

Business Report

for the Fiscal Year 2007

(from April 1, 2007 to March 31, 2008)



High-Precision, High-Speed and High-Rigidity TSUGAMI is renowned all over the world for superior precision machine tools.

I am pleased to report our business results for the fiscal year 2007 (April 1, 2007 to March 31, 2008).

In the first half of the fiscal year 2007, the Japanese economy showed moderate growth, thanks to an increase in capital investments based on improved corporate earnings and increase in exports to Europe and the BRIC countries. In the second half of the year, however, the impacts of soaring prices of raw materials including crude oil, global financial turmoil triggered by subprime mortgage loan problems, and a steep appreciation of the yen, resulted in an increasingly uncertain outlook for the Japanese economy.

In the machine tool industry, the number of overall orders remains at a high level, supported by external demand supplementing the sagging growth in internal demand. Although conditions in the field of small and ultrahighprecision processing, the market targeted by the Company, entered an adjusting phase from latter half of the year before last, orders received have been on a recovering trend since the autumn of last year.

Under these circumstances, the Company has continued to offer high-precision processing products that meet the needs of industries, including the automotive industry where environmental and energy conservation-related countermeasures are necessary and IT-related industries where increasingly high-precision equipment is required, and introduced new products onto the market using our long-standing know-how and experience in high-precision processing.

In terms of production, we have been focusing on further efforts to achieve efficient production through such efforts as the coordination of our Nagaoka, Shinshu and China plants, as well as to increase our in-house production and unit production of parts, with a view to increasing productivity and reducing costs.

In addition, we established a sales affiliate company in Germany in order to strengthen our business in Europe, where Tsugami's market share is small. And we decided to sign a capital business partnership agreement with TORNOS S.A. in Switzerland for future prospect. The essence of this business agreement is that Tsugami's production subsidiary in China will be entrusted with OEM

production for TORNOS products and that Tsugami will sell TORNOS multi-spindle machines in Japan and other regions in Asia. We are expecting the effects of the alliance with TORNOS to start showing in or after the second half of fiscal year 2008.

Due to negative factors such as stagnant sales for automotive parts and in IT-related industries, our core clients, partial delay in shipping plans because the order recovery did not coincide with the timing of the increases in the factory utilization ratio, and decline in OEM sales, the Company's consolidated net sales for fiscal 2007 decreased by 22.1% year-on-year to 28,495 million yen.

Operating income decreased by 49.2% to 2,784 million yen. Ordinary income decreased by 50.2% to 2,756 million yen, and net income decreased by 52.7% to 1,629 million yen.

We have paid the year-end dividend of 5 yen per share. Combined with the interim dividend, we paid an annual dividend of 10 yen per share. For future dividend payments, we will continuously focus on making steady dividend payments in accordance with our performance-based dividend policy while strengthening our corporate setup.

In order to enhance its collective strength as a business group, the Company will strive to promote an integrated system of sales, production and administration among group companies including affiliates, and to increase the efficacy of management.

In addition, the Company will continue its efforts to offer new products that fully meet customer requirements, while enriching the services provided. With the aim of enhancing customer satisfaction, we will devote all our efforts to management that is capable of providing products which customers need and can rely on.

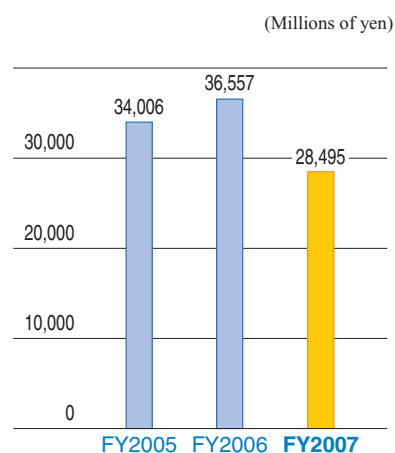
We hope that our shareholders will extend even greater support and encouragement to Tsugami in the future.

June 2008

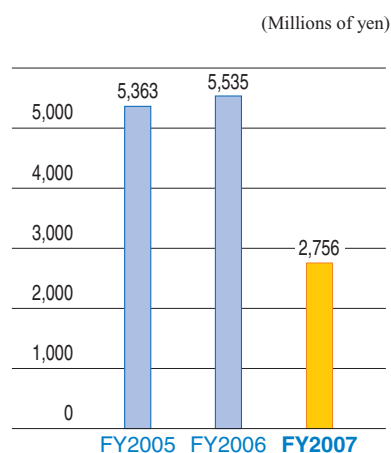
Takao Nishijima
Chairman and C.E.O.

Business Performance (Consolidated)

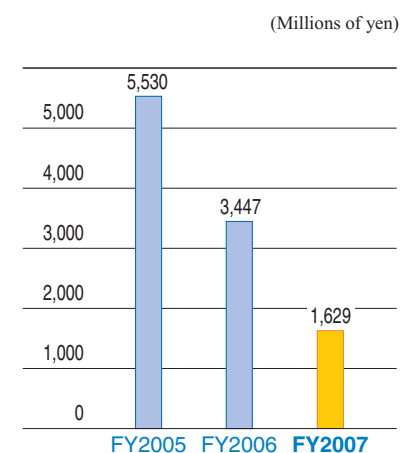
● Net sales



● Ordinary income



● Net income



● Financial Highlights

		FY2005		FY2006		FY2007	
		Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Net sales	(Millions of yen)	34,006	33,262	36,557	35,255	28,495	27,962
Ordinary income	(Millions of yen)	5,363	5,016	5,535	5,110	2,756	2,564
Net income	(Millions of yen)	5,530	5,333	3,447	3,257	1,629	1,544
Net income per share	(Yen)	71.38	68.99	46.36	43.80	23.03	21.82
Total assets	(Millions of yen)	36,827	36,215	35,943	35,186	32,732	32,031
Net assets	(Millions of yen)	23,272	22,747	23,450	22,723	21,916	21,137
Net assets per share	(Yen)	306.53	299.63	322.67	312.66	319.50	308.02

(Note) All fractions of monetary units have been rounded down.

Consolidated Financial Statements

● Consolidated Balance Sheets

(Millions of yen)

	March 31, 2008	March 31, 2007
Assets		
Current assets	22,735	25,920
Cash and deposits	3,402	3,576
Trade notes and accounts receivable	9,662	14,314
Inventories	9,046	7,659
Other current assets	624	370
Fixed assets	9,997	10,023
Tangible fixed assets	7,035	7,457
Buildings, Machinery, equipment and vehicles	6,170	6,606
Land	598	598
Other tangible fixed assets	266	252
Intangible fixed assets	43	33
Investments and other assets	2,918	2,532
Total assets	32,732	35,943
Liabilities		
Current liabilities	9,913	11,344
Trade notes and accounts payable	8,220	9,129
Accrued income tax	691	1,024
Other current liabilities	1,000	1,190
Long-term liabilities	903	1,148
Total liabilities	10,816	12,493
Net assets		
Shareholders' equity	21,623	22,695
Common stock	10,599	10,599
Capital surplus	4,138	4,208
Retained earnings	6,936	10,568
Treasury stock	(50)	(2,681)
Valuation and translation adjustments	66	660
Unrealized gains on marketable securities	40	600
Translation adjustments	26	60
Subscription rights to shares	226	94
Total net assets	21,916	23,450
Total liabilities and net assets	32,732	35,943

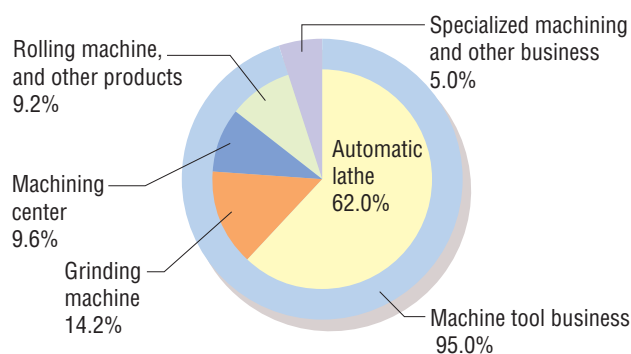
● Consolidated Statements of Income

(Millions of yen)

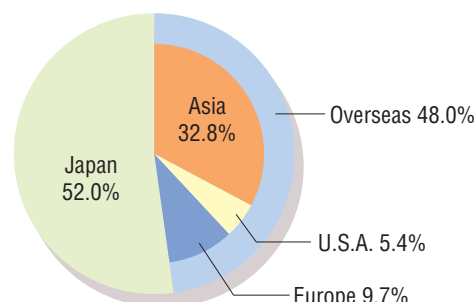
	Year ended March 31, 2008	Year ended March 31, 2007
Net sales	28,495	36,557
Cost of sales	22,142	27,325
Gross profit	6,352	9,231
Selling, general and administrative expenses	3,568	3,752
Operating income	2,784	5,478
Non-operating income	136	154
Interest and dividend income	39	34
Other non-operating income	96	118
Non-operating expenses	164	97
Interest expense	1	0
Other non-operating expenses	162	97
Ordinary income	2,756	5,535
Extraordinary income	47	120
Gain on sales of fixed assets	–	120
Gain on sales of investment securities	10	0
Other extraordinary income	37	–
Extrordinary expenses	126	437
Loss on disposal and sales of fixed assets	8	145
Loss on disposal of inventories	–	55
Loss on valuation of inventories	–	51
Loss on valuation of investment securities	6	63
Lawsuit expenses	–	86
Other extraordinary expenses	111	35
Income before taxes and other adjustments	2,677	5,218
Corporate, inhabitant and enterprise taxes	1,037	1,882
Deferred taxes	11	(111)
Net income	1,629	3,447

● Sales Breakdown (Consolidated)

• Sales by business and product (FY2007)



• Sales breakdown by region (FY2007)



Consolidated Financial Statements

● Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2008	Year ended March 31, 2007
Net cash provided by operating activities	3,946	4,142
Net cash used in investing activities	(1,394)	(383)
Net cash used in financing activities	(2,696)	(3,157)
Effect of exchange rate changes on cash and cash equivalents	0	(1)
Net increase (decrease) in cash and cash equivalents	(144)	601
Cash and cash equivalents at beginning of period	3,496	2,796
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	–	98
Cash and cash equivalents at end of period	3,352	3,496

● Consolidated Statements of Changes in Net Assets Year ended March 31, 2008

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	10,599	4,208	10,568	(2,681)	22,695
Changes during the period					
Dividends from surplus			(795)		(795)
Net income			1,629		1,629
Acquisition of treasury stock				(1,916)	(1,916)
Disposal of treasury stock		(5)		15	10
Cancellation of treasury stock		(65)	(4,466)	4,532	–
Net changes of items other than shareholders' equity					
Total changes during the period	–	(70)	(3,632)	2,630	(1,072)
Balance as of March 31, 2008	10,599	4,138	6,936	(50)	21,623

(Millions of yen)

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Net unrealized gains (losses) on marketable securities	Translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2007	600	60	660	94	23,450
Changes during the period					
Dividends from surplus					(795)
Net income					1,629
Acquisition of treasury stock					(1,916)
Disposal of treasury stock					10
Cancellation of treasury stock					–
Net changes of items other than shareholders' equity	(559)	(33)	(593)	132	(461)
Total changes during the period	(559)	(33)	(593)	132	(1,534)
Balance as of March 31, 2008	40	26	66	226	21,916

Releasing New Products on the Market

CNC Precision Automatic Lathe SS32

We launched the “CNC Precision Automatic Lathe SS32,” a high-functional complex machine, as part of the SS20 Series.

This machine uses a modular tooling method. The positions of back gang and the back tool post can be arranged freely according to the task at hand by way of combining rotary tools, boring holders and turning holders.

It also has a wide tooling zone that allows easier tooling setups and chip disposal. It also enables easy front discharge of the longish parts.

It allows for high work productivity for complex shapes (automobile parts).



CNC Precision Automatic Lathe P03

We launched a machine for processing high-precision parts “CNC Precision Automatic Lathe P03” as part of the CNC P01 Series.

It enables high-speed and high-accuracy processing of fine precision parts with a diameter of 3mm or less, as it is equipped with a main spindle speed of 20,000min-1 for both main and back spindles, and user-friendly software for small diameter work processing (tool height compensation function and spindle zero offset system).



Setting up a Booth at Overseas Exhibitions

We actively developed new overseas business partners.

We set up a booth at “Korean Machinery Fair 2007” in Seoul (Korea) for five days from October 24, 2007.

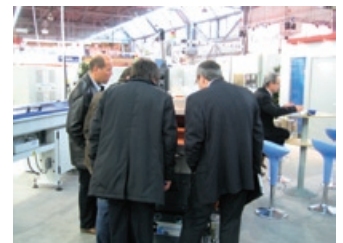
We also actively supported our local agents in setting up booths at exhibitions in Europe (such as Germany, France and Italy).

A great number of users and dealers both from Japan and overseas visited our booth, and we were able to have active business talks.

Korean Machinery Fair 2007



SIMODEC2008 (France)



The Business Alliance with TORNOS

In February 2008, we decided to sign a framework partnership agreement with TORNOS in Switzerland for the production and distribution of machine tools.

Purposes of Business Alliance

TORNOS S.A. is a long-established machine tool manufacturer in Europe, and, as with the Company, its main products are small machine tools (mainly headstock sliding automatic lathes). The two groups are complementary in many aspects, due partly to the differences in their product lines and to gaps with regard to whether they have either bullish or bearish distribution channels in the area.

In view of this, we decided to form a business tie-up with TORNOS, after considering that such an alliance would enable the early establishment of a complementary relationship and make it easier for the companies to reap the effects of the alliance.

Main Products



CNC Precision Automatic Lathe

Special arrangement of tools minimizes the heat effect and cast iron base suppresses the vibration during high-speed operation. Hence, it enables stable and accurate processing for a long time.

This model is best suited to high-precision mass production of automobile parts, HDD components, office automation equipment, medical and dental equipment, digital cameras, cellular phones and other small parts in a wide range of fields, including optical communications.

CNC Precision Turning Center

This is a process-intensive, complex machine that enables both turning and milling processes. Combining a lathe and a machining center, this machine can handle various machining demands without changing of settings.



CNC Precision Cylindrical Grinding Machine

This machine enables the cylindrical grinding processing of small and medium components in various fields, ranging from unhardened material to highly rigid parts made of hardened steel and ceramics.

The device can handle a variety of items, ranging from single components, such as mold pins, to a fully automatic processing system equipped with an autoloader automatic checker for mass products such as automobile engines, transmissions and oil hydraulic parts, and IT-related components. Hence, the machine can meet all of our customers' manufacturing needs.

Precision Machining Center

We have a range of machining centers that can carry out various kinds of processing on components, including small aluminum parts for IT-related products such as household electronics and office automation equipment, and steel parts for automobiles and industrial machinery. We will suggest the optimal system for all our models—both the vertical and horizontal types—which have a space-saving design that makes the layout of a plant easy.



Stock Information (as of March 31, 2008)

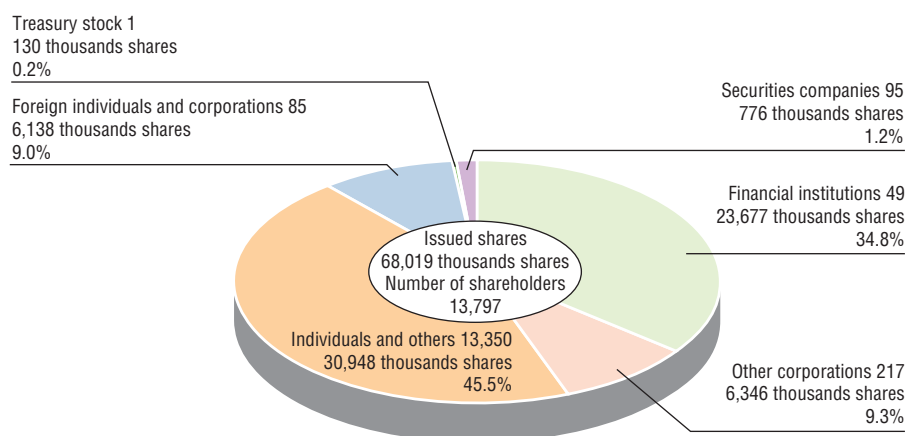
- Authorized shares 320,000,000 shares
- Issued shares 68,019,379 shares
- Number of shareholders 13,797
- Major shareholders (Top 10)

Shareholders	Investment in the Company		Investment in shareholders	
	Number of shares held	Ownership ratio	Number of shares held	Ownership ratio
	thousands	%	thousands	%
Mizuho Trust & Banking Co., Ltd. (Employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	4,592	6.75		
The Master Trust Bank of Japan, Ltd. (Trust account)	4,535	6.66		
The Dai-ichi Mutual Life Insurance Company	2,100	3.08		
Mori Seiki Co., Ltd.	2,000	2.94	100	0.10
Sumitomo Mitsui Banking Corporation	1,516	2.22		
The Hokuetsu Bank, Ltd.	1,484	2.18	470	0.18
NikkoCiti Trust and Banking Corporation (Trust account)	1,407	2.06		
Tsugami Clients Stock Holding Association	1,223	1.79		
Japan Trustee Services Bank, Ltd. (Trust account)	859	1.26		
The Daishi Bank, Ltd.	700	1.02	240	0.06

Notes: 1. The figures for ownership ratio are truncated to two decimal places.

2. The 4,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (Employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) are held in a pension trust account for Tokyo Seimitsu, which reserves the right to instruct on how to exercise voting rights for these shares. The Company holds 65 thousand shares (0.16%) in Tokyo Seimitsu.

● Shareholder composition by type of shareholder



● Stock price and volume (from April 2007 to March 2008)

Year/month		2007										2008		
		4	5	6	7	8	9	10	11	12	1	2	3	
Stock price	High (yen)	700	654	610	615	593	542	464	499	400	340	354	348	
	Low (yen)	631	531	529	536	435	410	402	320	319	276	281	293	
Volume (thousands of shares)		11,529	12,982	24,847	17,636	17,180	12,834	26,770	21,222	15,287	16,864	11,319	8,806	

- **Corporate Name** Tsugami Corporation
- **Established** March 15, 1937
- **Head Office** 9-10, Horidome-cho 1-chome, Nihonbashi, Chuo-ku, Tokyo
- **Paid-in Capital** 10,599 million yen
- **Number of Employees** 412

● Directors and Auditors (as of June 20, 2008)

Chairman and C.E.O.	Takao Nishijima	Standing Statutory Auditor	Ikuo Oomiya
Directors	Tadashi Narisawa	Statutory Auditors	Kyouji Umeoka
	Yoshiharu Kikuchi		Kouichiro Watanabe
	Nobuyuki Moriuchi		Kazuo Fujimori
	Toshiharu Niijima		
	Hiroshi Terai		
	Takeo Nakagawa		

● Head Office and Plants

- Head Office: 9-10, Horidome-cho 1-chome, Nihonbashi, Chuo-ku, Tokyo
Nagaoka Plant: 1-1, Higashizao 1-chome, Nagaoka-shi, Niigata Pref.
Shinshu Plant: 3600 Nakagomi, Saku-shi, Nagano Pref.

● Sales Network

- East Japan Marketing Division (Tokyo)
- North Kanto Marketing Division (Omiya)
- Suwa Marketing Division (Suwa)
- Central Japan Marketing Division (Nagoya)
- West Japan Marketing Division (Osaka)
- Sendai Office
- Takasaki Office
- Nagaoka Office
- Hitachi Office
- Shinshu Office
- Hamamatsu Office
- Hiroshima Office
- Fukuoka Office

● Group Companies

- Tsugami Machinery Co., Ltd.
- Tsugami Shimamoto Ltd.
- Tsugami General Service Co., Ltd.
- Tsugami Precision Co., Ltd.
- Precision Tsugami (China) Corporation
- Tsugami (Thai) Co., Ltd.
- Tsugami (Germany) GmbH

Shareholder Information

Business year	From April 1 each year to March 31 of the following year.
Annual shareholders meeting	June each year
Surplus Dividends	The record date for the year end dividend shall be March 31 each year. In case of paying interim dividends, the record date shall be September 30 each year.
Administrator of Shareholders' Register	Mitsubishi UFJ Trust Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Business handling office	Mitsubishi UFJ Trust Banking Corporation Stock Transfer Agency Department
Mailing address	Mitsubishi UFJ Trust Banking Corporation Stock Transfer Agency Department 10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081 Telephone: 0120-232-711 (toll free number)
Other points of contacts	Nationwide branches of Mitsubishi UFJ Trust and Banking Corporation Head office and nationwide branches of Nomura Securities Co., Ltd.
Method of public notice	Public notices of the Company shall be given via on our website (http://www.tsugami.co.jp/). Provided, however, that if the Company is unable to give electronic notices due to inevitable causes, the public notices shall be published in the "Kanpo" (official gazette).
Listed stock exchange	Tokyo, Osaka

Notice

For administrative paperwork documents relating to stocks (changes to registered address/stamp/name etc. or designated application forms for dividend payments, purchase request forms for fractional stocks, stock transfer request forms etc.), please contact the agent to manage shareholders registry who is available 24 hours a day, either by telephone or via the Internet.

Telephone (toll free number)

0120-244-479 (Corporate Agency Division, Head Office,
Mitsubishi UFJ Trust and Banking Corporation)

0120-684-479 (Corporate Agency Division, Osaka Branch,
Mitsubishi UFJ Trust and Banking Corporation)

Website address

<http://www.tr.mufg.jp/daikou/>

Furthermore, shareholders who use the stock certificate depository and ownership transfer system should consult securities companies that have transaction accounts.