, “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions,” which requires transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions to be accounted for in accordance with ASBJ Statement No. 8, “Accounting Standard for Share-based Payment.” The Company adopted PITF No. 36 and continued to account for the transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions that occurred prior to the application of PITF No. 36 in accordance with the accounting policy previously applied.

The outline of the Company’s accounting policies for such stock acquisition right is as follows:

a. Before Vesting

- (1) Payment from an employee as a consideration for stock acquisition rights is recognized as a stock acquisition right as a separate component of equity.
- (2) If a stock acquisition right is forfeited, gain on reversal of stock acquisition right is recognized.

b. After Vesting

- (1) Upon new share issuance due to exercise of a stock acquisition right, the stock acquisition right is transferred to share capital.
- (2) If a stock acquisition right is cancelled, gain on reversal of stock option is recognized in the year when the cancellation is confirmed.

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Stock acquisition rights, which involve considerations, with vesting conditions were as follows:

Stock acquisition rights #1:

Persons granted	10 directors 117 employees 21 directors of subsidiaries 14 employees of subsidiaries
Number of rights granted	1,662,000 shares
Date of grant	March 1, 2016
Exercise price (yen)	¥2,016
Exercise period	From March 1, 2019 to February 28, 2023

Vesting conditions are summarized as follows:

- (1) Vesting of the stock acquisition rights is subject to operating results of the Company. If consolidated net sales (if not prepared, non-consolidated net sales shall be applied instead) for any of years ended November 30, 2018 through 2020 exceed ¥150,000 million, the right holders may exercise the stock acquisition rights from the first day of the month following submission of the Japanese securities report for such year to the last day of the exercise period.
- (2) At the time of exercise, the right holder of the stock acquisition rights shall occupy the position of a director, Audit & Supervisory Board member, or employee of the Company or the Company's related companies unless the holder resigned due to expiration of term, retired due to mandatory retirement age, or due to any other legitimate reasons approved by the Board of Directors.
- (3) The stock acquisition rights may not be exercised if the total number of shares of common stock after the exercise would exceed the number of authorized shares of common stock.
- (4) Less-than-one stock acquisition rights may not be exercised.

The stock acquisition right activity is as follows:

	Stock Option #1
Year Ended November 30, 2020	(Shares)
<u>Non-vested</u>	
December 1, 2019 – Outstanding	1,662,000
Granted	—
Forfeited	—
Vested	—
November 30, 2020 – Outstanding	1,662,000
<u>Vested</u>	
No activity	
<u>Year Ended November 30, 2021</u>	
<u>Non-vested</u>	
November 30, 2020 – Outstanding	1,662,000
Granted	—
Forfeited	(1,662,000)
Vested	—
November 30, 2021 – Outstanding	—
<u>Vested</u>	
No activity	

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13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended November 30, 2022, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Deferred tax assets:			
Write-down of inventories	¥ 948	¥ 703	¥ 631
Lump-sum depreciable assets	90	81	75
Enterprise taxes payable	235	154	40
Allowance for doubtful accounts	200	122	90
Liabilities for retirement benefits	114	113	98
Tax loss carryforwards	325	416	460
Unrealized gain on inventories and property, plant and equipment	2,517	1,871	1,533
Write-down of membership	43	44	43
Write-down of investment securities	218	322	322
Other	1,222	940	745
Total of tax loss carryforwards and temporary differences	5,917	4,771	4,040
Less valuation allowance	(585)	(740)	(739)
Total deferred tax assets	5,332	4,030	3,301
Deferred tax liabilities:			
Reserve for advanced depreciation	(134)	(142)	(151)
Unrealized gain on available-for-sale securities	(171)	(232)	(240)
Lower amount of depreciation recorded in overseas subsidiaries	(1,875)	(1,479)	(1,465)
Retained earnings of overseas subsidiaries	(160)	(340)	(49)
Other	(955)	(915)	(798)
Total deferred tax liabilities	(3,297)	(3,109)	(2,706)
Net deferred tax assets	¥ 2,034	¥ 920	¥ 595

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended November 30, 2022, 2021 and 2020, was as follows:

	2022	2021	2020
Normal effective statutory tax rate	30.6%	30.6%	30.6%
Expenses not deductible for income tax purposes	0.2	0.1	0.4
Dividends and other income not taxable	(0.1)	(0.1)	(0.1)
Per capita levy of inhabitant tax	0.2	0.3	0.5
Effect of different tax rates applicable to overseas subsidiaries	(3.8)	(4.0)	(3.7)
Amortization of goodwill	1.2	1.5	2.3
Adjustments to deferred taxes in eliminating unrealized gains	0.0	0.3	0.1
Changes in valuation allowances	(0.9)	(0.4)	3.5
Withholding taxes of overseas subsidiaries	1.8	0.4	1.7
Retained earnings of overseas subsidiaries	(0.8)	1.8	(0.3)
Other – net	(1.9)	0.4	0.4
Actual effective tax rate	26.5%	30.9%	35.4%

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14. REVENUE

(1) Disaggregation of Revenue

Revenue from contracts with customers on a disaggregated basis for the year ended November 30, 2022, was as follows:

	Millions of Yen				
	Japan	The Americas	Europe and Africa	Asia	Total
Cutting tools:					
Taps	¥10,397	¥11,689	¥ 8,993	¥19,294	¥ 50,374
End mills	11,026	5,283	6,260	3,812	26,383
Drills and other cutting tools	16,942	7,692	9,914	6,432	40,982
Rolling dies	3,964	2,471	374	3,805	10,616
Gauges	1,394	193	5	397	1,991
Other:					
Machines	2,768	278	695	165	3,907
Other	4,365	234	2,720	948	8,269
Revenue from contracts with customers	<u>¥50,858</u>	<u>¥27,845</u>	<u>¥28,964</u>	<u>¥34,856</u>	<u>¥142,525</u>

(2) Basic Information to Understand Revenue from Contracts with Customers

Basic information to understand revenue from contracts with customers is discussed in Note 2.

(3) Contract Balances

Receivables from contract with customers and contract liabilities at the beginning and end of the year were as follows:

	Millions of Yen
Receivables from contracts with customers:	
Balance at beginning of year	¥ 23,531
Balance at end of year	26,885
Contract liabilities (Note):	
Balance at beginning of year	423
Balance at end of year	610

Note: Contract liabilities represent considerations received in advance and are included in other current liabilities in the consolidated balance sheets. Contract liabilities are eliminated at the time of recognizing revenue.

The amount of revenue recognized for the year ended November 30, 2022, which was included in the contract liabilities at the beginning of year, was ¥423 million.

(4) Transaction Prices Allocated to Remaining Performance Obligations

The Company does not have any transaction that is individually significant with an expected contract period exceeding one year. Therefore, information about transaction prices allocated to remaining performance obligations is omitted applying the practical expedient.

15. RESEARCH AND DEVELOPMENT COSTS

R&D costs included in selling, general and administrative expenses and manufacturing costs for the years ended November 30, 2022, 2021 and 2020, were ¥1,346 million, ¥1,374 million and ¥1,403 million, respectively.

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16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Depreciation and amortization	¥ 1,810	¥ 1,737	¥ 1,727
Net periodic retirement benefit costs	422	427	379
Accrual of bonuses to directors	371	282	146
Salaries and bonuses	15,466	13,912	12,480
Selling commissions	677	964	822
Amortization of goodwill	881	795	655

17. LEASES

(1) As Lessee

Leased assets of the Group mainly comprise buildings and structures and machinery and vehicles.

Total rental expenses under operating lease contracts included in the consolidated statements of income for the years ended November 30, 2022, 2021 and 2020, were ¥1,051 million ¥1,006 million and ¥981 million, respectively.

The minimum rental commitments under noncancelable operating leases as of November 30, 2022, were as follows:

	Millions of Yen
Due within one year	¥ 78
Due after one year	167
Total	¥ 246

The figures in the above table include those attributable to subleasing contracts of which amounts were as follows:

	Millions of Yen
Due within one year	¥ 16
Due after one year	24
Total	¥ 41

(2) As Lessor

The information is omitted because it was insignificant.

18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group raises funds mainly through bank loans and bonds in accordance with its capital investment plan in order to operate its business of manufacturing and sales of precision machine tools. The Group's use of its surplus funds mainly consists of low-risk financial assets. Derivatives are used only for the purpose of hedging exposure to the risks as described in (2) below. The Group does not enter into derivatives for trading or speculative purposes.

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(2) Nature and Extent of Risks Arising from Financial Instruments

Trade notes and accounts receivable are subject to customer credit risk. Trade receivables denominated in foreign currencies and subject to foreign exchange risks. To hedge such risks, the Group utilizes forward exchange contracts and other hedging instruments to a certain extent in accordance with internal rules regarding foreign exchange risk management. Most marketable and investment securities are related to operating alliances with business partners, and are subject to market value volatility risks.

Trade notes and accounts payable are in principle due within a year. Certain trade payables are denominated in foreign currencies in connection with imports of raw materials and subject to foreign exchange risks. To hedge such risks, the Group utilizes forward exchange contracts and other hedging instruments to a certain extent in accordance with internal rules regarding foreign exchange risk management.

Bank loans, bonds and convertible bonds are used for the purpose of procuring funds for capital investments and working capital. Certain bank loans have variable interest rates and are exposed to risks from interest rate changes.

Derivative transactions mainly consist of foreign exchange forward contracts to hedge foreign exchange risks associated with trade receivables and payables denominated in foreign currencies, and interest-rate and currency swaps to hedge interest rate and foreign exchange risks associated with certain loans receivable and payable denominated in foreign currencies. Please see Note 19 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. In accordance with its internal guidelines of credit control, the sales department periodically monitors the financial conditions of major customers and controls due dates and balances in order to identify and reduce the default risk of counterparties at an early stage. Consolidated subsidiaries manage credit risks in the same manner in accordance with the Company's internal guidelines of credit control.

Counterparties to the derivatives are limited to financial institutions with high credit rating.

The maximum credit risk exposure of financial assets is limited to their amounts on the consolidated balance sheets as of November 30, 2022, 2021 and 2020.

Market risk management (foreign currency exchange risk and interest rate risk)

For trade receivables and payables denominated in foreign currencies, the Company and certain consolidated subsidiaries in principle utilize foreign exchange forward contracts to hedge foreign exchange risks identified on a monthly basis by currency. In addition, when foreign currency trade receivables and payables are expected to arise from forecasted transactions related to imports and exports, forward foreign currency contracts may be used with a contract term not exceeding one year, depending on the conditions in the foreign exchange market.

For loans receivable and payable denominated in foreign currencies, the Company and certain consolidated subsidiaries utilize interest-rate and currency swaps to hedge interest rate and foreign exchange risks.

For investment securities, the Group periodically reviews the market conditions, financial condition of the issuer, and relationships with business partners to revise the holding status.

For derivative transactions, the accounting department is responsible for execution, bookkeeping, and reconciliation with the counterparties in accordance with internal guidelines which regulate the authorization and others. Monthly transaction results are reported to the director in charge of the accounting department and to the management meeting. Consolidated subsidiaries manage derivative transactions in the same manner in accordance with the Company's internal guidelines.

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Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The accounting department prepares and updates the cash management plans in a timely manner based on the reports submitted by each department. In addition, the Group maintains a certain level of liquidity on hand.

(4) Supplemental Information on Fair Values of Financial Instruments

Measurement of fair values of financial instruments includes certain variable factors. Results may differ if different assumptions are used in the valuation. The contract or notional amounts of derivatives which are shown in the tables below do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

(5) Fair Values of Financial Instruments

Fair values of financial instruments are as follows. Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table (a). The fair values of cash and cash equivalents are not disclosed because their maturities are short and the carrying values approximate fair value. Please see Note 19 for details of the fair values of derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
<u>November 30, 2022</u>			
Assets – Marketable and investment securities	¥ 3,703	¥ 3,703	—
Liabilities (included in long-term debt):			
Bonds	¥ 5,000	¥ 4,914	¥ (85)
Long-term bank loans, including current portion	19,893	19,881	(12)
Total	<u>¥24,893</u>	<u>¥24,796</u>	<u>¥ (97)</u>
Derivatives (Note 2):			
Derivatives to which hedge accounting is applied	¥ 15	¥ 15	—
Derivatives to which hedge accounting is not applied	0	0	—
Total	<u>¥ 15</u>	<u>¥ 15</u>	<u>—</u>
<u>November 30, 2021</u>			
Assets – Marketable and investment securities	¥ 3,293	¥ 3,293	—
Liabilities (included in long-term debt):			
Bonds	¥ 5,000	¥ 4,994	¥ (5)
Convertible bonds	1,670	1,735	65
Long-term bank loans, including current portion	21,752	21,754	2
Total	<u>¥28,422</u>	<u>¥28,484</u>	<u>¥ 62</u>
Derivatives (Note 2):			
Derivatives to which hedge accounting is applied	¥ (45)	¥ (45)	—
Derivatives to which hedge accounting is not applied	4	4	—
Total	<u>¥ (40)</u>	<u>¥ (40)</u>	<u>—</u>

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	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
<u>November 30, 2020</u>			
Assets – Marketable and investment securities	¥ 3,594	¥ 3,594	—
Liabilities (included in long-term debt):			
Bonds	¥ 5,000	¥ 4,971	¥ (28)
Convertible bonds	1,670	1,819	149
Long-term bank loans, including current portion	30,626	30,640	14
Total	¥37,296	¥37,431	¥ 135
Derivatives (Note 2):			
Derivatives to which hedge accounting is applied	¥ (16)	¥ (16)	—
Derivatives to which hedge accounting is not applied	0	0	—
Total	¥ (15)	¥ (15)	—

Notes: 1. Information about fair values of trade notes and accounts receivables, trade notes and accounts payable, short-term bank loans, and income taxes payable is omitted because these items are settled in a short period of time and the carrying amounts approximate fair value.

2. Assets and liabilities arising from derivative transactions are offset against each other and presented in a net amount.

(b) *Carrying amount of investments in equity instruments that do not have a quoted market price in an active market*

	Millions of Yen		
	2022	2021	2020
Unlisted equity securities	¥ 699	¥ 706	¥ 525
Investments in unconsolidated subsidiaries and associated companies	2,327	1,346	2,802
Investments in capital (included in other assets)	18	17	20

(6) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>November 30, 2022</u>				
Cash and cash equivalents	¥ 36,717	—	—	—
Time deposits	9,980	—	—	—
Trade notes and accounts receivable	26,885	—	—	—
Marketable and investment securities—Available-for-sale securities:				
Government and municipal bonds	0	¥ 7	—	—
Corporate bonds	—	100	—	—
Total	¥ 73,583	¥ 107	—	—
<u>November 30, 2021</u>				
Cash and cash equivalents	¥ 40,354	—	—	—
Time deposits	6,440	—	—	—
Trade notes and accounts receivable	23,531	—	—	—
Marketable and investment securities—Available-for-sale securities:				
Government and municipal bonds	0	¥ 7	—	—
Corporate bonds	100	—	—	—
Total	¥ 70,427	¥ 7	—	—

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	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>November 30, 2020</u>				
Cash and cash equivalents	¥ 33,299	—	—	—
Time deposits	4,507	—	—	—
Trade notes and accounts receivable	19,733	—	—	—
Marketable and investment securities – Available-for-sale securities:				
Government and municipal bonds	0	¥ 7	—	—
Corporate bonds	—	100	—	—
Total	¥ 57,541	¥ 107	—	—

Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(1) *The financial assets and liabilities measured at the fair values in the consolidated balance sheet*

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
<u>November 30, 2022</u>				
Assets:				
Marketable and investment securities – Available-for-sale securities:				
Equity securities	¥ 3,596	—	—	¥ 3,596
Government and municipal bonds	—	¥ 8	—	8
Corporate bonds	—	98	—	98
Derivatives (currency-related)	—	44	—	44
Total	¥ 3,596	¥ 151	—	¥ 3,747
Liabilities – Derivatives (currency-related)	—	¥ 29	—	¥ 29

(2) *The financial assets and liabilities not measured at the fair values in the consolidated balance sheet*

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
<u>November 30, 2022</u>				
Liabilities:				
Bonds	—	¥ 4,914	—	¥ 4,914
Long-term bank loans, including current portion	—	19,881	—	19,881
Total	—	¥ 24,796	—	¥ 24,796

OSG Corporation and Consolidated Subsidiaries
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The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Marketable and Investment Securities

The fair values of listed equity securities are measured at the quoted market prices. Since listed equity securities are traded in active markets, the fair values of listed equity securities are categorized as Level 1. As the quoted market prices of government and municipal bonds as well as corporate bonds are not considered to be in active markets due to low market transactions, the fair values of such bonds are categorized as Level 2.

Derivatives

The fair values of foreign currency forward contracts and non-deliverable forward contracts are measured based on the price obtained from the financial institution, the counterparty of the transaction, and are categorized as Level 2.

Bonds

The fair values of bonds are measured based on the price obtained from the financial institution and are categorized as Level 2.

Long-Term Bank Loans, Including Current Portion

Long-term bank loans, including current portion are measured at the present value of the total amount of the principal and interest taken as a whole discounted by an expected rate that would be applied for loans with the same terms and conditions, and are classified as Level 2.

19. DERIVATIVES

Derivative transactions of the Group mainly consist of foreign exchange forward contracts to hedge foreign exchange risks associated with trade receivables and payables denominated in foreign currencies, and interest-rate and currency swaps to hedge interest rate and foreign exchange risks associated with certain loans receivable and payable denominated in foreign currencies.

Derivative transactions entered into by the Group have been made in accordance with internal guidelines which regulate the authorization and others.

OSG Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
Years Ended November 30, 2022, 2021 and 2020

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
<u>November 30, 2022</u>				
Foreign currency forward contracts:				
Selling U.S. dollar	¥ 831	—	¥ 40	¥ 40
Selling euro	422	—	(7)	(7)
Buying Japanese yen	400	—	3	3
Non-deliverable forward contracts (Note) – Selling				
Taiwan dollar	1,991	—	(21)	(21)
Total	¥ 3,645	—	¥ 15	¥ 15
<u>November 30, 2021</u>				
Foreign currency forward contracts:				
Selling U.S. dollar	¥ 624	—	¥ (7)	¥ (7)
Selling euro	276	—	1	1
Buying Japanese yen	335	—	(2)	(2)
Buying U.S. dollar	65	—	(1)	(1)
Non-deliverable forward contracts (Note) – Selling				
Taiwan dollar	1,846	—	(35)	(35)
Total	¥ 3,148	—	¥ (45)	¥ (45)
<u>November 30, 2020</u>				
Foreign currency forward contracts:				
Selling U.S. dollar	¥ 421	—	¥ 6	¥ 6
Selling euro	331	—	(1)	(1)
Buying Japanese yen	345	—	3	3
Buying U.S. dollar	600	—	(24)	(24)
Total	¥ 1,698	—	¥ (16)	¥ (16)

Note: The hedged item of the non-deliverable forward contracts in the table above is the loans receivable from the Company's consolidated subsidiaries. Hedge accounting is applied to the derivative contracts in the Company's non-consolidated financial statements; however, since the loans receivable are eliminated in consolidation, hedge accounting is not applied to the derivative contracts in the consolidated financial statements.

OSG Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
Years Ended November 30, 2022, 2021 and 2020

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen		
Hedged Item		Contract Amount	Contract Amount Due after One Year	Fair Value
<u>November 30, 2022</u>				
Foreign currency forward contracts – Selling U.S. dollar	Forward contracts denominated in foreign currencies	¥ 241	—	¥ 0
<u>November 30, 2021</u>				
Foreign currency forward contracts:	Forward contracts denominated in foreign currencies	¥ 906	—	¥ 5
Selling U.S. dollar		124	—	(0)
Selling euro				
Total		¥ 1,030	—	¥ 4
Interest-rate and currency swaps (fixed rate payment, floating rate receipt)	Long-term bank loans	¥ 556	—	(Note)
<u>November 30, 2020</u>				
Foreign currency forward contracts:	Forward contracts denominated in foreign currencies	¥ 103	—	¥ 0
Selling U.S. dollar		65	—	(0)
Selling euro				
Total		¥ 168	—	¥ 0
Interest-rate and currency swaps (fixed rate payment, floating rate receipt)	Long-term bank loans	¥ 3,015	¥ 556	(Note)

Note: The Group's interest-rate and currency swaps which qualify for hedge accounting and meet specific matching criteria are treated as a part of the corresponding long-term bank loans, and accordingly, the fair value of such derivative instruments is included in that of the long-term bank loans.

20. CONTINGENT LIABILITIES

As of November 30, 2022, the Group guaranteed bank loans and other debts of the following group companies:

	Millions of Yen
Phoenix, Co., Ltd. (Note)	¥ 100
PRIMUS COATING TURKEY KAPLAMA SANAYI VE TICARET ANONIM SIRKETI	99
TITANIUM COATING SERVICES AZ, LLC	11

Note: As of November 30, 2022, the Group provided for loss on guarantees of ¥100 million that are included in other long-term liabilities in the consolidated balance sheets.

OSG Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Years Ended November 30, 2022, 2021 and 2020

21. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended November 30, 2022, 2021 and 2020, were as follows:

	Millions of Yen		
	2022	2021	2020
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 51	¥ (334)	¥ (271)
Reclassification adjustments to profit or loss	(97)	—	—
Amount before income tax effect	(46)	(334)	(271)
Income tax effect	(52)	(17)	(86)
Total	<u>¥ 6</u>	<u>¥ (317)</u>	<u>¥ (185)</u>
Deferred (loss) gain on derivatives under hedge accounting:			
(Losses) gains arising during the year	¥ (97)	¥ (4)	¥ 0
Reclassification adjustments to profit or loss	93	9	—
Amount before income tax effect	(4)	4	0
Income tax effect	(1)	1	0
Total	<u>¥ (3)</u>	<u>¥ 3</u>	<u>¥ 0</u>
Foreign currency translation adjustments:			
Gains (losses) arising during the year	¥ 13,364	¥ 5,850	¥ (1,369)
Reclassification adjustments to profit or loss	—	—	8
Total	<u>¥ 13,364</u>	<u>¥ 5,850</u>	<u>¥ (1,360)</u>
Share of other comprehensive (loss) income in associated companies:			
(Losses) gains arising during the year	¥ (21)	¥ (6)	¥ 2
Reclassification adjustments to profit or loss	—	(0)	—
Total	<u>¥ (21)</u>	<u>¥ (7)</u>	<u>¥ 2</u>
Total other comprehensive income (loss)	<u>¥ 13,345</u>	<u>¥ 5,528</u>	<u>¥ (1,543)</u>

22. RELATED PARTY TRANSACTIONS

Year Ended November 30, 2022

No items to report.

Years Ended November 30, 2021 and 2020

Transactions with entities of which majority voting rights are held by a member of Audit and Supervisory Committee of the Company

The Company had transactions with Onocom Co., Ltd. (“Onocom”) of which majority voting rights were directly held by Mr. Kyoshiro Ono, a member of Audit and Supervisory Committee of the Company, and his family. Onocom, of which share capital as of November 30, 2021, was ¥95 million, engages in construction business and is located in Toyohashi city, Aichi, Japan. Onocom directly had 0.32% voting rights of the Company. The Company placed orders with Onocom for expansion, renovation, maintenance, and repair of factories and other facilities. The terms and conditions of the transactions are determined based on quotations submitted by Onocom, considering the Company’s past construction experience. Payment terms are determined upon consultation considering the construction period.

OSG Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
Years Ended November 30, 2022, 2021 and 2020

Transactions of the Company with Onocom and related balances as of and for the years ended November 30, 2021 and 2020, were summarized as follows:

	Millions of Yen	
	2021	2020
Transactions – Fees for expansion, renovation, maintenance, and repair of factories and other facilities	¥ 80	¥ 2,211
Balances:		
Other payable	5	29
Accrued expense	12	1

Note: The transaction figures in the above table do not include consumption taxes, whereas the balance figures include them.

In addition, certain consolidated subsidiaries had transactions with Onocom with the same terms and conditions as discussed above. The amount of transactions for the year ended November 30, 2020, was ¥119 million, and no balance remained as of November 30, 2020. Such information as of and for the year ended November 30, 2021, is omitted because it is insignificant.

23. ADDITIONAL CASH FLOW INFORMATION

Years Ended November 30, 2022 and 2021

No items to report.

Year Ended November 30, 2020

Payments for purchase of newly consolidated subsidiaries' stock consisted of payment for acquisition of OSG BASS Holding GmbH shares and four other entities, of which components as of the date of acquisition were as follows:

	Millions of Yen	
Current assets	¥ 898	
Non-current assets		2,514
Goodwill		997
Current liabilities		(540)
Long-term liabilities		(476)
Acquisition cost		3,393
Cash and cash equivalents acquired		(126)
Payments for purchase of newly consolidated subsidiaries' stock	¥ 3,266	

24. BUSINESS COMBINATIONS

Years Ended November 30, 2022 and 2021

No items to report.

Year Ended November 30, 2020

(Business Combination by Acquisition)

a. Outline of the business combination

(1) Name of acquired companies and their business outline

Name of acquired companies:	SL Holding GmbH and four other companies
Business outline:	Manufacturing and sales of precision cutting tools

OSG Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Years Ended November 30, 2022, 2021 and 2020

(2) Major reason for the business combination

The strength of these companies lies in their ability to design and manufacture high quality specialty products with short delivery times. The purpose of adding these companies into the Group was to further improve its ability to receive orders in the European market and to increase its market share thereof.

(3) Date of business combination

December 18, 2019

(4) Legal form of business combination

Share acquisition

(5) Name of the company after the combination

OSG BASS Holding GmbH and four others

(6) Ratio of voting rights acquired

100%

(7) Basis for determining the acquirer

It was based on the fact that OSG GmbH, a consolidated subsidiary of the Company, acquired 100% of their shares in consideration for cash.

b. The period for which the operations of the acquired companies are included in the consolidated financial statements

From December 18, 2019 to November 30, 2020

c. Acquisition cost of the acquired companies and related details of each class of consideration

	Millions of Yen
Consideration for acquisition – Cash	¥ 3,393
Acquisition cost	¥ 3,393

d. Major acquisition-related costs

Due diligence fees and others: ¥51 million

e. Amount of goodwill, basis of recognizing goodwill, and the method and period of amortization

(1) Amount of goodwill

¥997 million (8,139 thousand euro)

(2) Basis of recognizing goodwill

Goodwill mainly represents the excess of acquisition costs over the net amount allocated to assets acquired and liabilities assumed.

(3) Method and period of amortization

Goodwill is amortized on a straight-line basis over 10 years.

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f. The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen
Current assets	¥ 898
Non-current assets	2,514
Total	¥ 3,412
Current liabilities	¥ 540
Long-term liabilities	476
Total	¥ 1,016

g. Pro forma information on impact on the consolidated financial statements assuming that the business combination had been completed as of the beginning of the fiscal year (unaudited)

This information is not presented because the impact was immaterial.

25. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended November 30, 2022, 2021 and 2020, is as follows:

	Millions of Yen	Shares	Yen
	Net Income Attributable to Owners of the Parent	Weighted- Average Shares (Note 1)	EPS
<u>Year Ended November 30, 2022</u>			
Basic EPS – Net income available to common shareholders (Note 2)	¥ 16,534	96,388,964	¥171.54
<u>Year Ended November 30, 2021</u>			
Basic EPS – Net income available to common shareholders	¥ 10,989	97,573,704	¥112.63
Effect of dilutive securities – Convertible bonds		1,022,532	
Diluted EPS – Net income for computation	¥ 10,989	98,596,236	¥111.46
<u>Year Ended November 30, 2020</u>			
Basic EPS – Net income available to common shareholders	¥ 5,639	97,335,064	¥ 57.94
Effect of dilutive securities – Convertible bonds		1,022,532	
Diluted EPS – Net income for computation	¥ 5,639	98,357,596	¥ 57.34

Notes: 1. The number of weighted-average shares above includes the number of shares that are held by the Trust (354,515 shares in 2022, 584,708 shares in 2021 and 803,954 shares in 2020).

2. Reconciliation of the differences between basic and diluted EPS is not presented because no potentially dilutive securities existed as the convertible bonds were fully redeemed.

26. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings as of November 30, 2022, was approved at the annual general meeting of shareholders held on February 17, 2023:

	Millions of Yen
Year-end cash dividends, ¥37 per share	¥ 3,549

OSG Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Years Ended November 30, 2022, 2021 and 2020

The total amount of the dividends in the table above includes dividends to the Company shares held by the Trust.

27. SEGMENT INFORMATION

Under ASBJ Statement No. 17, “Accounting Standard for Segment Information Disclosures,” and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Segment Information Disclosures,” an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) *Description of Reportable Segments*

The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Company’s management is being performed in order to decide how resources are allocated among the Group.

The Group principally manufactures and sells precision machine tools in Japan and overseas areas such as the Americas (United States of America, Canada, Mexico, Brazil), Europe and Africa (United Kingdom, Ireland, Belgium, France, Netherlands, Denmark, Spain, Germany, Italy, Switzerland, Turkey, Romania, Poland, South Africa), and Asia (China, Singapore, Thailand, Taiwan, Korea, India, Indonesia, Vietnam, Philippines). The Company conducts and manages its business operations in Japan whereas local group entities do in the respective countries in overseas areas. Such entities include OSG USA, Inc. (United States of America), OSG Europe S.A. (Belgium), OSG (Shanghai) Co., Ltd. (China), OSG Korea Corporation (South Korea), and OSG Asia Pte Ltd. (Singapore). The Asian group entities are managed as one aggregated business unit because of geographical proximity, similar markets and customers, and sales methods. Each local entity is an independent management unit that formulates comprehensive strategies for each region with respect to the products it handles and conducts business activities.

Therefore, the reportable segments consist of the four geographical segments, namely; (1) Japan, (2) The Americas, (3) Europe and Africa, and (4) Asia, based on the Group’s production/sales structure. The Group principally manufactures and sells precision machine tools in each segment.

The accounting policies of each reportable segment are consistent with those disclosed in Note 2. Segment profit is determined based on operating income. Intersegment sales or transfers are determined based on prevailing market prices.

(2) *Changes in Accounting Policies of Reportable Segment*

As discussed in Note 3, effective December 1, 2021, the Group applied the New Revenue Recognition Standard. Segment profit of each reportable segment for the year ended November 30, 2022, has been determined in accordance with the new standard. In addition, the segment information for the year ended November 30, 2022, in the following pages is presented after reflecting the New Revenue Recognition Standard. The impact of the change on sales from customers and segment profit for the year ended November 30, 2022, was insignificant.

OSG Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Years Ended November 30, 2022, 2021 and 2020

(3) Information about Sales, Profit, Assets and Other Items

	Millions of Yen						
	2022						
	Reportable Segment					Reconciliations (Note)	Consolidated
Japan	The Americas	Europe and Africa	Asia	Total			
Sales:							
Sales to external customers	¥ 50,858	¥27,845	¥28,964	¥34,856	¥142,525	—	¥142,525
Intersegment sales or transfers	22,615	918	263	3,546	27,343	¥ (27,343)	—
Total	¥ 73,474	¥28,763	¥29,227	¥38,403	¥169,868	¥ (27,343)	¥142,525
Segment profit	¥ 9,617	¥ 4,327	¥ 2,820	¥ 6,392	¥ 23,158	¥ (1,260)	¥ 21,898
Segment assets	124,682	40,665	34,000	65,423	264,772	(35,919)	228,852
Other:							
Depreciation and amortization	5,176	1,272	1,217	3,155	10,822	(324)	10,498
Investments in associated companies accounted for by the equity method	237	33	—	—	271	—	271
Capital expenditures	5,016	1,398	843	2,442	9,700	(459)	9,241
Amortization of goodwill	—	285	595	—	881	—	881
Goodwill, net	—	1,312	3,090	—	4,402	—	4,402

	Millions of Yen						
	2021						
	Reportable Segment					Reconciliations (Note)	Consolidated
Japan	The Americas	Europe and Africa	Asia	Total			
Sales:							
Sales to external customers	¥ 48,935	¥21,915	¥24,573	¥30,732	¥126,156	—	¥126,156
Intersegment sales or transfers	19,557	572	141	2,608	22,878	¥ (22,878)	—
Total	¥ 68,492	¥22,487	¥24,714	¥33,340	¥149,035	¥ (22,878)	¥126,156
Segment profit	¥ 7,119	¥ 3,173	¥ 1,943	¥ 4,592	¥ 16,829	¥ (723)	¥ 16,105
Segment assets	124,782	31,105	29,829	59,873	245,591	(35,833)	209,757
Other:							
Depreciation and amortization	5,359	1,111	1,236	3,223	10,931	(340)	10,591
Investments in associated companies accounted for by the equity method	214	27	—	—	242	—	242
Capital expenditures	2,782	983	472	1,545	5,783	(249)	5,533
Amortization of goodwill	—	239	556	—	795	—	795
Goodwill, net	—	1,324	3,314	—	4,638	—	4,638

OSG Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Years Ended November 30, 2022, 2021 and 2020

	Millions of Yen						
	2020						
	Reportable Segment					Reconciliations (Note)	Consolidated
Japan	The Americas	Europe and Africa	Asia	Total			
Sales:							
Sales to external customers	¥ 42,816	¥18,818	¥19,396	¥23,356	¥104,388	—	¥104,388
Intersegment sales or transfers	15,022	409	102	1,938	17,473	¥ (17,473)	—
Total	¥ 57,838	¥19,228	¥19,499	¥25,295	¥121,861	¥ (17,473)	¥104,388
Segment profit	¥ 2,505	¥ 1,640	¥ 482	¥ 2,119	¥ 6,747	¥ 1,649	¥ 8,396
Segment assets	124,339	27,201	26,098	52,567	230,207	(30,094)	200,112
Other:							
Depreciation and amortization	5,507	1,126	1,133	3,111	10,878	(360)	10,518
Investments in associated companies accounted for by the equity method	198	25	—	—	223	—	223
Capital expenditures	6,414	1,365	3,180	1,669	12,630	(255)	12,375
Amortization of goodwill	—	234	420	—	655	—	655
Goodwill, net	—	1,436	2,836	—	4,273	—	4,273

Note: Reconciliations of segment profit, segment assets, depreciation and amortization, and capital expenditures are intersegment eliminations.

(4) Information about Products and Services

	Millions of Yen		
	2022	2021	2020
Sales to external customers:			
Taps	¥ 50,374	¥ 43,239	¥ 33,671
End mills	26,383	24,006	21,219
Drills and other cutting tools	40,982	35,721	29,484
Rolling dies	10,616	10,052	7,947
Gauges	1,991	1,747	1,712
Other	12,176	11,387	10,354
Total	¥142,525	¥126,156	¥104,388

(5) Information about Geographical Areas

Sales

	Millions of Yen		
	2022	2021	2020
Japan	¥ 50,003	¥ 48,243	¥ 42,405
United States of America	20,118	15,850	13,908
The Americas except for United States of America	8,162	6,152	4,681
Europe and Africa	27,929	23,955	19,161
China	16,185	14,160	10,287
Other Asia	20,124	17,793	13,944
Total	¥142,525	¥126,156	¥104,388

Note: Sales are classified by country or region based on the location of customers.

OSG Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
Years Ended November 30, 2022, 2021 and 2020

Property, plant and equipment

	Millions of Yen		
	2022	2021	2020
Japan	¥44,944	¥46,030	¥47,534
The Americas	9,906	7,785	7,344
Europe and Africa	7,863	7,286	7,494
South Korea	8,313	7,805	8,349
Other Asia	10,035	9,346	8,875
Total	¥81,062	¥78,255	¥79,599

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of OSG Corporation:

Accountant's Conclusion

We have reviewed the interim consolidated financial statements of OSG Corporation and its consolidated subsidiaries (the "Group"), which comprise the interim consolidated balance sheet as of August 31, 2023, and the interim consolidated statement of income and interim consolidated statement of comprehensive income for the nine-month period then ended, and the related notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of August 31, 2023, and its consolidated financial performance for the nine-month period then ended in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan.

Basis for Accountant's Conclusion

We conducted our review in accordance with quarterly review standards generally accepted in Japan. Our responsibility under those standards is further described in the Accountant's Responsibility for the Review of the Interim Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as accountants. We believe that we have obtained the evidence to provide a basis for our review conclusion.

Responsibilities of Management and the Audit and Supervisory Committee for the Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the interim consolidated financial statements in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Accountant's Responsibility for the Review of the Interim Consolidated Financial Statements

Our objective is to issue an accountant's report that includes our conclusion.

As part of a review in accordance with quarterly review standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the review. We also:

- Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.
- Conclude whether nothing has come to our attention, based on the evidence obtained, related to going concern that causes us to believe that the interim consolidated financial statements are not fairly presented, in all material respects, in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan, if we conclude that a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our accountant's report to the related disclosures in the interim consolidated financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our accountant's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether nothing has come to our attention that causes us to believe that the overall presentation and disclosures of the interim consolidated financial statements are not in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan, as well as the overall presentation, structure and content of the interim consolidated financial statements, including the disclosures, and whether nothing has come to our attention that causes us to believe that the interim consolidated financial statements do not represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain evidence regarding the financial information of the entities or business activities within the Group to express a conclusion on the interim consolidated financial statements. We are responsible for the direction, supervision and performance of the review of the interim consolidated financial statements. We remain solely responsible for our conclusion.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the review and significant findings that we identify during our review.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/s/ Deloitte Touche Tohmatsu LLC

Nagoya, Japan
November 27, 2023

OSG Corporation and Consolidated Subsidiaries
Interim Consolidated Balance Sheet
August 31, 2023 (Unaudited)

	Millions of Yen	
	August 31, 2023	November 30, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	¥ 42,990	¥ 36,717
Time deposits	7,060	9,980
Marketable securities	1	0
Receivables:		
Trade notes and accounts (Note 4)	26,424	26,885
Unconsolidated subsidiaries and associated companies	257	171
Other	270	226
Allowance for doubtful receivables	(192)	(374)
Inventories	56,921	52,026
Other current assets	3,807	3,333
Total current assets	<u>137,540</u>	<u>128,967</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	16,145	16,006
Buildings and structures	61,592	60,635
Machinery and vehicles	158,978	150,853
Tools, furniture and fixtures	11,120	10,497
Construction in progress	4,332	2,840
Other	1,371	1,666
Total	<u>253,541</u>	<u>242,499</u>
Accumulated depreciation	<u>(169,893)</u>	<u>(161,436)</u>
Net property, plant and equipment	<u>83,648</u>	<u>81,062</u>
INVESTMENTS AND OTHER ASSETS:		
Investment securities	5,249	4,402
Investments in and advances to unconsolidated subsidiaries and associated companies	1,396	2,882
Goodwill	3,896	4,402
Asset for retirement benefits	-	189
Deferred tax assets	4,077	3,833
Other assets	3,902	3,555
Allowance for doubtful receivables	(339)	(443)
Total investments and other assets	<u>18,182</u>	<u>18,822</u>
TOTAL	<u>¥ 239,371</u>	<u>¥ 228,852</u>

(Continued)

OSG Corporation and Consolidated Subsidiaries
Interim Consolidated Balance Sheet
August 31, 2023 (Unaudited)

	Millions of Yen	
	August 31, 2023	November 30, 2022
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank loans	¥ 740	¥ 636
Current portion of long-term debt	1,594	1,291
Payables:		
Trade notes and accounts	5,219	5,887
Unconsolidated subsidiaries and associated companies	34	40
Other	1,121	1,182
Income taxes payable	1,089	3,105
Accrued expenses	8,025	9,878
Other current liabilities	1,902	1,743
Total current liabilities	19,728	23,765
LONG-TERM LIABILITIES:		
Long-term debt (Note 3)	27,138	24,267
Liability for retirement benefits	1,035	879
Deferred tax liabilities	1,905	1,799
Other long-term liabilities	1,110	1,302
Total long-term liabilities	31,189	28,248
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 3 and 5)		
EQUITY (Note 7):		
Common stock	13,044	13,044
Capital surplus	13,347	13,792
Retained earnings	136,114	132,320
Treasury stock (Notes 3 and 6)	(5,876)	(6,388)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	1,463	852
Deferred gain on derivatives under hedge accounting	-	0
Foreign currency translation adjustments	17,773	11,038
Total	175,866	164,659
Noncontrolling interests	12,586	12,178
Total equity	188,453	176,838
TOTAL	¥ 239,371	¥ 228,852

See notes to interim consolidated financial statements.

(Concluded)

OSG Corporation and Consolidated Subsidiaries
Interim Consolidated Statement of Income
Nine-Month Period Ended August 31, 2023 (Unaudited)

	Millions of Yen	
	2023	2022
NET SALES (Note 9)	¥ 107,731	¥ 103,502
COST OF SALES	63,959	61,415
Gross profit	43,772	42,086
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	29,686	27,051
Operating income	14,085	15,034
OTHER INCOME (EXPENSES):		
Interest and dividend income	639	318
Interest expense	(209)	(195)
Foreign exchange gain	161	523
Subsidy income	219	148
Other—net	(241)	434
Other income – net	570	1,229
INCOME BEFORE INCOME TAXES	14,656	16,264
INCOME TAXES		
Current	4,694	5,462
Deferred	(383)	(1,020)
Total income taxes	4,311	4,442
NET INCOME	10,345	11,821
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	300	472
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 10,044	¥ 11,349
	Yen	
PER SHARE OF COMMON STOCK—Basic net income	¥ 104.84	¥ 117.48

See notes to interim consolidated financial statements.

OSG Corporation and Consolidated Subsidiaries
Interim Consolidated Statement of Comprehensive Income
Nine-Month Period Ended August 31, 2023 (Unaudited)

	Millions of Yen	
	2023	2022
NET INCOME	¥ 10,345	¥ 11,821
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gain on available-for-sale securities	587	134
Deferred loss on derivatives under hedge accounting	(0)	(3)
Foreign currency translation adjustments	7,391	13,178
Share of other comprehensive loss in associated companies	(8)	(21)
Total other comprehensive income	7,970	13,289
COMPREHENSIVE INCOME	¥ 18,315	¥ 25,110
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	¥ 17,420	¥ 23,859
Noncontrolling interests	895	1,251

See notes to interim consolidated financial statements.

OSG Corporation and Consolidated Subsidiaries
Notes to Interim Consolidated Financial Statements
Nine-Month Period Ended August 31, 2023 (Unaudited)

1. BASIS OF PRESENTATION OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying interim consolidated financial statements of OSG Corporation (the “Company”) and its consolidated subsidiaries (together, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accounting standard for quarterly financial statements requires companies to prepare a set of interim consolidated financial statements for each quarter comprised of the consolidated balance sheet as of the current quarter-end and the consolidated statements of income, comprehensive income, and cash flows for the year-to-date period. A consolidated statement of changes in equity is not required.

Under the accounting standard for quarterly financial statements, the consolidated statement of cash flows is not required in the interim consolidated financial statements for the first and third quarterly periods, but may be prepared at the company’s option.

As permitted by the above accounting standards, the consolidated statements of changes in equity and cash flows are not presented herein.

In preparing these interim consolidated financial statements, certain reclassifications and rearrangements have been made to the interim consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The interim consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The Japanese yen amounts in millions are rounded down to the nearest million. An amount less than one million but not null is stated as “0,” whereas “—” represents null.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Significant Accounting Policies of the Interim Consolidated Financial Statements—Substantially the same accounting policies have been followed in these interim consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended November 30, 2022.

b. Significant Changes in Consolidation Scope—PRIMCOAT PVD TECHNOLOGY INDIA PVT, LTD. and another subsidiary have been included in the scope of consolidation since the first quarterly period of this fiscal year due to the increased materiality. SMOC INDUSTRIES S.A.S. (“SMOC”) was excluded from the scope of consolidation in the first quarterly period of this fiscal year because the Company sold all holding shares of SMOC.

c. Change in Accounting Policies

Implementation Guidance on Accounting Standard for Fair Value Measurement—On July 4, 2019, Accounting Standards Board of Japan (“ASBJ”) issued ASBJ Statement No. 30, “Accounting Standard for Fair Value Measurement” and ASBJ Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement,” and revised related ASBJ Statements and ASBJ Guidance. Subsequent to the issuance, “Implementation Guidance on Accounting Standard for Fair Value Measurement” was revised on June 17, 2021. The major components of the revision were measurement of fair values of investments in trust and investment partnerships.

The Company applied the revised guidance on December 1, 2022. The accounting change did not have any effects on the interim consolidated financial statements for the nine-month period ended August 31, 2023.

d. Accounting Policy Particularly Applied to Interim Consolidated Financial Statements

Income Taxes—Certain consolidated subsidiaries reasonably estimate the effective tax rate (after recognizing deferred tax) applicable to the entire fiscal year in order to calculate income tax expenses for the interim period.

OSG Corporation and Consolidated Subsidiaries
Notes to Interim Consolidated Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- e. Per Share Information*—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

The weighted-average number of shares for the nine-month periods ended August 31, 2023 and 2022, was 95,807,184 shares and 96,608,345 shares, respectively. The number of weighted-average shares includes the number of shares that are held by “Exclusive Trust for OSG Employee Stockholding Association” (the “Trust”) (124,280 shares in 2023 and 385,570 shares in 2022).

Diluted net income per share for the nine-month periods ended August 31, 2023 and 2022, is not disclosed because the Company did not have any kind of potentially dilutive shares.

3. EMPLOYEE STOCK OWNERSHIP PLAN

The Company conducts transactions to deliver the Company’s own stock to the employee stockholding association through a trust for the purpose of providing incentives to the Company’s employees to improve the Company’s corporate value over the medium to long term.

The Company has established the Trust, the beneficiary of which is all employees who are members of the “OSG Employee Stockholding Association” (the “Association”). The Trust acquires the number of Company stocks expected to be acquired by the Association over a five-year period and sells the stocks to the Association. At the time of termination of the Trust, any gains on transfer or other gains resulting from an increase in the stock price will be distributed to eligible beneficiaries. In the event that any transfer losses or other losses are incurred due to a decline in stock prices, and liabilities related to trust assets remain, the Company will be liable to repay the bank in a lump sum in accordance with the guarantees in the loan agreement.

The Company’s stocks held by the Trust are included in treasury stock in the consolidated balance sheet at their carrying amount after excluding ancillary expenses. The treasury stock and long-term debt held by the Trust as of August 31, 2023 and November 30, 2022, are summarized as follows:

	Millions of Yen	
	August 31, 2023	November 30, 2022
Carrying amount of treasury stock	¥ 32	¥ 477
Number of treasury stock (shares)	16,100	239,300
Carrying amount of long-term debt	¥ 107	¥ 548

4. TRADE NOTES RECEIVABLE

Notes receivable transferred by endorsement as of August 31, 2023 and November 30, 2022, were ¥13 million and ¥20 million, respectively.

5. CONTINGENT LIABILITIES

As of August 31, 2023, the Group guaranteed bank loans and other debts of the following group companies:

	Millions of Yen
TITANIUM COATING SERVICES AZ, LLC	¥ 104
Phoenix, Co., Ltd.	100
PRIMUS COATING TURKEY KAPLAMA SANAYI VE TICARET ANONIM SIRKETI	58

OSG Corporation and Consolidated Subsidiaries
Notes to Interim Consolidated Financial Statements (continued)

6. DIVIDENDS

Resolution	Type of Shares	Millions of Yen		Record Date	Effective Date
		Total Dividends	Yen Dividends per Share		
Nine-Month Period Ended August 31, 2023					
Year-end dividends – Ordinary shareholders’ meeting held on February 17, 2023	Common stock	¥ 3,549	¥ 37.00	November 30, 2022	February 20, 2023
Semiannual interim dividends – Board of Directors’ meeting held on July 6, 2023	Common stock	2,687	28.00	May 31, 2023	July 25, 2023
Nine-Month Period Ended August 31, 2022					
Year-end dividends – Ordinary shareholders’ meeting held on February 18, 2022	Common stock	¥ 2,160	¥ 22.00	November 30, 2021	February 21, 2022
Semiannual interim dividends – Board of Directors’ meeting held on July 7, 2022	Common stock	2,221	23.00	May 31, 2022	July 26, 2022

Note: The source of dividends was retained earnings.

Year-end and semiannual interim dividends paid during the nine-month periods ended August 31, 2023 and 2022, include those paid to the Company stocks held by the Trust of which amounts are summarized as follows:

	Millions of Yen	
	2023	2022
Year-end dividends	¥ 8	¥ 10
Semiannual interim dividends	2	8

7. SIGNIFICANT CHANGES IN EQUITY

Nine-Month Period Ended August 31, 2023

The beginning balance of capital surplus decreased by ¥173 million because PRIMCOAT PVD TECHNOLOGY INDIA PVT, LTD. has been consolidated since the first quarterly period of this fiscal year due to the increased significance. In addition, capital surplus decreased by ¥282 million because the Company acquired additional shares of a consolidated subsidiary, namely, OSG Turkey Kesici Takımlar Sanayi ve Ticaret Anonim Şirketi during the nine-month period ended August 31, 2023.

Nine-Month Period Ended August 31, 2022

Treasury stock increased by ¥5,415 million mainly because of the purchase of treasury stock following the resolution made at the Board of Directors’ meeting held on January 12, 2022.

8. DEPRECIATION AND AMORTIZATION

Depreciation and amortization, and amortization of goodwill for the nine-month periods ended August 31, 2023 and 2022, were as follows:

	Millions of Yen	
	2023	2022
Depreciation and amortization	¥ 8,094	¥ 7,751
Amortization of goodwill	666	648

OSG Corporation and Consolidated Subsidiaries
Notes to Interim Consolidated Financial Statements (continued)

9. DISAGGREGATION OF REVENUE

Nine-Month Period Ended August 31, 2023

	Millions of Yen				
	Japan	The Americas	Europe and Africa	Asia	Total
Cutting tools:					
Taps	¥ 6,121	¥ 9,510	¥ 7,711	¥12,463	¥ 35,807
End mills	7,928	4,326	5,503	2,718	20,477
Drills and other cutting tools	12,100	6,805	7,719	4,639	31,264
Rolling dies	2,895	1,999	336	2,790	8,022
Gauges	1,013	175	3	258	1,450
Other:					
Machines	3,087	190	717	112	4,108
Other	3,180	192	2,505	722	6,600
Revenue from contracts with customers	<u>¥36,327</u>	<u>¥23,200</u>	<u>¥24,497</u>	<u>¥23,705</u>	<u>¥107,731</u>

Nine-Month Period Ended August 31, 2022

	Millions of Yen				
	Japan	The Americas	Europe and Africa	Asia	Total
Cutting tools:					
Taps	¥ 7,251	¥ 8,330	¥ 6,510	¥14,466	¥ 36,558
End mills	7,963	3,791	4,531	2,877	19,164
Drills and other cutting tools	12,414	5,403	7,097	4,771	29,687
Rolling dies	2,883	1,768	286	2,819	7,756
Gauges	1,014	142	3	301	1,462
Other:					
Machines	1,898	214	437	134	2,685
Other	3,214	182	2,077	714	6,188
Revenue from contracts with customers	<u>¥36,640</u>	<u>¥19,832</u>	<u>¥20,944</u>	<u>¥26,084</u>	<u>¥103,502</u>

10. SEGMENT INFORMATION

Nine-Month Period Ended August 31, 2023

	Millions of Yen						
	Reportable Segment					Reconciliations (Note 1)	Consolidated
	Japan	The Americas	Europe and Africa	Asia	Total		
Sales:							
Sales to external customers	¥36,327	¥23,200	¥24,497	¥23,705	¥107,731	-	¥ 107,731
Intersegment sales or transfers	16,819	738	171	2,816	20,546	¥(20,546)	-
Total	<u>¥53,147</u>	<u>¥23,939</u>	<u>¥24,669</u>	<u>¥26,522</u>	<u>¥128,278</u>	<u>¥(20,546)</u>	<u>¥ 107,731</u>
Segment profit	¥ 5,516	¥ 3,513	¥ 2,606	¥ 3,088	¥ 14,725	¥ (639)	¥ 14,085

Notes: 1. Reconciliations of segment profit are intersegment eliminations.
2. Segment profit is determined based on operating income.

OSG Corporation and Consolidated Subsidiaries
Notes to Interim Consolidated Financial Statements (continued)

10. SEGMENT INFORMATION (continued)

Nine-Month Period Ended August 31, 2022

	Millions of Yen						
	Reportable Segment					Reconciliations (Note 1)	Consolidated
	Japan	The Americas	Europe and Africa	Asia	Total		
Sales:							
Sales to external customers	¥36,640	¥19,832	¥20,944	¥26,084	¥103,502	–	¥ 103,502
Intersegment sales or transfers	<u>16,486</u>	<u>757</u>	<u>178</u>	<u>2,522</u>	<u>19,944</u>	<u>¥(19,944)</u>	<u>–</u>
Total	<u>¥53,127</u>	<u>¥20,589</u>	<u>¥21,122</u>	<u>¥28,607</u>	<u>¥123,446</u>	<u>¥(19,944)</u>	<u>¥ 103,502</u>
Segment profit	¥ 6,457	¥ 2,973	¥ 2,018	¥ 4,746	¥ 16,196	¥ (1,161)	¥ 15,034

Notes: 1. Reconciliations of segment profit are intersegment eliminations.
2. Segment profit is determined based on operating income.

* * * * *

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